

OneWest Bank

**Affidavit of Indebtedness Review Checklist**  
ERM Quality Control Review

Review Completion Date      4/5/2011    Review Completed By    ERM QC

Loan Number      REDACTED      Borrower Last Name      REDACTED

Package Review				
Document/Information	Source Document	Pass	Fail	Comments
FC Transmittal Referral Letter / Loan Asset screen print included in package and correct	Complete Package	X		
MSP Screen Prints / JFIGs included in package and correct	Complete Package	X		
Complaint included in package and correct	Complete Package	X		
Note included in package and correct	Complete Package	X		
Mortgage included in package and correct	Complete Package	X		
Breach Letter included in package and correct	Complete Package	X		
Other Documents required by Affidavit (Assignment, etc ) included in package and correct	Complete Package	N/A		

ERM QC REVIEW CHECKLIST

**Affidavit of Indebtedness Review Checklist**  
ERM Quality Control Review

Review Completion Date 4/5/2011 Review Completed By ERM QC

Loan Number REDACTED Borrower Last Name REDACTED

Package Review				
Document/Information	Source Document	Pass	Fail	Comments
Affidavit Date within 90 days of JFIG creation date	Affidavit and JFIG Screen Prints	X		
Action in the name of is correct	Affidavit and Loan Asset Info Screen Print	X		
Business Records Language	Affidavit	X		
Owner / Holder Language	Affidavit	X		
Signer found on DAP	Delegated Authorities Policy, Exhibit	X		
Business Address of Signer (if present)	Affidavit	N/A		
Signature Block correct	Affidavit	X		
Notary Name/signature is present	Affidavit	X		
Notary Date present	Affidavit	X		
Notary Stamp / Seal Present and current	Affidavit	X		
Jurat / Notarial Language correct and complete	Affidavit	X		
State = Texas	Affidavit	X		
County = Travis	Affidavit	X		

**Affidavit of Indebtedness Review Checklist**  
ERM Quality Control Review

**Review Completion Date** 4/5/2011 **Review Completed By** ERM QC

**Loan Number** REDACTED **Borrower Last Name** REDACTED

Package Review				
Document/Information	Source Document	Pass	Fail	Comments
<b>Confirm the Following Tasks and Steps have been resolved: OWB Employees only</b>				
DOCPRP	MSP			
REVDOC	MSP			
NOTARY	MSP			
FNLRVW	MSP			
CPYIMG	MSP			
S83	MSP			
S84	MSP			
FNLQCR closed	MSP			
DOCHND opened	MSP			

**Affidavit of Indebtedness Review Checklist  
ERM Quality Control Review**

**Review Completion Date** 4/5/2011 **Review Completed By** ERM QC

**Loan Number** REDACTED **Borrower Last Name** REDACTED

Package Review				
Document/Information	Source Document	Pass	Fail	Comments
Doc Prep Checklist Included with PASS rating	Complete Package	X		
AOI Reviewer Completed Judgment Figure Calculation Tool included in package	Complete Package	X		
AOI Review Checklist Included with PASS rating	Complete Package	X		
Notary Checklist Included with PASS rating	Complete Package	X		
ERM QC Review Checklist added to package	Complete Package	X		
ERM QC Review Completed Judgment Figure Calculation Tool added to package	Complete Package	X		
<b>Final Conclusion</b> <i>Loan must receive a PASS in all sections to proceed</i>	Complete Package	PASS		
<b>Additional Comments</b>				

**Judgment Verification Calculation Tool**

To be used to validate attorney prepared Affidavit amounts equal JFIG amounts. Upon completion, please print and include in the final approved Judgment Figure Verification Package.

Loan Number		REDACTED	Reviewer Name		Opus
Affidavit Amounts			JFIG Amounts		
JPB		\$213,231.58	JPB		\$213,231.58
Interest		\$18,951.63	Interest		\$18,951.63
Escrow Advances		\$3,050.95	Escrow Advances		\$3,050.95
<i>If itemized, please input individual values for each line item</i>	Taxes	\$3,050.95	<i>If itemized, please input individual values for each line item</i>	Taxes	\$3,050.95
	Hazard	\$-		Hazard	\$-
	Mortgage Insurance	\$-		Mortgage Insurance	\$-
	Total Escrows	\$3,050.95		Total Escrows	\$3,050.95
Late Charges			Late Charges		
	Pre Acceleration	\$71.39		Pre Acceleration	\$71.39
	Prior to First Legal Action	\$-		Prior to First Legal Action	\$-
	Total Late Charges	\$71.39		Total Late Charges	\$71.39
Suspense (Negative Amount)		\$-	Suspense (Negative Amount)		\$-
Corporate Advances			Corporate Advances		
Inspections		\$132.00	Inspections		\$132.00
HOs		\$90.00	HOs		\$90.00
Appraisals		\$-	Appraisals		\$-
Property Preservation			Property Preservation		
Lock Lock Work		\$-	Lock Lock Work		\$-
Grass Cut		\$-	Grass Cut		\$-
Winterization		\$-	Winterization		\$-
Photos		\$-	Photos		\$-
Other		\$35.00	Other		\$35.00
Subtotal		\$35.00	Subtotal		\$35.00
Attorney Fees and Costs			Attorney Fees and Costs		
Title Work		\$-	Title Work		\$-
Service		\$-	Service		\$-
Sherriff		\$-	Sherriff		\$-
Recording		\$-	Recording		\$-
Advanced Attorney Fees		\$-	Advanced Attorney Fees		\$-
Other Attorney Fees		\$-	Other Attorney Fees		\$-
Subtotal		\$-	Subtotal		\$-
Total Corp Advances		\$257.00	Total Corp Advances		\$257.00
Total Indebtedness		\$235,562.55	Total Indebtedness		\$235,562.55

**Judgment Verification Calculation Tool**

To be used to validate attorney prepared Affidavit amounts equal IFIG amounts Upon completion, please print and include in the final approved Judgment Figure Verification Package.

<b>Loan Number</b>	<b>REDACTED</b>	<b>Reviewer Name</b>	<b>Opus</b>
<b>Discrepancies</b>		<b>Pass</b>	<b>Fail</b>
UPB	\$-		
Interest	\$		
		<input type="checkbox"/> Days Per Year Calculation Exception <input type="checkbox"/> FHA Loan Interest Calc Exception	
Escrow Advances	\$-		
<i>If itemized, please input individual values for each line item</i>			
Taxes	\$-		
Hazard	\$-		
Mortgage Insurance	\$-		
Total Escrows	\$-		
Late Charges			
Pre Acceleration Prior to First Legal Action	\$-		
	\$-		
Total Late Charges	\$-		
Suspense (Negative Amount)	\$-		
Corporate Advances			
Inspections	\$-		
SPOs	\$-		
Appraisals	\$-		
Property Preservation			
Lock Lock Work	\$-		
Grass Cut	\$-		
Winterization	\$-		
Photos	\$-		
Other	\$		
Subtotal	\$-		
Attorney Fees and Costs			
Title Work	\$-		
Service	\$-		
Sherriff	\$-		
Recording	\$-		
Advanced Attorney Fees	\$-		
Other Attorney Fees	\$		
Subtotal	\$-		
Total Corp Advances	\$-		
Total Indebtedness	\$-		
Additional Comments			

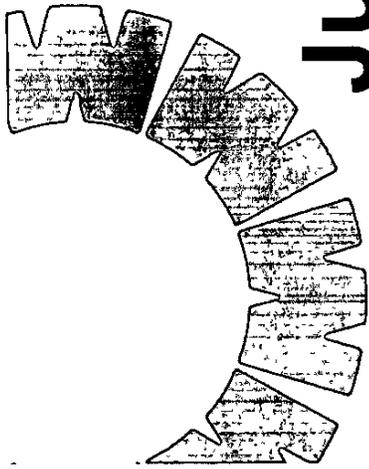
**Judgment Verification Calculation Tool**

To be used to validate attorney prepared Affidavit amounts equal JFIG amounts Upon completion, please print and include in the final approved Judgment Figure Verification Package

<b>Loan Number</b>	<b>REDACTED</b>	<b>Reviewer Name</b>	Opus
--------------------	-----------------	----------------------	------

Financial Review Source Documents			
Figure	Source Document(s)	Figure	Source Document(s)
UPB	Pay4	Inspections	DDCH
Interest	Pay4 and Pay3 for per diem interest amounts	BPOs	DDCH
Total Debt	Pay4	Appraisals	DDCH
Escrow Advances (Taxes Hazard, MI)	Pay4, P309, HAZ1, TAX1	Property Preservation	DDCH
Late Charges	Breach Letter, Pay4	Other Recoverable	DDCH
Suspense Balance	Pay4	Attorney Fees and Costs FC and BK related	DDCH, BK documents (discharge, dismissal, MFR)

E-1



# Judgment Figure Referral Training

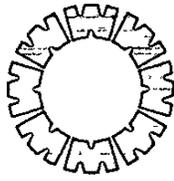
*HLS Foreclosure*

**OneWest Bank**



**OneWest Bank**

Version: 01 01 11

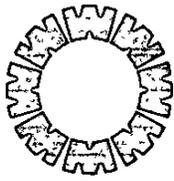


## Objectives

*Upon completion of this course, the participant should be able to:*

- Prepare the necessary documents for the Affidavit of Indebtedness
- Explain the overall responsibility for reviewing and obtaining the advances contained in Mortgage Servicing Platform (MSP)
- Analyze the figures using various MSP screen prints and documents in the AOI package

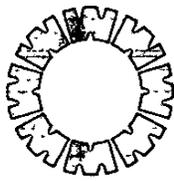




## Responsible Parties

- It is the responsibility of each firm to review the file to ensure accuracy and account for each line item prior to submitting Judgment Figures
- In accordance to state regulations, include the appropriate items or make the necessary adjustments to the Judgment Figures, based on the figures provided
- It is the responsibility of OneWest Bank to ensure the content and amounts the firm provided in the affidavit are correct and accurate



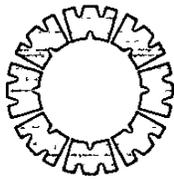


## Providing Foreclosure Data for Judgment Affidavit

- Step One - Obtain list of loans with the Judgment Figure process open from LPS Desktop
  - Run the Judgment Script – script will provide screen prints of the following MSP screens and store them in LPS Desktop as a package attached to the loan file.

P309	PAY1	PAY2
PAY3	PAY4	DDCH
FOR1	FOR3	DLO1





## Creating the Judgment Affidavit

- **Step Two - Foreclosure Attorney will review screen print package provided and prepare appropriate judgment affidavit including the following documents:**

Affidavit as to indebtedness

Affidavit of indebtedness

Affidavit Certifying Ownership of Debt

Affidavit of Loss Mitigation

Affidavit in Support of Motion for Final Summary Judgment

Affidavit of Merit and Amount Due

Affidavit of Debt

Affidavit of Principal Balance

Affidavit of Default

Affidavit of Proof

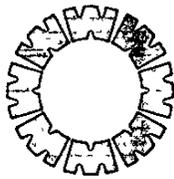
Affidavit of Default and Mailing of Notice of Intent to Foreclose

Audit Notification – Judgment

Affidavit of Non-Military Service

Preliminary and Final Loss Mitigation Affidavit

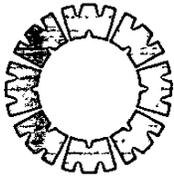




## Creating the Judgment Affidavit

- The Foreclosure Attorney will upload the prepared judgment affidavit to LPS Desktop and attach it to the loan with the screen print package.
- The Foreclosure Attorney then notifies Foreclosure Processing Support the documents are ready to print and be reviewed and signed by OneWest authorized signer.

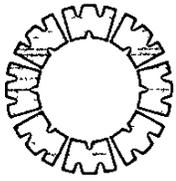




# Reviewing and Forwarding Judgment Affidavit

- **Step Three – Once OWB receives the notification the judgment affidavit is prepared by the Foreclosure Attorney, the onsite Foreclosure Processing Support group will review and forward the judgment affidavit using the following steps:**
  - **Confirm the county/state designation on the document**
  - **Review the vesting on the document and confirm**
  - **Confirm all requisite documents required to complete review of the affidavit are within Document Management**
  - **Confirm appropriate Officer/Specialist has been assigned as signatory – use Delegated Authority Policy**
  - **Forward document to designated Foreclosure Specialist assigned to the document preparation**





## Preparing Judgment Affidavit for Review

- Step Four – The Foreclosure Document Preparation Specialist receives the printed judgment affidavit sent by Foreclosure Attorney from Foreclosure Processing Support and follows the steps below:
  - Add county/state designation to judgment affidavit, if necessary
  - Print judgment affidavit and review for proper vesting, using attorney referral letter for verification
  - Assign Officer/Specialist as signatory, per the Delegated Authority Policy



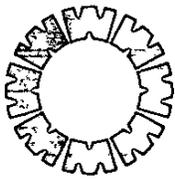


# Preparing Judgment Affidavit for Review

- Step Four – continued
- Ensure the following documents are included in each of the affidavit judgment figure verification packages (Other documents may be required by jurisdiction. All required documents must be added to the package. Refer to the AOI list for the list of additional documents):

Note	Mortgage
Assignment	Complaint
Breach Letter	Screen Prints
Foreclosure Transmittal/Referral Document	

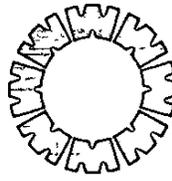




# Preparing Judgment Affidavit for Review

- Step Four – continued
  - Record the results of the document and screen print review on the Signature Required BAU Control Sheet in the Requisite Information Review Section
  - Notify the Foreclosure Specialist the documents are ready for review and signature if passes. If it fails, return it to the onsite Foreclosure Processing Support for correction and resubmission.





## Validating Judgment Affidavit

- The Foreclosure Specialist validates the completed judgment affidavit by working through the Indebtedness Review section of the Signature Required BAU Control Sheet using the following steps:
  - *Step One* – Validate the figures in the judgment affidavit with the appropriate data on the screen prints. Below are reminders of what to look for during the validation process:
    - The “as of date” on the affidavit must match the “as of date” on the screen prints
    - The print date of the screen print must be within 90 days of the AOI creation date
    - PAY<sub>4</sub> screen print is the PAYOFF CALCULATION TOTALS screen
    - Only items on the DDCH screen print coded with an “R” in the C/A Payee
    - Item with an “N” or “T” should not be included in the calculation





# Validating Judgment Affidavit

- **Principal Balance and Interest – verified from PAY4 screen print**
  - Ensure good-through date on screen print matches the good-through date on the Affidavit or is explained by the attorney preparing the affidavit if local requirements have Daily Simple Interest (DSI) calculation requirements.
  - DSI calculations must be used in the following states:
    - New Jersey
  - When DSI calculation method is used, confirm the appropriate per diem amount was used from the PAY3 screen print.
  - If DSI calculation method was used in any state other than New Jersey, supervisor and legal approval are required. Logic supporting approval and documentation of receipt of approval must be add to the review package.





## Validating Judgment Affidavit

- Interest calculated for ARM loans is good until the next interest rate adjustment.
- Use Rate Changes section of PAY<sub>4</sub> screen print to determine next rate change date





## Validating Judgment Affidavit

- MIP/PMI is verified using the P309 screen prints
  - Review last page to first page and total amounts in the 310 type/tran field
    - Add positive amounts and subtract negative amounts

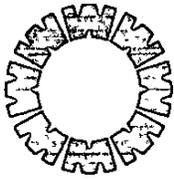




## Validating Judgment Affidavit

- Escrow Advance or Escrow Credit Balance is verified using the P309 screen prints.
  - When calculating the escrow advance amount, add and subtract all escrow transactions to balance to the Escrow Advance amount on the PAY<sub>4</sub> screen print.
  - An Escrow Credit Balance exists when PAY<sub>4</sub> screen print indicates an "E" next to the escrow field OR when an actual balance is present on the Escrow Balance field.





## Validating Judgment Affidavit

- Late Charges shown on the AOI are verified using the PAY<sub>4</sub> screen print or breach letter
  - Pre-acceleration late charges must be confirmed using the breach letter.
  - Late charges through first legal action must be confirmed using the Late Charge Amount on the PAY<sub>4</sub> screen print.





## Validating Judgment Affidavit

- Property Inspections are verified using the DDCH screen print.
  - Add all amounts from the DDCH screen print specified as an “Inspection Fee” and coded with an “R” in the C/A Payee column.
  - Include any amount currently designated to be added for property inspections pending through the good-through date of the affidavit.

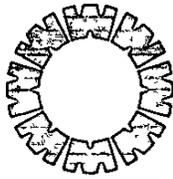




## Validating Judgment Affidavit

- BPO/Appraisal Charges are verified using the DDCH screen print.
  - Add all items described as BPO or appraisal and coded with an "R" in the C/A Payee column.
  - **DO NOT** use any codes with "N" or "T" in the C/A Payee column.
    - "N" = Non-recoverable corporate advance
    - "T" = Third-party recoverable corporate advance
      - Can't recover from the borrower





## Validating Judgment Affidavit

- Property Preservation fees are verified using the DDCH screen print.
  - Obtain this amount by adding all items on the DDCH screen print described as a property preservation activity such as:
    - Winterization
    - Lock work
    - Grass cut
  - Must be coded with “R” in the C/A Payee column.





## Validating Judgment Affidavit

- Attorney related fees and costs are verified using the DDCH screen prints.
- Reminders:
  - Attorney fees related to the current foreclosure action only are permitted.
  - In states where attorneys are permitted to file a separate affidavit of attorney, related fees and costs must be included by the attorneys.
  - In Jurisdictions where attorney related fees and costs must be included in the affidavit, they must be verified using the DDCH screen prints and only including attorney related fees that are coded with an "R" in the C/A Payee column.





## Validating Judgment Affidavit

- Bankruptcy related attorney fees and costs must be verified using the following:
  - Dismissal or Discharge
  - Motion for Relief of Stay
  - DDCH screen prints





## Validating Judgment Affidavit

- Suspense Balance is verified using the PAY<sub>4</sub> screen print.
- If a Suspense Balance is reflected in the PAY<sub>4</sub> screen print, and the jurisdiction-specific judgment affidavit being reviewed requires it to be included, confirm the amount has been accounted for by obtaining the amount from the PAY<sub>4</sub> screen print.
- Suspense Balance must always be reflected as a negative number decreasing the borrower's total indebtedness.





## Validating Judgment Affidavit

- Restricted Escrow amount on PAY4 screen print requires supervisor review.
- Restricted Escrow funds in most cases are the result of a Hazard Insurance claim payment. These funds are to be utilized to restore the property to its pre-claim condition. Use of these funds can vary as the claim proceeds are made payable to the borrower and investor jointly.
- In most cases, Restricted Escrow funds are not utilized towards the outstanding arrearage.
  - Exception is when the homeowner has repaired the damages to the property at their own expense.





## Validating Judgment Affidavit

- With few exceptions, Restricted Escrow funds are not to be calculated as a credit toward the outstanding debt in an affidavit of indebtedness.
- When an affidavit utilizes Restricted Escrow funds as a credit toward the indebtedness, a supporting explanation should be documented to provide the use of the funds as a credit toward the indebtedness that is obtained from OWB.
- Total Debt is the summation of the debits and credits of all the figures included in the affidavit.





# Validating Judgment Affidavit

- **Step Two – Exclude the following from the affidavit figures:**
  - **PAY3 screen print fees – they have not been billed yet or were incurred prior to the current foreclosure action.**
- Pro Rata MIP
- Projected Interest Amounts
- Interest on Corporate Advances
- Bankruptcy related Attorney Fees/Costs not evidenced in the affidavit review package
- Projected Escrow Advance
- Attorney Fees/Costs incurred during previous Foreclosure actions
- Other Bankruptcy Fees/Costs

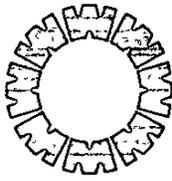




## Validating Judgment Affidavit

- Only figures from PAY3 screen print that should be considered in the AOI decision/review process are Per Diem Interest Rate amounts.
- If any discrepancies are found between the judgment affidavit and the MSP figures, return the file to onsite Foreclosure Processing Support to be returned to attorney for correction.





## Validating Judgment Affidavit

- Step Three – Verify the appropriate business records language is included in the affidavit
- Step Four – Record the results of the review of the judgment affidavit figures on the Signature Required BAU Control Sheet and in MSP FOR2 screen.
- Step Five – Scan completed Control Sheet with the complete judgment figure verification package and save as a pdf file in U:/AOI QC Review/Month folder (each month will have it's own folder)

– Ex: Name file as – 1234567890\_Jones



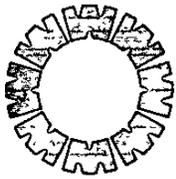




# Preparing Other Foreclosure Documents

- Preparing and Signing the Lost Note Affidavit – If a Lost Note Affidavit (LNA) is requested, the Foreclosure Officer will perform the necessary research and prepare the document as follows:
  - Review documents in LPS Desktop on file under Original Notes
  - If no original Note on file, print copy of the Note from folder. If required by the jurisdiction, certify it as a true and accurate representation of the original.
  - Foreclosure Document Preparation Specialist prepares the document/screen print package for the LNA.





# Preparing Other Foreclosure Documents

- **Preparing and Signing the Lost Note Affidavit – continued**
  - Obtain the completed LNA from the Foreclosure Attorney for the jurisdiction in which the property is located.
  - Proceed to Signing and Forwarding Foreclosure Documents procedure

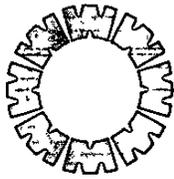




## Preparing Other Foreclosure Documents

- **Preparing and Signing the Assignment of Mortgage – If an Assignment of Mortgage is required, the Foreclosure Officer will perform the necessary research and prepare the document as follows:**
  - Review documents in LPS Desktop under Original Notes.
  - Using information from the original note and title work performed by the attorney, prepare the Assignment of Mortgage.
  - Contact the Foreclosure Document Preparation Specialist to request the preparation of the document/screen print package for the Assignment of Mortgage.

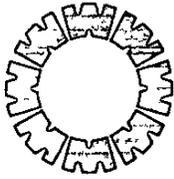




## Preparing Other Foreclosure Documents

- **Preparing and Signing the Assignment of Mortgage – cont'd**
  - Request completion of the Assignment of Mortgage from the Foreclosure Attorney through LPS Desktop – signature required section.
  - Obtain the completed Assignment of Mortgage from the Foreclosure Attorney.
  - Proceed to Signing and Forwarding Foreclosure Documents procedure.

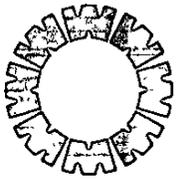




## Signing and Forwarding Foreclosure Documents

- **Signing and Notarizing the Document – The Foreclosure Specialist or OWB Officer, as designated in the Delegated Authority Policy (DAP), and who personally validated the document, will perform the following steps to sign the document:**
  - Notary must identify the document signer using an approved identification source (i.e. State Issued Identification Card) and document that source of identification in the Notary journal.
  - Note: The “Personally known to me” identification option is not permitted.

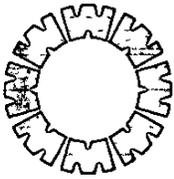




## **Signing and Forwarding Foreclosure Documents**

- **Signing and Notarizing the Document – continued**
  - Confirm the state and county information on the document.
  - Be sworn in by the Notary Public.
  - Sign the document in the presence of the Notary Public.
  - Observe the Notary Public sign the document, witnessing the OWB staff member's signature.
  - Observe the Notary Public affix the notary seal to the document.

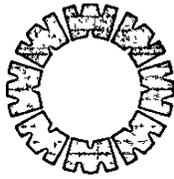




## Signing and Forwarding Foreclosure Documents

- Forwarding the Foreclosure Document – After the document is signed, the Foreclosure Specialist will perform the following steps:
  - Record the completion of the signatures on the BAU Control Sheet
  - Image the entire package and submit for ERM quality control review.

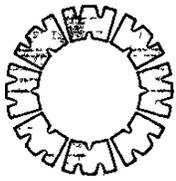




## Signing and Forwarding Foreclosure Documents

- Reviewing the Document for Quality Control – ERM Quality Control will perform a review of the final package. Results of the review will be forwarded to HLS AOI Management. Once HLS AOI Management receives the ERM QC Results and reviews them, they will proceed using the following procedure:
  - Document is correct/receives a *pass* recommendation from ERM QC – forward to onsite Foreclosure Processing Support
  - Document is incorrect/receives a *fail* recommendation from ERM QC – reject document in LPS Desktop. This notifies the Foreclosure Attorney that a new document needs to be prepared and submitted for review and signing.





## **Signing and Forwarding Foreclosure Documents**

- **Returning Signed Documents to Foreclosure Attorney –**  
Onsite Foreclosure Processing Support receives the signed and notarized document from OWB and validates the following:

- Required Signatures
- Notarization
- Dates
- Vesting
- Witness
- County/State

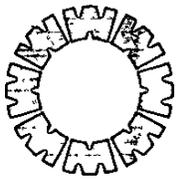




## Signing and Forwarding Foreclosure Documents

- Returning Signed Documents to Foreclosure Attorney –  
continued
  - If document is *complete* – forward it by overnight messenger to offsite Foreclosure Processing Support who will forward the complete document to the Foreclosure Attorney.
  - If document is *incomplete* – return the document to the signing Foreclosure Specialist or Officer for completion.



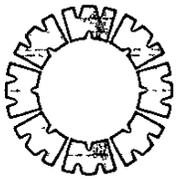


## Objectives Revisited

*With this course, you should have learned how to:*

- Prepare the necessary documents for the Affidavit of Indebtedness
- Explain the overall responsibility for reviewing and obtaining the advances contained in MSP
- Analyze the figures using various MSP screen prints and documents in the AOI package





# Review

## Review / Questions



E-2



**JUDGMENT FIGURE**  
**REFERRAL TRAINING**  
*Foreclosure Version*

# Judgment Figure Referral Training





# Judgment Figure Referral Training

## Preparing and Verifying the Judgment Affidavit

The HLS Foreclosure Master Policy establishes that OneWest Bank, F.S.B. and its affiliates (OneWest or the Company) will adhere to applicable laws and regulations, including ensuring that foreclosure documents are prepared and signed in the manner prescribed by law

### Step One – Providing Foreclosure Data for Judgment Affidavit

Once a Judgment Figure request has been submitted in LPS Desktop by a Foreclosure Attorney, the following steps are followed to provide the foreclosure data

Step	Action
1	Obtain the list of loans with the Judgment Figure process open from LPS Desktop
2	Run the Judgment Figure script. This script will capture screen prints of the following screens and store them in LPS Desktop as a package attached to the loan file. Below are the MSP screens in the electronic screen print package <ul style="list-style-type: none"> <li>• P309</li> <li>• PAY1</li> <li>• PAY2</li> <li>• PAY3</li> <li>• PAY4</li> <li>• DDCH</li> <li>• FOR1</li> <li>• FOR3</li> <li>• DLQ1</li> </ul> <p>Note Bankruptcy loans require copies of the Dismissal or Discharge and Motion for Relief</p>

### Step Two – Creating the Judgment Affidavit

The Foreclosure Attorney will review the screen print package provided and prepare the appropriate judgment affidavit. Judgment Affidavits include the following documents

- Affidavit as to Indebtedness
- Affidavit Certifying Ownership of Debt
- Affidavit in Support of Motion for Final Summary Judgment
- Affidavit of Debt
- Affidavit of Default
- Affidavit of Delinquency
- Affidavit of Default and Mailing of Notice of Intent to Foreclose
- Affidavit of Non-Military Service
- Affidavit of Indebtedness
- Affidavit of Loss Mitigation
- Affidavit of Merit and Amount Due
- Affidavit of Principal Balance
- Affidavit of Proof
- Audit Notification – Judgment
- Judgment Affidavit
- Preliminary and Final Loss Mitigation Affidavit

The Foreclosure Attorney will upload the prepared judgment affidavit to LPS Desktop and attach it to the loan with the screen print package. The Foreclosure Attorney then notifies Foreclosure processing Support the documents are ready to print and be reviewed and signed by OneWest authorized signer

# Judgment Figure Referral Training



## Preparing and Verifying the Judgment Affidavit, continued

### Step Three – Reviewing and Forwarding Judgment Affidavit

Once OneWest receives the notification the judgment affidavit is prepared by the Foreclosure Attorney, the onsite Foreclosure Processing Support group will review and forward the judgment affidavit using the following steps

Step	Action
1	Confirm the county/state designation on the document Ex County = Travis; State = Texas
2	Review the vesting on the document and confirm by reviewing the Foreclosure Transmittal/Referral letter
3	Confirm all requisite documents required to complete the review of the affidavit are within Document Management
4	Confirm the appropriate Officer/Specialist has been assigned as signatory – use Delegated Authority Policy. Operational – HLS > HLS DAP > <u>Delegated Authorities Policy Exhibit IV – Servicing, Master Servicing, and Loan Transfer Authorities</u>
5	Forward the document to the designated Foreclosure Specialist assigned to the document preparation and open DOCPRP task

### Step Four – Preparing Judgment Affidavit for Review

The Foreclosure Document Preparation Specialist receives the printed judgment affidavit sent by Foreclosure Attorney from Foreclosure Processing Support and follows the steps below

Step	Action
1	Add the county/state designation to the judgment affidavit, if necessary.
2	Print the judgment affidavit and review for the proper vesting, using the attorney referral letter for verification. Ex Fannie Mae a/k/a Federal National Mortgage Association.
3	Assign the Officer/Specialist as the signatory, per the Delegated Authorities Policy (DAP) Operational – HLS > HLS DAP > <u>Delegated Authorities Policy Exhibit IV – Servicing, Master Servicing, and Loan Transfer Authorities</u>
4	Ensure the following documents are included in each of the affidavit judgment figure verification packages <ul style="list-style-type: none"> <li>• Note</li> <li>• Mortgage</li> <li>• Assignment</li> <li>• Complaint</li> <li>• Breach Letter</li> <li>• Screen Prints</li> <li>• Foreclosure Transmittal/Referral Document</li> </ul> <b>Note:</b> Other documents may be required by jurisdiction All required documents <b>must</b> be added to the package Refer to the AOI for the list of additional documents
5	Record the results of the document and screen print review on the Signature Required BAU Control Sheet in the Requisite Information Review Section.
6	Close the DOCPRP task and open the AOIRVW to notify the Foreclosure Specialist the documents are ready for review and signature if passes If one of the requisite documents is not available and must be provided by the attorney, open REVDOC task

If the judgment affidavit is <b>not</b> correct	Open the REVLNG or REFFIN task and return it to onsite Foreclosure Processing Support for correction and resubmission
---	---

# Judgment Figure Referral Training



## Preparing and Verifying the Judgment Affidavit, continued

### Step Five – Validating Judgment Affidavit

The Foreclosure Specialist validates the completed judgment affidavit by working through the Indebtedness Review section of the Signature Required BAU Control Sheet using the following steps

#### Step One

Validate the figures in the judgment affidavit with the appropriate data on the screen prints and close the AOIRVW task. Open the NOTARY task if the loan passes. If it fails, then open either the REVLNG or REVFIN task. Below are reminders of what to look for during the validation process.

- The "as of date" on the affidavit **must** match the "as of date" on the screen prints
- The print date of the screen prints **must** be within **90** days of the AOI preparation date
- The PAY<sub>4</sub> screen is the PAYOFF CALCULATION TOTALS screen
- Only items on the DDCH screen coded with an "R" in the C/A Payee column represent recoverable amounts and should be included in the calculations. Items coded with an "N" (non-recoverable) or "T" (third-party recoverable) should **not** be included in the calculations.

**Principal Balance** is verified from the PAY<sub>4</sub> screen print – see example below

PAY4 1234567890		AS-OF 11/24/10		PAYOFF CALCULATION TOTALS 11/23/10		14:
NAME SA Jones		CONTACT NAME SCOTT A Jones				
-----						
PRINCIPAL BALANCE	191,000.00			-----	RATE CHANGES	-----
INTEREST 11/24/10	11,928.86	CALC	INT FROM	RATE	AMOUN	
PRO RATA MIP/PMI	.00		12/01/09	6.37500	11,928	
ESCROW ADVANCE	571.29		11/24/10			
ESCROW BALANCE	.00					
SUSPENSE BALANCE	00					
HUD BALANCE	00					
REPLACEMENT RESERVE	00					
RESTRICTED ESCROW	00					
TOTAL-FEES	56 00					
ACCUM LATE CHARGES	703.30					
ACCUM NSF CHARGES	.00					
OTHER FEES DUE	00					
PENALTY INTEREST	.00					
FLAT/OTHER PENALTY FEE	.00		TOTAL INTEREST		11,928	
CR LIFE/ORIG FEE RBATE	.00		TOTAL TO PAYOFF		216,822	
RECOVERABLE BALANCE	12,563.36	NUMBER OF COPIES:	1	PRESS PF1 TO P		
MULTIPLE PI CHANGE PERIODS CROSSED - CALCULATIONS ARE SUSPECT						

# Judgment Figure Referral Training



## Step Five – Validating Judgment Affidavit Continued

Interest is verified on the PAY4 screen print – see example #1 below:



PAY4 1234567890		AS-OF 11/24/10		PAYOFF CALCULATION TOTALS 11/23/10		14:
NAME SA Jones		CONTACT NAME SCOTT A Jones				
PRINCIPAL BALANCE	191,000.00	-----		RATE CHANGES		-----
INTEREST 11/24/10	11,928.86	CALC	INT FROM	RATE	AMOUN	
PRO RATA MIP/PMI	.00		12/01/09	6 37500	11,928	
ESCROW ADVANCE	571.29		11/24/10			
ESCROW BALANCE	.00					
SUSPENSE BALANCE	.00					
HUD BALANCE	.00					
REPLACEMENT RESERVE	.00					
RESTRICTED ESCROW	.00					
TOTAL-FEES	56.00					
ACCUM LATE CHARGES	703.30					
ACCUM NSF CHARGES	.00					
OTHER FEES DUE	.00					
PENALTY INTEREST	.00					
FLAT/OTHER PENALTY FEE	.00		TOTAL INTEREST		11,928	
CR LIFE/ORIG FEE RBATE	.00		TOTAL TO PAYOFF		216,822	
RECOVERABLE BALANCE	12,563.36		NUMBER OF COPIES: 1		PRESS PF1 TO P	
MULTIPLE PI CHANGE PERIODS CROSSED - CALCULATIONS ARE SUSPECT						

- Ensure the good-through date on the screen print matches the good through date on the Affidavit, or is explained by the attorney preparing the affidavit if local requirements have DSI calculation requirements
- Daily Simple Interest (DSI) calculations must be used in the following state(s)
  - o New Jersey
- When DSI calculation method is used, confirm the appropriate per diem amount was used from the PAY3 screen print
- If DSI calculation method was used in any state other than New Jersey, supervisor and legal approval are required. Logic supporting approval and documentation of receipt of approval must be added to the review package

# Judgment Figure Referral Training



## Step Five – Validating Judgment Affidavit Continued

Interest calculated for ARM loans is good until the next interest rate adjustment. Refer to the Rate Changes section of the screen to determine the next rate change date – see example #2 below:

PAY# 1234567890 AS-OF 01/01/11 PAYOFF CALCULATION TOTALS 11/30/10 17:27:46																													
NAME AB DOE CONTACT NAME ANY BORROWER DOE																													
PRINCIPAL BALANCE	392,462.59																												
INTEREST 01/01/11	25,632.74																												
PRO RATA MIP/PMI	.00																												
ESCROW ADVANCE	9,471.08																												
ESCROW BALANCE	.00																												
SUSPENSE BALANCE	.00																												
HUD BALANCE	.00																												
REPLACEMENT RESERVE	.00																												
RESTRICTED ESCROW	.00																												
TOTAL-FEES	46.00																												
ACCUM LATE CHARGES	1,130.64																												
ACCUM NSF CHARGES	.00																												
OTHER FEES DUE	.00																												
PENALTY INTEREST	.00																												
FLAT/OTHER PENALTY FEE	.00																												
CR LIFE/ORIG FEE RBATE	.00																												
RECOVERABLE BALANCE	3,677.19																												
<table border="1"> <thead> <tr> <th colspan="3">----- RATE CHANGES -----</th> </tr> <tr> <th>INT FROM</th> <th>RATE</th> <th>AMOUNT</th> </tr> </thead> <tbody> <tr> <td>06/01/09</td> <td>4.62500</td> <td>4,660.50</td> </tr> <tr> <td>09/01/09</td> <td>4.37500</td> <td>1,430.35</td> </tr> <tr> <td>10/01/09</td> <td>4.25000</td> <td>1,339.97</td> </tr> <tr> <td>11/01/09</td> <td>4.12500</td> <td>2,698.13</td> </tr> <tr> <td>01/01/10</td> <td>4.00000</td> <td>7,349.26</td> </tr> <tr> <td>07/01/10</td> <td>3.87500</td> <td>7,603.38</td> </tr> <tr> <td>01/01/11</td> <td></td> <td></td> </tr> </tbody> </table>			----- RATE CHANGES -----			INT FROM	RATE	AMOUNT	06/01/09	4.62500	4,660.50	09/01/09	4.37500	1,430.35	10/01/09	4.25000	1,339.97	11/01/09	4.12500	2,698.13	01/01/10	4.00000	7,349.26	07/01/10	3.87500	7,603.38	01/01/11		
----- RATE CHANGES -----																													
INT FROM	RATE	AMOUNT																											
06/01/09	4.62500	4,660.50																											
09/01/09	4.37500	1,430.35																											
10/01/09	4.25000	1,339.97																											
11/01/09	4.12500	2,698.13																											
01/01/10	4.00000	7,349.26																											
07/01/10	3.87500	7,603.38																											
01/01/11																													
		TOTAL INTEREST 25,632.74																											
		TOTAL TO PAYOFF 432,420.24																											
NUMBER OF COPIES: 1 PRESS PF1 TO PRINT																													
MULTIPLE IR CHANGE PERIODS CROSSED - CALCULATIONS ARE SUSPECT																													



# Judgment Figure Referral Training



## Step Five – Validating Judgment Affidavit Continued

MIP/PMI is verified using the P309 screen prints – see examples below.

LN 1234567890		MORTGAGE LOAN HISTORY				02-16-11
JS Jones		INV-LN 500-105- 1239045678		DUE 12-01-08		TYPE 16
MAN F P-TYPE	1	INT .0875000	FIRST PB	99,233.95	2ND PB	00
.00	NET	1685 54	SF 00425000	SUSP	00 STOP D B P F N A D L	
.00	RES	.00			F 0 0 2 3 0 0 0	
		01-30	01-30	01-16	01-08	01-08
		11-08	00-00	11-08	11-08	01-09
/TRAN	1 73	6 31	1 52	1 61		3 10
NT	.00	.00	.00	17 67		17.67-
-PD	.00	.00	.00	.00		.00
-BAL	99,387.21	99,387.21	99,387.21	99,387.21	99,387.21	99,387.21
PD	.00	.00	.00	.00	.00	.00
PD	.00	.00	.00	17 67		17.67-
BAL	.00	.00	.00	.00	.00	17.87
INS	.00	.00	.00	.00	.00	.00
-INS	.00	.00	.00	.00	.00	.00
EES	1 58.88	.00	1 17 56-	.00	.00	.00
-PD	.00	.00	.00	.00	.00	.00
BAL	873.00	873.00	873.00	873.00	873.00	855.33
	58.88-	.00	.00	.00	.00	.00
AYEE		PI3000				033
031 OF 032		TOTAL TRANS AVAILABLE 0158				OLDEST TRAN 01-02-09 /P

- Review last page to first page and total amounts in the 310 type/tran field, adding positive amounts and subtracting negative amounts. To get to the last page of the history, press F10 and then F5. Press F7 to scroll backward and F8 to scroll forward in the pages.
  - In this example the first Mortgage Insurance transaction (310) doesn't occur until page 31. Once you press F10 to expand all available history and press F5 to get to the last page, it will take you to page 32. Press F7 to move back to page 31. The next 310 transaction occurs on page 29. Continue with this process until page 1 of the history.

# Judgment Figure Referral Training



OneWest Bank

## Step Five – Validating Judgment Affidavit Continued

Escrow Advance or Escrow Credit Balance is verified using the P309 screen prints. When calculating the escrow advance amount, make sure to add and subtract all escrow transactions to balance to the Escrow Advance amount on the PAY<sub>4</sub> screen print. See examples below

PAY4 1234567890		AS-OF 02/18/11		P
NAME	JS Jones	CONTACT	NAME	John Jones
PRINCIPAL BALANCE			31,935.65	
INTEREST 02/18/11			6,045.67	
PRO RATA MIP/PMI			.00	
<b>ESCROW ADVANCE</b>			<b>8,931.96</b>	
ESCROW BALANCE			.00	
SUSPENSE BALANCE			.00	
HUD BALANCE			.00	
REPLACEMENT RESERVE			.00	
RESTRICTED ESCROW			.00	
TOTAL-FEES			72.50	
ACCUM LATE CHARGES			370.25	
ACCUM NSF CHARGES			.00	
OTHER FEES DUE			.00	
PENALTY INTEREST			.00	
FLAT/OTHER PENALTY FEE			.00	
CR LIFE/ORIG FEE RBATE			.00	
RECOVERABLE BALANCE			6,195.00	

In this example, the Escrow Advance amount on the PAY<sub>4</sub> screen print is \$8,931.96. Using the P309 screen prints, add and subtract all the escrow transactions to verify the Escrow Advance amount.

# Judgment Figure Referral Training



## Step Five - Validating Judgment Affidavit continued

An Escrow Credit Balance exists when the PAY4 screen print indicates an "E" next to the escrow field OR when an actual balance is present on the Escrow Balance field

This is an example of the escrow balance **not** being used to reduce the payoff amount.

PAY4 1234567890		AS-OF 02/24/11		PAYOFF CALCULATION TOTALS		02/23/11		18:47	
NAME J Jones		CONTACT NAME John Jones							
PRINCIPAL BALANCE	34,892.09			-----	RATE CHANGES	-----			
INTEREST 02/24/11	750.86	-----	CALC	INT FROM	RATE	-----	AMOUNT		
PRO RATA MIP/PMI	.00			11/01/10	6.87500		750.8		
ESCROW ADVANCE	.00			02/24/11					
ESCROW BALANCE	.00		E						
SUSPENSE BALANCE	.00								
HUD BALANCE	.00								
REPLACEMENT RESERVE	.00								
RESTRICTED ESCROW	.00								
TOTAL-FEES	44.00								
ACCUM LATE CHARGES	198.96								
ACCUM NSF CHARGES	.00								
OTHER FEES DUE	.00								
PENALTY INTEREST	.00								
FLAT/OTHER PENALTY FEE	.00			TOTAL INTEREST			750.8		
CR LIFE/ORIG FEE RBATE	.00			TOTAL TO PAYOFF			35,885.9		
RECOVERABLE BALANCE	.00			NUMBER OF COPIES: 1			PRESS PF1 TO PRI		

This is the same loan only the escrow balance is being used to reduce the payoff amount.

PAY4 1234567890		AS-OF 02/24/11		PAYOFF CALCULATION TOTALS		02/23/11		18:53	
NAME J Jones		CONTACT NAME John Jones							
PRINCIPAL BALANCE	34,892.09			-----	RATE CHANGES	-----			
INTEREST 02/24/11	750.86	-----	CALC	INT FROM	RATE	-----	AMOUNT		
PRO RATA MIP/PMI	.00			11/01/10	6.87500		750.8		
ESCROW ADVANCE	.00			02/24/11					
ESCROW BALANCE	251.21-								
SUSPENSE BALANCE	.00								
HUD BALANCE	.00								
REPLACEMENT RESERVE	.00								
RESTRICTED ESCROW	.00								
TOTAL-FEES	44.00								
ACCUM LATE CHARGES	198.96								
ACCUM NSF CHARGES	.00								
OTHER FEES DUE	.00								
PENALTY INTEREST	.00								
FLAT/OTHER PENALTY FEE	.00			TOTAL INTEREST			750.8		
CR LIFE/ORIG FEE RBATE	.00			TOTAL TO PAYOFF			35,634.7		
RECOVERABLE BALANCE	.00			NUMBER OF COPIES: 1			PRESS PF1 TO PRI		

# Judgment Figure Referral Training



## Step Five – Validating Judgment Affidavit continued

In the P309 screen print below, page 23 is the beginning of the history for the loan. The earliest escrow balance is \$1,769.50. A Tax bill is paid on 2/6/09 in the amount of \$1,286.74. This leaves an escrow balance of \$482.74. Press F7 to scroll forward to page 22.

P309 LN 1234567890		MORTGAGE LOAN HISTORY		
NAME JS Jones		INV-LN 500-101-0185024319	DUE 03-01-09	TYPE
BR 00 MAN F P-TYPE 1	INT .0925000	FIRST PB	31,935.65	2ND PB
HUD .00 NET	608.73	SF .00250000	SUSP	.00 STOP D B P F
REP .00 RES	3936.95			F 0 0 4
APP	02-17	02-06	01-16	
DUE	01-09	02-09	01-09	
TYPE/TRAN	1 52	3 12	1 52	
AMOUNT	.00	1,286.76-	.00	
PRIN-PD	.00	.00	.00	
PRIN-BAL	32,034.49	32,034.49	32,034.49	
INT-PD	.00	.00	.00	
ESC-PD	.00	1,286.76-	.00	
ESC-BAL	482.74	482.74	1,769.50	
A&H-INS	.00	.00	.00	
LIFE-INS	.00	.00	.00	
LC/FEES 1	14.81-	.00 1	14.81-	
MISC-PD	.00	.00	.00	
ADV-BAL	.00	.00	.00	
SUSP	.00	.00	.00	
SC/PAYEE		12031		
PAGE 023 OF 023	**PRESS PF10 FOR 37 MONTHS**		OLDEST TRAN 01-16-09 /P	

# Judgment Figure Referral Training



OneWest Bank

## Step Five – Validating Judgment Affidavit continued

04-16	03-16	03-09	03-02	02-25
03-09	03-09	02-09	00-00	01-09
1 52	1 52	1 73	6 31	1 73
.00	.00	608.73	.00	623.54
.00	.00	49.61	.00	49.23
31,935.65	31,935.65	31,935.65	31,985.26	31,985.26
.00	.00	246.55	.00	246.93
.00	.00	312.57	.00	312.57
1,107.88	1,107.88	1,107.88	795.31	795.31
.00	.00	.00	.00	.00
.00	.00	.00	.00	.00
14.81- 1	14.81-	.00	.00	14.81
.00	.00	.00	.00	.00
.00	.00	.00	.00	.00
.00	.00	.00	.00	.00
			PI3000	

This example of page 22 reflects the 2 payments the borrower remitted on 2/25/09 and 3/09/09. Each payment includes \$312.57 for the monthly escrow portion of their payment and is added to the current escrow balance. The escrow balance after these 2 payments is now \$1,107.88. Press F7 to scroll forward to page 21.

```

P309 LN 1234667890          MORTGAGE LOAN HISTORY
NAME JS Jones              INV-LN 500-101-0185024319 DUE 03-01-09
BR 00 MAN F P-TYPE 1 INT .0925000 FIRST PB 31,935.65 2ND PB
HUD .00 NET 608.73 SF .00250000 SUSP .00 STOP 0 B
REP .00 RES 3936.95
APP          06-17          06-16          05-27          05-18
DUE          07-09          03-09          00-00          03-09
TYPE/TRAN   3 51          1 52          6 31          1 52
AMOUNT     529.00-          .00          .00          .00
PRIN-PD    .00          .00          .00          .00
PRIN-BAL   31,935.65      31,935.65      31,935.65      31,935.65
INT-PD     .00          .00          .00          .00
ESC-PD     529.00-          .00          .00          .00
ESC-BAL    578.88          1,107.88      1,107.88      1,107.88
A&H-INS    .00          .00          .00          .00
LIFE-INS   .00          .00          .00          .00
LC/FEES    .00 1          14.81-        .00 1          14.81-
MISC-PD    .00          .00          .00          .00
ADV-BAL    .00          .00          .00          .00
SUSP       .00          .00          .00          .00
SC/PAYEE   70055          PI3000
    
```

PAGE 021 OF 023      TOTAL TRANS AVAILABLE 0113      OLDEST TRAN 01-16-09

Page 21 example reflects a Hazard Insurance bill being paid on 6/17/09 in the amount of \$529.00. The escrow balance is now \$578.88. Continue to scroll forward each page and add and subtract the escrow transactions until the end of the history on page 1.

# Judgment Figure Referral Training



## Step Five – Validating Judgment Affidavit continued

P309 LN 1234567890		MORTGAGE LOAN HISTORY				02-1
NAME	JS Jones	INV-LN	500-101-0185024319	DUE	03-01-09	TYPE 13
BR	00 MAN F P-TYPE 1	INT	.0925000	FIRST PB	31,935.65	2ND PB .0
HUD	.00 NET	608.73	SF .00250000	SUSP	.00	STOP D B P F N A
REP	.00 RES	3936.95				F 0 0 4 3 0
APP	10-26	10-22	10-16	10-12		1
DUE	00-00	03-09	03-09	00-00		0
TYPE/TRAN	6 31	1 69	1 52	6 32		6
AMOUNT	.00	3,936.95	.00	.00		
PRIN-PD	.00	.00	.00	.00		
PRIN-BAL	31,935.65	31,935.65	31,935.65	31,935.65		31.93
INT-PD	.00	.00	.00	.00		
ESC-PD	.00	.00	.00	.00		
ESC-BAL	194.88	194.88	194.88	194.88		19
A&H-INS	.00	.00	.00	.00		
LIFE-INS	.00	.00	.00	.00		
LC/FEES	.00	.00	14.81-	.00		
MISC-PD	.00	.00	.00	.00		
ADV-BAL	.00	.00	.00	.00		
SUSP	.00	.00	.00	.00		
SC/PAYEE	PI3000	*		AT0204		PI3000
PAGE 016 OF 023 TOTAL TRANS AVAILABLE 0113 OLDEST TRAN 01-16-09 /P						

This same loan example has a transaction code 169 on 10/22/09 for the amount of \$3,3936.95 This transaction is a deposit into the Restricted Escrow account and will not be added or subtracted from the Escrow balance of \$194.88

REP	.00 RES	3936.95				F 0
APP	01-20	01-19	01-04	12-31		
DUE	00-00	03-09	03-09	03-09		
TYPE/TRAN	6 33	1 52	1 68	1 60		
AMOUNT	.00	.00	.00	17.74		
PRIN-PD	.00	.00	.00	.00		
PRIN-BAL	31,935.65	31,935.65	31,935.65	31,935.65		
INT-PD	.00	.00	.00	.00		
ESC-PD	.00	.00	17.74-	17.74		
ESC-BAL	.00	.00	.00	17.74		
A&H-INS	.00	.00	.00	.00		
LIFE-INS	.00	.00	.00	.00		
LC/FEES	.00	1	14.81-	.00		
MISC-PD	.00	.00	.00	.00		
ADV-BAL	1,178.74	1,178.74	1,178.74	1,196.48		
SUSP	.00	.00	.00	.00		
SC/PAYEE	PI3000	*				
PAGE 014 OF 023 TOTAL TRANS AVAILABLE 0113 OLDEST TRAN 01-16-09						

Interest is always accrued on Restricted Escrow balances In this example, the \$3,3936.95 that were deposited into the Restricted Escrow account on 10/22/09 accrued \$17.74 in interest on 12/31/09 The \$17.74 is credited back to the borrower's escrow account with the 160 transaction code This reduces the amount of the escrow advance

# Judgment Figure Referral Training



## Step Five – Validating Judgment Affidavit Continued

Late Charges shown on the AOI are verified using the PAY4 screen print or breach letter – see examples below

In this example AOI, the Pre-Acceleration Late Charges amount is listed as \$90.88

ONEWEST BANK, INC.  
Plaintiff  
vs.  
Defendants

IN THE CIRCUIT COURT OF THE  
THIRTEENTH JUDICIAL CIRCUIT IN AND FOR  
COUNTY OF ORANGE, FLORIDA  
JUDICIAL DIVISION  
CASE NO.

**AFFIDAVIT OF INDUBITNESS**

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ )

I, \_\_\_\_\_, person(s) appearing \_\_\_\_\_, who \_\_\_\_\_, after being treated by a system, deposits and \_\_\_\_\_

1. Admitted \_\_\_\_\_ of the Plaintiff and is personally familiar with the facts which have been set forth by the Plaintiff and is subject matter of this action. In the regular performance of my job, I have reviewed and run their work business records maintained by OneWest Bank, Inc. for the purpose of servicing mortgage loans. These records include but not limited to regulations, electronically stored documents, and other information entered into the system by or from information provided by persons with knowledge of the activity in question, as reflected in such records, and are kept in the course of business activities conducted regularly by OneWest Bank, Inc. It is the regular practice of OneWest Bank, Inc.'s mortgage servicing business to make these records, in connection with making this affidavit, if those persons have personally examined these business records reflecting financial information as I \_\_\_\_\_.

2. The allegations of the Complaint filed in this action are true and correct.

3. There exists due and owing to the Plaintiff upon said note and mortgage the following amounts:

a) Unpaid Principal Balance on the note and mortgage	\$	552,130.62
b) Accrued and due from 7/3/2008 to 2/22/2011 (per OH of NWR 001)	\$	17,561.11
c) Restored Interest	\$	1,192
d) Taxes	\$	18,034.04
e) Hazard Insurance	\$	1,141,700.00
f) Flood Insurance	\$	1,192
g) Pre-Acceleration Late Charges	\$	90.88
h) Property Impairment	\$	23,190
i) Property Impairment	\$	0.00
j) Interest on Advances	\$	0.00
k) Bankers Pre-Payment	\$	0.00
l) Bankers Pre-Payment	\$	0.00
m) Property Impairment	\$	1,000.00
n) Unpaid Service Fees	\$	1,111.00

- Pre-acceleration late charges **must** be confirmed using the Breach letter
- Late charges through first legal action **must** be confirmed using the Late Charge Amount on the PAY4 screen print

# Judgment Figure Referral Training

OneWest Bank

## Step Five – Validating Judgment Affidavit Continued

Property Inspections are verified using the DDCH screen print – see example below

DDCH 1234567890		CORPORATE ADVANCE HISTORY SCREEN		001/100	12/02/10				
SA Jones		L: F:R B: R:	01/01/10 TYPE CONV. RES.		ARM				
123 ABC Dr		BOULDER CO 80304							
-----					* END				
----- C/A PAYEE	---	TRAN	----	RSN	---	USR	-----	ESC	
_ SORT		_ SORT		_ SORT		_ SORT		_ SORT	
DATE RANGE:		-----		THRU	-----				
					C/A				
TRN	USR	DATE	TRAN	AMT	ESC	PAYEE	PAYEE	RSN	DESCRIPTION
633	NIV	05/21/09		95.00		MS4855	40N23	QOBP	DELINQUENT BPO
631	FFS	05/04/09		11.00		PI3000	50R13	COIF	INSPECTION FEE
631	FFS	03/30/09		11.00		PI3000	50R13	COIF	INSPECTION FEE
631	FFS	02/26/09		11.00		PI3000	50R13	COIF	INSPECTION FEE
631	FFS	01/02/09		11.00		PI3000	50R13	COIF	INSPECTION FEE
631	FFS	11/28/08		11.00		PI3000	50R13	COIF	INSPECTION FEE

Add all amounts from the DDCH screen print specified as an "inspection fee" and coded with an "R" in the C/A Payee column. Include any amount currently designated to be added for property inspections pending through the good through date of the Affidavit.

DDCH 1234567890		CORPORATE ADVANCE HISTORY SCREEN		001/100	11/23/10				
SA Jones		L: F:R B: R:	01/01/10 TYPE CONV. RES.		ARM				
123 ABC Dr		BOULDER CO 80304							
-----					* MORE				
----- C/A PAYEE	---	TRAN	----	RSN	---	USR	-----	ESC P/	
_ SORT		_ SORT		_ SORT		_ SORT		_ SORT	
DATE RANGE:		-----		THRU	-----				
					C/A				
TRN	USR	DATE	TRAN	AMT	ESC	PAYEE	PAYEE	RSN	DESCRIPTION
745	***	08/10/09		353.27			50R13	FBAA	ADV ATTORNEY FEE
631	FFS	08/04/09		11.00		PI3000	50R13	FBIF	INSPECTION FEE
745	***	07/07/09		159.75			50R13	FBAA	ADV ATTORNEY FEE
745	***	07/07/09		999.99			50R13	FBAA	ADV ATTORNEY FEE
745	***	07/07/09		999.99			50R13	FBAA	ADV ATTORNEY FEE
631	FFS	07/01/09		11.00		PI3000	50R13	FBIF	INSPECTION FEE
631	FFS	05/29/09		11.00		PI3000	50R13	FBIF	INSPECTION FEE
633	NIV	05/21/09		95.00		MS4855	40N23	QOBP	DELINQUENT BPO
631	FFS	05/04/09		11.00		PI3000	50R13	COIF	INSPECTION FEE
631	FFS	03/30/09		11.00		PI3000	50R13	COIF	INSPECTION FEE

In this example, there are only 4 inspection fees that would be added to the Property Inspection total

# Judgment Figure Referral Training



## Step Five – Validating Judgment Affidavit continued

BPO/Appraisal Charges are verified using the DDCH screen print – see example below

DDCH 1234567890		CORPORATE ADVANCE HISTORY SCREEN		856/297	11/23/10	
DM Jones	L: R F: A B: C R:	12/01/08	TYPE CONV. RES.	ARM		
123 ABC Dr	HAMMOND IN 46323					
					* MORE	
----- C/A PAYEE	----- TRAN	----- RSN	----- USR	----- ESC PA		
----- SORT	----- SORT	----- SORT	----- SORT	----- SORT		
DATE RANGE:	----- THRU	-----				
C/A						
TRN	USR	DATE	TRAN AMT	ESC PAYEE	PAYEE RSN	DESCRIPTION
631	FFS	06/29/09	11.00	PI3000	50R13	FBIF INSPECTION FEE
633	NIV	06/15/09	400.00	MS4855	50R13	FBPO BPO CHARGE
631	FFS	05/22/09	11.00	PI3000	50R13	FBIF INSPECTION FEE
631	NIV	05/06/09	55.00	PI3000	50R13	OTHR ALL OTHER ITEMS
631	NIV	05/06/09	50.00	PI3000	50R13	PHTO PHOTO
631	NIV	05/06/09	125.00	PI3000	50R13	WINT WINTERIZATION
631	NIV	05/06/09	110.00	PI3000	50R13	LOCK LOCK WORK
631	NIV	05/06/09	150.00	PI3000	50R13	GRAS GRASS CUT
631	FFS	04/22/09	11.00	PI3000	50R13	FBIF INSPECTION FEE
631	FFS	03/23/09	11.00	PI3000	50R13	FBIF INSPECTION FEE

Add all items described as BPO or appraisal and coded with an "R" in the C/A Payee column. In this example, there is only 1 BPO Charge that is able to be added to the total

DDCH 1234567890		CORPORATE ADVANCE HISTORY SCREEN		001/100	11/23/10	
SA Jones	L: F: R B: R:	01/01/10	TYPE CONV. RES	ARM		
123 ABC Dr	BOULDER CO 80304					
					* MORE	
----- C/A PAYEE	----- TRAN	----- RSN	----- USR	----- ESC PA		
----- SORT	----- SORT	----- SORT	----- SORT	----- SORT		
DATE RANGE:	----- THRU	-----				
C/A						
TRN	USR	DATE	TRAN AMT	ESC PAYEE	PAYEE RSN	DESCRIPTION
745	***	08/10/09	353.27-		50R13	FBAA ADV ATTORNEY FEE
631	FFS	08/04/09	11.00	PI3000	50R13	FBIF INSPECTION FEE
745	***	07/07/09	159.75-		50R13	FBAA ADV ATTORNEY FEE
745	***	07/07/09	999.99-		50R13	FBAA ADV ATTORNEY FEE
745	***	07/07/09	999.99-		50R13	FBAA ADV ATTORNEY FEE
631	FFS	07/01/09	11.00	PI3000	50R13	FBIF INSPECTION FEE
631	FFS	05/29/09	11.00	PI3000	50R13	FBIF INSPECTION FEE
633	NIV	05/21/09	95.00	MS4855	40N23	QBQP DELINQUENT BPO
631	FFS	05/04/09	11.00	PI3000	50R13	COIF INSPECTION FEE
631	FFS	03/30/09	11.00	PI3000	50R13	COIF INSPECTION FEE

In this example, there are no recoverable BPO Charges that can be added to the total. The only BPO Charge has a Corporate Advance Payee of "40N23". The "N" means this is a non-recoverable corporate advance and cannot be used

# Judgment Figure Referral Training



## Step Five – Validating Judgment Affidavit Continued

Property Preservation fees are verified using the DDCH screen print – see example below

DDCH 1234567890		CORPORATE ADVANCE HISTORY SCREEN		856/297	11/23/10				
DW Jones		L:R F:A B:C R:		12/01/08	TYPE CONV. RES. ARM				
123 ABC Dr		HAMMOND IN 46323							
					* MORE				
----- C/A PAYEE	---	TRAN	---	RSN	---				
-----	---	USR	---	ESC PA	---				
_ SORT	---	_ SORT	---	_ SORT	---				
DATE RANGE:	-----	THRU	-----						
C/A									
TRN	USR	DATE	TRAN	AMT	ESC	PAYEE	PAYEE	RSN	DESCRIPTION
631	FFS	06/29/09		11.00		PI3000	50R13	FBIF	INSPECTION FEE
633	NIV	06/15/09		400.00		MS4855	50R13	FBPO	BPO CHARGE
631	FFS	05/22/09		11.00		PI3000	50R13	FBIF	INSPECTION FEE
631	NIV	05/06/09		55.00		PI3000	50R13	OTHR	ALL OTHER ITEMS
631	NIV	05/06/09		50.00		PI3000	50R13	PHTD	PHOTO
631	NIV	05/06/09		125.00		PI3000	50R13	WINT	WINTERIZATION
631	NIV	05/06/09		110.00		PI3000	50R13	LOCK	LOCK WORK
631	NIV	05/06/09		150.00		PI3000	50R13	GRAS	GRASS CUT
631	FFS	04/22/09		11.00		PI3000	50R13	FBIF	INSPECTION FEE
631	FFS	03/23/09		11.00		PI3000	50R13	FBIF	INSPECTION FEE

Obtain this amount by adding all items on the DDCH screen print described as a property preservation activity (winterization, lock work, grass cut, etc ) and coded with an "R" in the C/A Payee column

In this example, there are 3 Property Preservation fees

- Winterization \$125.00
- Lock Work \$110.00
- Grass Cut \$150.00

# Judgment Figure Referral Training



## Step Five – Validating Judgment Affidavit (continued)

Attorney Related Fees and Costs are verified using DDCH screen prints – see example below

### Reminders:

- Attorney fees related to the current foreclosure action **only** are permitted
- In states where attorneys are permitted to file a separate affidavit of attorney, related fees and costs **must** be included by the attorneys.
- In Jurisdictions where attorney related fees and costs **must** be included in the affidavit, said fees and costs **must** be verified using DDCH screen prints and only including attorney-related fees that are coded with an "R" in the C/A Payee column.

C/A PAYEE		TRAN	RSN	USR	ESC PA
DATE RANGE:	THRU				
633	NIV	12/22/10	1.00	PI3000	50T13 CAIF CANCL INSPCT FEE
633	NIV	11/22/10	1.00	PI3000	50T13 CAIF CANCL INSPCT FEE
633	NIV	10/20/10	1.00	PI3000	50T13 CAIF CANCL INSPCT FEE
633	NIV	09/21/10	1.00	PI3000	50T13 CAIF CANCL INSPCT FEE
633	NIV	08/20/10	1.00	PI3000	50T13 CAIF CANCL INSPCT FEE
633	NIV	07/27/10	1.00	PI3000	50T13 CAIF CANCL INSPCT FEE
632	NIV	07/09/10	225.00	AT00113	50R13 FBTS TITLE SEARCH
632	NIV	07/09/10	102.00	AT00113	50R13 FBRC RECORDING COST
632	NIV	07/09/10	24.00	AT00113	50R13 FBFC FILE COST/COURT
632	NIV	07/09/10	465.64	AT00113	50R13 FBSC SVC COST-PUB/POS

In this example, there are 4 attorney-related fees and costs

**Note:** Escrow Payee Code of AT5306 is categorized as an attorney fee when it is really a BPO charge. FNMA retained counsel will order BPO's and then bill OWB as an attorney related fee/cost. This needs to be included as a BPO charge not as attorney fees.

# Judgment Figure Referral Training



OneWest Bank

## Step Five – Validating Judgment Affidavit continued

Bankruptcy related attorney fees and costs **must** be verified using the Dismissal or Discharge, Motion for Relief of Stay and DDCH screen prints. See example of DDCH screen print below.

C/A PAYEE		TRAN	RSN	USR	ESC PAYEE	
DATE RANGE:	THRU	DATE	AMT	RSN	DESCRIPTION	ORI
633	NIV	10/25/10	145.00	MS4855	50R13 FBPO BPO CHARGE	
633	NIV	09/27/10	11.00	PI3000	50R13 BKIF B/K INSPECT FEE	
632	NIV	08/16/10	150.00	AT5403	50T13 BATC BK ATTORNEY COST	
630	NIV	08/16/10	650.00	AT5403	50T13 BATD BK ATTORNEY FEES	
633	NIV	07/27/10	11.00	PI3000	50R13 BKIF B/K INSPECT FEE	
632	813	07/02/10	80.00	MS6928	50T13 LMPR LM PROPERTY REPT	
633	NIV	06/25/10	11.00	PI3000	50R13 BKIF B/K INSPECT FEE	
633	NIV	06/09/10	11.00	PI3000	50R13 BKIF B/K INSPECT FEE	
633	NIV	05/03/10	145.00	MS4855	50R13 FBPO BPO CHARGE	
630	NIV	05/03/10	700.00	AT5403	50T13 BATD BK ATTORNEY FEES	

# Judgment Figure Referral Training



## Step Five – Validating Judgment Affidavit Continued

Suspense Balance is verified using the PAY4 screen print – see example below

PAY4 1234567890		AS-OF 12/03/10		PAYOFF CALCULATION TOTALS 12/02/10 17:	
NAME JM Jones		CONTACT NAME John Jones			
-----					
PRINCIPAL BALANCE	168,498.81	-----		RATE CHANGES	-----
INTEREST 12/03/10	5,957.22	CALC	INT FROM	RATE	AMOUN
PRO RATA MIP/PMI	.00		07/01/10	8.37500	5,957
ESCROW ADVANCE	.00		12/03/10		
ESCROW BALANCE	.00	E			
<b>SUSPENSE BALANCE</b>	<b>3,211.49-</b>				
HUD BALANCE	.00				
REPLACEMENT RESERVE	.00				
RESTRICTED ESCROW	.00				
TOTAL-FEES	76.00				
ACCUM LATE CHARGES	.00				
ACCUM NSF CHARGES	.00				
OTHER FEES DUE	.00				
PENALTY INTEREST	.00				
FLAT/OTHER PENALTY FEE	.00		TOTAL INTEREST		5,957
CR LIFE/ORIG FEE RBATE	.00		TOTAL TO PAYOFF		171,465
RECOVERABLE BALANCE	145.00		NUMBER OF COPIES: 1		PRESS PF1 TO P

If a Suspense Balance is reflected in the PAY4 screen print, and the jurisdiction-specific judgment affidavit being reviewed requires it to be included, confirm that the amount has been accounted for by obtaining the amount from the Payoff screen print. The suspense balance **must** always be reflected as a negative number decreasing the borrower's total indebtedness

# Judgment Figure Referral Training



OneWest Bank

## Step Five -- Validating Judgment Affidavit *continued*

Restricted Escrow amount on PAY4 screen print requires supervisor review – see example below

PAY4 1234567890		AS-OF 12/07/10		PAYOFF CALCULATION TOTALS 12/06/10		13:
NAME PD Jones	CONTACT		NAME PD Jones			
PRINCIPAL BALANCE	57,174.22	-----		RATE CHANGES	-----	
INTEREST 12/07/10	15,014.20	CALC	INT FROM	RATE	AMOUNT	
PRO RATA MIP/PMI	.00		10/01/07	8.25000	15,014	
ESCROW ADVANCE	2,873.50		12/07/10			
ESCROW BALANCE	.00					
SUSPENSE BALANCE	.00					
HUD BALANCE	.00					
REPLACEMENT RESERVE	.00					
<b>RESTRICTED ESCROW</b>	<b>1,104.56-</b>					
TOTAL-FEES	32.00					
ACCUM LATE CHARGES	952.01					
ACCUM NSF CHARGES	.00					
OTHER FEES DUE	69.00					
PENALTY INTEREST	.00					
FLAT/OTHER PENALTY FEE	.00	TOTAL INTEREST		15,014		
CR LIFE/ORIG FEE RBATE	.00	TOTAL TO PAYOFF		78,717		
RECOVERABLE BALANCE	3,707.30	NUMBER OF COPIES: 1		PRESS PF1 TO P		

Restricted Escrow funds in most cases are the result of a Hazard Insurance claim payment. These funds are to be utilized to restore the property to its pre-claim condition. The use of these funds can vary as the claim proceeds are made payable to the borrower and investor jointly.

In most cases, **Restricted Escrow funds are not utilized towards the outstanding arrearage.** The exception to this is when the homeowner has repaired the damages to the property at their own expense.

**With few exceptions, Restricted Escrow funds are not to be calculated as a credit toward the outstanding debt in an affidavit of indebtedness.**

When an affidavit utilizes Restricted Escrow funds as a credit toward the indebtedness, a supporting explanation should be documented to provide the use of the funds as a credit toward the indebtedness that is obtained from OWB

**Total Debt** is the summation of the debits and credits of all the figures included in the affidavit.

# Judgment Figure Referral Training



## Step Five – Validating Judgment Affidavit continued

### Step Two

Exclude the following fees from the affidavit figures

- 1) PAY3 screen print fees – see example below

PAY3 1234567890		AS-OF 11/24/10 PAYOFF FEES AND PERDIEM				11/23/10 17:	
----- 1ST MORT PERDIEM INTEREST - ASSESS WAIVE -----		ADDITIONAL FEES					
FROM	RATE	AMOUNT	N	N	1	26	RECORDING FEE
11/24/10	06.37500	33.36	Y	N	2	20	FAX/QUOTE
03/01/18	00.00000	CALCULATED	Y	N	3		DEMAND
			N	N	4	00	HELOC INCENTIVE
			N	N	5	.00	
			N	N	6	10.00	WIRE FEE
			N	N	7	00	
			N	N	8		
			N			703	ACCUM LATE CHARG
			N				ACCUM NSF CHARGE
			N			00	OTHER FEES DUE
----- MEMO ITEMS -----							
PAYMENT L/C 50.73		TYP 13 ST 05 CNTY 000		INV 001			
PF3: INV COMMENTS, 1ST		PF4: FEE COM					
DIST-TYPE = 1 INTEREST-ONLY LOAN		REMOVED FORECLOSURE					
PROC STOP = 4 MULTI PAYMENT		LOAN PAST DUE 11 MONTHS					
572 DAYS PAST PROJECTED LEGAL DATE							

The fees on PAY3 screen print have either not yet been billed or were incurred prior to the current foreclosure action. The only figures from PAY3 screen print that should be considered in the AOI decision/review process are Per Diem Interest Rate amounts.

- 2) Pro Rata MIP costs have not yet been incurred and should not be included in the calculations – see example below

PAY3 1234567890		AS-OF 11/24/10 PAYOFF FEES AND PERDIEM				11/23/10 17:	
----- 1ST MORT PERDIEM INTEREST - ASSESS WAIVE -----		ADDITIONAL FEES					
FROM	RATE	AMOUNT	N	N	1	26.00	RECORDING FEE
11/24/10	06.37500	33.36	Y	N	2	20.00	FAX/QUOTE
03/01/18	00.00000	CALCULATED	Y	N	3	00	DEMAND FEES
			N	N	4	00	HELOC INCENTIVE
			N	N	5	00	
			N	N	6	10.00	WIRE FEE
			N	N	7	00	
			N	N	8	00	
			N			703.30	ACCUM LATE CHARG
			N			00	ACCUM NSF CHARGE
			N			00	OTHER FEES DUE
----- MEMO ITEMS -----							
PAYMENT L/C 50.73		TYP 13 ST 05 CNTY 000		INV 001			
PF3: INV COMMENTS, 1ST		PF4: FEE COM					
DIST-TYPE = 1 INTEREST-ONLY LOAN		REMOVED FORECLOSURE					
PROC STOP = 4 MULTI PAYMENT		LOAN PAST DUE 11 MONTHS					
572 DAYS PAST PROJECTED LEGAL DATE							

# Judgment Figure Referral Training



## Step Five – Validating Judgment Affidavit continues

- 3) **Projected Escrow Advances** that have not been paid yet as of the good through date of the AOI document are not permitted as there won't be any supporting P309 screen print transactions to show the amount paid
- 4) **Projected Interest Amounts** that have not been accrued yet as of the good through date of the AOI document are not permitted
- 5) **Attorney Fees/Costs incurred during previous Foreclosure actions** are not permitted
- 6) **Bankruptcy related Attorney Fees/Costs not evidenced in the affidavit review package** - DDCH screen prints and in approved Bankruptcy documentation are not permitted (ex: Non-recoverable and 3<sup>rd</sup> party recoverable amounts)
- 7) **Other Bankruptcy Fees/Costs** are not permitted
- 8) **Interest on Corporate Advances** is not permitted even though some jurisdictions do permit it to be included

**Note:** If any discrepancies are found between the judgment affidavit and the MSP figures, return the file to onsite Foreclosure Processing Support so it can be returned to the attorney for correction

### Step Three

Verify that the appropriate business records language is included in the affidavit by using the Business Records Language Document using the link below

### Step Four

Record the results of the review of the judgment affidavit figures on the Signature Required BAU Control Sheet and in the FOR2 screen of MSP.

### Step Five

Scan completed Signature Required BAU Control Sheet with the complete judgment figure verification package and save as a pdf file in the U:/AOI QC Review/Month folder Use the format of loan number\_borrower last name  
Ex 1234567890\_Jones would be saved in the U /AOI QC Review/February 2011 folder. Each month will have its own folder

### Step Six

After the imaging is completed, proceed as follows

If ....	Then....
The judgment affidavit is correct	Follow Signing and Forwarding Foreclosure Documents procedure on page 25
The judgment affidavit is <b>not</b> correct	Return it to onsite Foreclosure Processing Support for correction and resubmission.

# Judgment Figure Referral Training



## Preparing Other Foreclosure Documents

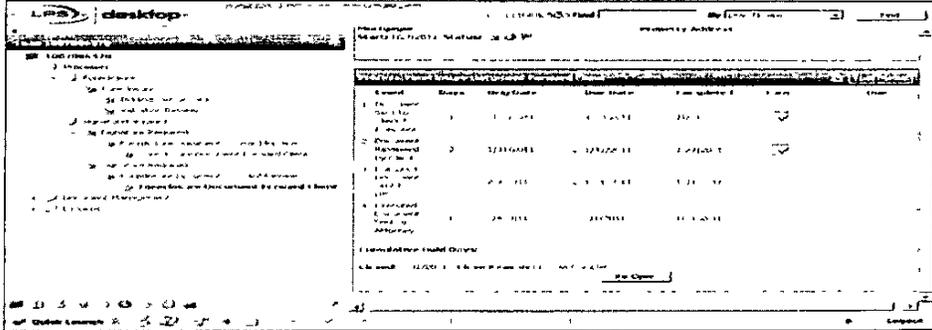
### Preparing and Signing the Lost Note Affidavit

If a Lost Note Affidavit is requested, the Foreclosure Officer will perform the necessary research and prepare the document as follows

Step	Action
1	Open the loan in LPS Desktop and review the documents on file under Original Notes
2	If there is no original Note on file, print a copy of the Note from the folder. If required by the jurisdiction, certify it as a true and accurate representation of the original
3	Foreclosure Document Preparation Specialist prepares the document/screen print package for the Lost Note Affidavit (LNA)
4	Notify the Foreclosure Attorney that the Lost Note Affidavit document/screen print package is ready for preparation for the LNA through LPS Desktop
5	Obtain the completed LNA from the Foreclosure Attorney for the jurisdiction in which the property is located
6	Proceed to Signing and Forwarding Foreclosure Documents on page 25

### Preparing and Signing the Assignment of Mortgage

If an Assignment of Mortgage is required, the Foreclosure Officer will perform the necessary research and prepare the document as follows

Step	Action
1	Open loan in LPS Desktop and review the documents on file under Original Notes
2	Using information from the original note and title work performed by the attorney, prepare the Assignment of Mortgage
3	Contact the Foreclosure Document Preparation Specialist to request preparation of the document/screen print package for the Assignment of Mortgage.
4	Request completion of the Assignment of Mortgage from the Foreclosure Attorney through LPS Desktop – signature required section.
	
5	Obtain the completed Assignment of Mortgage from the Foreclosure Attorney. Attorney will notify OWB through LPS Desktop.
6	Proceed to Signing and Forwarding Foreclosure Documents on page 25

# Judgment Figure Referral Training

## Signing and Forwarding Foreclosure Documents



### Signing and Notarizing the Document

The Foreclosure Specialist or OneWest Officer, as designated in the Delegated Authorities Policy (DAP), and who personally validated the document, will perform the following steps to sign the document

Step	Action
1	Notary must identify the document signer using an approved identification source (i.e. State Issued Identification Card) and document that source of identification in the Notary journal Note: The "Personally known to me" identification option is <b>not</b> permitted
2	Confirm the state and county information on the document and close NOTARY task and open FNLRVW task. Note: There will be a final internal review done triggered from the FNLRVW task if it passes this review this document will follow the Forwarding the Foreclosure Document process below
3	Be sworn in by the Notary Public.
	Sign the document in the presence of the Notary Public.
4	Observe the Notary Public sign the document, witnessing the OWB staff member's signature
5	Observe the Notary Public affix the notary seal to the document

Note Notary processes **must** adhere to the Notary Services Standards document. Use the link below to access

<http://indymacportal/sites/PNP/pdf/Notary%20Services%20Standards.pdf>

### Forwarding the Foreclosure Document

After the document is signed, the Foreclosure Specialist will perform the following steps:

Step	Action
1	Record the completion of the signatures on the Signature Required BAU Control Sheet and close the FNLRVW task and open the CPYIMG task
2	Image the entire package and submit for ERM quality control review Doc Handling saves pdf file to U /Loose Documents folder to be imaged into WebXtender. Then close the CPYIMG task and open the FNLOCR task.

# Judgment Figure Referral Training



## Signing and Forwarding Foreclosure Documents, continued

### Reviewing the Document for Quality Control

ERM Quality Control will perform a review of the final package. Results of the review will be forwarded to HLS AOI Management. Once HLS AOI Management receives the ERM QC Results and reviews them, they will proceed using the following process:

If ....	Then ...
The document is correct/receives a <b>pass</b> recommendation from ERM QC	Forward it to onsite Foreclosure Processing Support and close the FNLOCR and open the DOCHND task
The document is incorrect/receives a <b>fail</b> recommendation from ERM QC	Reject the document in LPS Desktop. This will notify the Foreclosure Attorney that a new document needs to be prepared and submitted for review and signing.

After the file has been imaged and moved for shipping, close the DOCHND task and open LPSOUT task

### Returning Signed Documents to Foreclosure Attorney

Onsite Foreclosure Processing Support receives the signed and notarized document from OWB and validates the following:

- Required Signatures
- Notarization
- Dates
- Vesting
- Witness
- County/State

If ....	Then ...
Document is <b>complete</b>	Forward the document by overnight messenger to offsite Foreclosure Processing Support who will forward the complete document to the Foreclosure Attorney. Close the LPSOUT task.
Document is <b>incomplete</b>	Return the document to the signing Foreclosure Specialist or Officer for completion

F-1

---



OneWest Bank

## Affidavit of Indebtedness Review

**Loan Number**

**Borrower Name**

---

**PM Reference ID#**

**Today's Date**

---

**Due Date**

**Judgment Hearing Date**

---

**Attorney Firm**

**State**

---

**Doc Prep Checklist Complete**

**AOI Review Checklist Complete**

**Notary Review Checklist Complete**

**ERM QC Review Checklist Complete**

**Shipping Review Checklist Complete**



OneWest Bank

Affidavit of Indebtedness Review Checklist  
Doc Prep Review

Review Completion Date: \_\_\_\_\_ Review Completed By: \_\_\_\_\_

Loan Number: \_\_\_\_\_ Borrower Last Name: \_\_\_\_\_

Document/Information	Source	Pass	Fail	Comments
Confirm DOCPRP task is open	MSP			
Affidavit Date within 90 days of JFIG creation date	Affidavit and PAY4 Screen Print			
FC Transmittal Referral Letter / Loan Asset screen print included in package	LPS Desktop			
MSP Screen Prints / JFIGs included in package	LPS Desktop			
Complaint included in package	LPS Desktop, WebX			
Note included in package	LPS Desktop, WebX			
Mortgage included in package	LPS Desktop, WebX			
Breach Letter included in package	LPS Desktop, WebX, Walz, CD Viewer			
Other Documents as required by Affidavit (Assignment, etc )				

Pass		Fail	
	Complete		Complete
Doc Prep Review Checklist added to package		DOCPRP task closed	
Notary Review Checklist added to package		REVDOC task opened	
Shipping Review Checklist added to package		PM reference I D # and revision comments logged in TSKN and FOR2	
DOCPRP task closed			
AOIRVW task opened			

DOC PREP REVIEW CHECKLIST

## Affidavit of Indebtedness Review Checklist

### AOI Review

Review Completion Date \_\_\_\_\_ Reviewer \_\_\_\_\_

Loan Number \_\_\_\_\_ Borrower Name \_\_\_\_\_

AOI Review - Documentation, Language, Tasks				
Document/Information	Source Document	Pass	Fail	Comments
Doc Prep Review Checklist Included in Package	Complete Package			
Signer found on DAP	Delegated Authorities Policy, Exhibit IV			
Affidavit sign date within 90 days of JFIG creation date	Affidavit and JFIG Screen Prints			
As of date on affidavit matches as of date on JFIGs	Affidavit and JFIG Screen Prints			
FC Transmittal Referral Letter/Loan Asset screen print included in package and is correct	Complete Package			
Action in the name of is correct	Affidavit and Loan Asset Info Screen			
Complaint included in package and is correct	Complete Package			
Mortgage included in package and is correct	Complete Package			
Note included in package and is correct	Complete Package			
Other documents required by affidavit (Assignment, etc )	Complete Package			
Breach Letter included in package and is correct	Complete Package			
MSP Screen Prints / JFIGs included in package	Complete Package			
Owner / Holder Language	Affidavit			
Business Records Language	Affidavit			
Signature Block / Entry Name	Affidavit			
Business Address of Signer - 2900 Esperanza Crossing, Austin TX 78758 (if present)	Affidavit			
Judgment Figure Calculation Tool included in package and is considered a Pass	Complete Package			

AOI REVIEW CHECKLIST

## Affidavit of Indebtedness Review Checklist

### AOI Review

Review Completion Date \_\_\_\_\_ Reviewer \_\_\_\_\_

Loan Number \_\_\_\_\_ Borrower Name \_\_\_\_\_

AOI Review - Documentation, Language, Tasks				
Document/Information	Source Document	Pass	Fail	Comments
<b>Final Conclusion</b> Loan must receive a <i>PASS</i> in all sections to proceed	Complete Package			

Pass		Fail	
	Complete		Complete
Confirm DOCPRP Task Closed		Confirm DOCPRP Task Closed	
Update Step 83 (S83)		Fail Financial - REVFIN Task Opened	
NOTARY Task Opened		Fail Financial - REVFIN Task Opened	
NOTARY Task is Closed		Fail Language - REVLNG Task Opened	
FNLRVW Task is Opened		Fail Financial and Language - REVLNG and REVFIN Tasks Opened	
FNLRVW Task is Closed		Fail Comments logged in FOR2 and TSKN	
Update Step 84 (S84)			
CPYIMG Task is Opened			
AOI Review Checklist Included in Package			

AOI REVIEW CHECKLIST



OneWest Bank

Judgment Verification Calculation Tool

To be used to validate attorney prepared Affidavit amounts equal JFIG amounts Upon completion, please print and include in the final approved Judgment Figure

Loan Number	Affdavit Amounts		Reviewer Name	JFIG Amounts	
UPB	\$	-	UPB	\$	-
Interest	\$	-	Interest	\$	-
Escrow Advances	\$	-	Escrow Advances	\$	-
<i>If itemized, please input individual values for each line item</i>	Taxes	\$ -	<i>If itemized, please input individual values for each line item</i>	Taxes	\$ -
	Hazard	\$ -		Hazard	\$ -
	Mortgage Insurance	\$ -		Mortgage Insurance	\$ -
	Total Escrows	\$ -		Total Escrows	\$ -
Late Charges			Late Charges		
	Pre-Acceleration	\$ -		Pre-Acceleration	\$ -
	Prior to First Legal Action	\$ -		Prior to First Legal Action	\$ -
	Total Late Charges	\$ -		Total Late Charges	\$ -
Suspense <i>(Negative Amount)</i>	\$	-	Suspense <i>(Negative Amount)</i>	\$	-
Corporate Advances			Corporate Advances		
Inspections	\$	-	Inspections	\$	-
BPOs	\$	-	BPOs	\$	-
Appraisals	\$	-	Appraisals	\$	-
Property Preservation			Property Preservation		
Lock Lock Work	\$	-	Lock Lock Work	\$	-
Grass Cut	\$	-	Grass Cut	\$	-
Winterization	\$	-	Winterization	\$	-
Photos	\$	-	Photos	\$	-
Other	\$	-	Other	\$	-
Subtotal	\$	-	Subtotal	\$	-
Attorney Fees and Costs			Attorney Fees and Costs		
Title Work	\$	-	Title Work	\$	-
Service	\$	-	Service	\$	-
Sherriff	\$	-	Sherriff	\$	-
Recording	\$	-	Recording	\$	-
Advanced Attorney Fees	\$	-	Advanced Attorney Fees	\$	-
Other Attorney Fees	\$	-	Other Attorney Fees	\$	-
Subtotal	\$	-	Subtotal	\$	-
Total Corp Advances	\$	-	Total Corp Advances	\$	-
Total Indebtedness	\$	-	Total Indebtedness	\$	-



OneWest Bank

Judgment Verification Calculation Tool

To be used to validate attorney prepared Affidavit amounts equal JFIG amounts Upon completion, please print and include in the final approved Judgment Figure

Loan Number	Affdavit Amounts		Reviewer Name	JFIG Amounts	
	Discrepancies		Pass	Fail	Comments
UPB	\$	-			
Interest	\$	-			
Escrow Advances	\$	-			
<i>If itemized, please input individual values for each line item</i>	Taxes	\$ -			
	Hazard	\$ -			
	Mortgage Insurance	\$ -			
	Total Escrows	\$ -			
Late Charges					
	Pre Acceleration Prior to First Legal Action	\$ -			
		\$ -			
	Total Late Charges	\$ -			
Suspense (Negative Amount)	\$	-			
Corporate Advances					
Inspections	\$	-			
BPOs	\$	-			
Appraisals	\$	-			
Property Preservation					
Lock Work	\$	-			
Grass Cut	\$	-			
Winterization	\$	-			
Photos	\$	-			
Other	\$	-			
Subtotal	\$	-			
Attorney Fees and Costs					
Title Work	\$	-			
Service	\$	-			
Sherriff	\$	-			
Recording	\$	-			
Advanced Attorney Fees	\$	-			
Other Attorney Fees	\$	-			
Subtotal	\$	-			
Total Corp Advances	\$	-			
Total Indebtedness	\$	-			
Additional Comments					



OneWest Bank

**Judgment Verification Calculation Tool**

To be used to validate attorney prepared Affidavit amounts equal JFIG amounts Upon completion, please print and include in the final approved Judgment Figure

<b>Loan Number</b>		<b>Reviewer Name</b>	
<b>Affidavit Amounts</b>		<b>JFIG Amounts</b>	

**Financial Review Source Documents**

Figure	Source Document(s)	Figure	Source Document(s)
UPB	Pay4	Inspections	DDCH
Interest	Pay4 and Pay3 for per diem interest amounts	BPOs	DDCH
Total Debt	Pay4	Appraisals	DDCH
Escrow Advances (Taxes, Hazard, MI)	Pay4, P309, HAZ1, TAX1	Property Preservation	DDCH
Late Charges	Breach Letter, Pay4	Other Recoverable	DDCH
Suspense Balance	Pay4	Attorney Fees and Costs FC and BK related	DDCH, BK documents (discharge, dismissal, MFR)



OneWest Bank

**Affidavit of Indebtedness Review Checklist**  
Notary Review

Review Completion Date \_\_\_\_\_ Notary Name \_\_\_\_\_

Loan Number \_\_\_\_\_ Borrower Last Name \_\_\_\_\_

Notary Review						
Docment/Information	Source	Notary		Signer		Comments
		Pass	Fail	Pass	Fail	
Notary Name and Signature present	Affidavit					
Notary Date	Affidavit					
Notary Stamp / Seal Present	Affidavit					
Jurat / Notarial Language	Affidavit					
State = Texas	Affidavit					
County = Travis	Affidavit					
Notary Checklist added to package	Complete Package					
<b>Final Conclusion</b> <i>Loan must receive a PASS in all sections to proceed</i>	Complete Package					

Signer Confirmation: \_\_\_\_\_ Notary Confirmation: \_\_\_\_\_

Print name: \_\_\_\_\_ Print name: \_\_\_\_\_

NOTARY REVIEW CHECKLIST

**Affidavit of Indebtedness Review Checklist**  
**Imaging**

**Imaging Date** \_\_\_\_\_ **Processor** \_\_\_\_\_

**Loan Number** \_\_\_\_\_ **Borrower Name** \_\_\_\_\_

Action	Complete	Comments
Package Imaged into ERM QC folder for review (U:/AOI QC Review/Month)		
Hard copy secured		
CPYIMG task closed		
FNLQCR task opened		

**Affidavit of Indebtedness Review Checklist**  
ERM Quality Control Review

**Review Completion Date** \_\_\_\_\_ **Review Completed By** ERM QC

**Loan Number** \_\_\_\_\_ **Borrower Last Name** \_\_\_\_\_

Package Review				
Document/Information	Source Document	Pass	Fail	Comments
FC Transmittal Referral Letter / Loan Asset screen print included in package and correct	Complete Package			
MSP Screen Prints / JFIGs included in package and correct	Complete Package			
Complaint included in package and correct	Complete Package			
Note included in package and correct	Complete Package			
Mortgage included in package and correct	Complete Package			
Breach Letter included in package and correct	Complete Package			
Other Documents required by Affidavit (Assignment, etc ) included in package and correct	Complete Package			
Affidavit Date within 90 days of JFIG creation date	Affidavit and JFIG Screen Prints			
Action in the name of is correct	Affidavit and Loan Asset Info Screen			
Business Records Language	Affidavit			
Owner / Holder Language	Affidavit			
Signer found on DAP	Delegated Authorities Policy, Exhibit IV			

Business Address of Signer (if present)	Affidavit			
Signature Block correct	Affidavit			
Notary Name/signature is present	Affidavit			
Notary Date present	Affidavit			
Notary Stamp / Seal Present and current	Affidavit			
Jurat / Notarial Language correct and complete	Affidavit			
State = Texas	Affidavit			
County = Travis	Affidavit			
<b>Confirm the Following Tasks and Steps have been resolved: OWB Employees only</b>				
DOCPRP	MSP			
REVDOC	MSP			
NOTARY	MSP			
FNLRVW	MSP			
CPYIMG	MSP			
S83	MSP			
S84	MSP			
FNLQCR closed	MSP			

ERM QC REVIEW CHECKLIST

DOCHND opened	MSP			
Doc Prep Checklist Included with PASS rating	Complete Package			
AOI Reviewer Completed Judgment Figure Calculation Tool included in package	Complete Package			
AOI Review Checklist Included with PASS rating	Complete Package			
Notary Checklist Included with PASS rating	Complete Package			
ERM QC Review Checklist added to package	Complete Package			
ERM QC Review Completed Judgment Figure Calculation Tool added to package	Complete Package			
<b>Final Conclusion</b> <i>Loan must receive a PASS in all sections to proceed</i>	Complete Package			
<b>Additional Comments</b>				

ERM QC REVIEW CHECKLIST



**Affidavit of Indebtedness Review Checklist  
Shipping Review**

Review Completion Date \_\_\_\_\_ Review Completed By \_\_\_\_\_

Loan Number \_\_\_\_\_ Borrower Last Name \_\_\_\_\_

Shipping Review				
Document/Information	Source	Pass	Fail	Comments
DOCHND Task is Closed	MSP			
LPSOut Task is Opened	MSP			
LPSOUT Task is Closed	MSP			

Confirm the Following Tasks have been Opened / Closed in MSP:				
DOCPRP	MSP			
REVDOC	MSP			
NOTARY	MSP			
FNLRVW	MSP			
CPYIMG	MSP			
FNLQCR	MSP			
DOCHND	MSP			
Shipping Review Checklist added to package	Complete Package			
<b>Final Conclusion</b> <i>Loan must receive a PASS in all sections to proceed</i>	Complete Package			

**SHIPPING REVIEW CHECKLIST**

F-2

---



EP-SM

---

Comptroller of the Currency  
Administrator of National Banks

---

# Sampling Methodologies

Comptroller's Handbook

August 1998

EP

Bank Supervision and Examination Process

# Sampling Methodologies

# Table of Contents

<b>Introduction</b>	1
Background	1
OCC Policy	2
Sampling Objectives	3
Sampling Methods	5
Nonstatistical Sampling – Judgmental	5
Statistical Sampling – Proportional	5
Statistical Sampling – Numerical	6
Application of Methods of Sampling	6
Statistical Sampling Assurance	9
Precision	9
Reliability	11
Sampling Risk	12
Sampling Plans	12
Population Selection	13
Sample Design and Selection	14
Sample Evaluation and Interpretation	19
Probability Statement	25
Report of Examination (ROE) Comments	27
<b>Examination Objectives</b>	29
<b>Examination Procedures</b>	30
Proportional Sampling	30
Numerical Sampling	32
<b>Appendix</b>	34
A. Proportional Sampling Evaluation Worksheet	34
B. Numerical Sampling Evaluation Worksheet	37
C. Statistical Sampling Overstatements	38
D. Statistical Sampling Understatements	39
<b>Glossary</b>	40

## Background

It is usually impractical or impossible to review all items or files when examining an area of bank operations, especially if the volume of information is large. Examiners use sampling to observe a random subset to learn about the multitude of items from which they are drawn. Upon drawing statistical inferences from this subset, they can state with a certain level of confidence that the inferences apply to the population as a whole.

Benefits of using statistical sampling include.

- The ability to quantify results and relate them to the entire portfolio being reviewed
- The ability to quantify sampling risk (i.e., the risk that the sample is not indicative of the entire portfolio)
- Effective use of limited examiner resources.

This booklet discusses statistical sampling in general, as well as specific methods of designing, selecting, and evaluating statistically valid samples

The two types of statistical sampling methods discussed most prominently in this booklet are numerical sampling and proportional sampling. In numerical sampling, each item in a population is equally likely to be drawn. In proportional sampling, the likelihood of an item being selected is proportional to the item's size

An examiner's choice of a sampling method depends on the specific objectives of the supervisory activity. Sometimes, examiners may choose a sampling method that is not statistical — that is, they may want to rely on judgment or specific knowledge about a population in selecting files for review. Examiners do not use the results from a judgmentally derived sample to draw conclusions about a larger population. Often, the specific knowledge or judgment used to derive the nonstatistical sample is used to develop statistically valid samples that divide the population into groups. Each group, or stratum, can then be reviewed, intensively if necessary. Such sampling improves the examination process.

This booklet provides guidance on which sampling methods are best for specific areas of examination interest. Although the discussion is geared toward sampling loan portfolios, other types of items — investments, deposits, and off-balance-sheet accounts — can be sampled. By sampling,

examiners can test the effectiveness of processes, policies, controls, management information systems, or risk management practices.

## OCC Policy

The OCC generally does not require the use of any specific sampling methodology. Unless specifically addressed in a handbook section or other policy guidance, the use of sampling in a supervisory activity, as well as the type of sampling used, is left to the discretion of the examiner-in-charge (EIC). The "Sampling Objectives" portion of this booklet addresses matters that examiners must consider in determining an appropriate sampling approach as part of a bank's supervisory strategy.

From time to time, OCC senior management may recommend a specific sampling method for examining certain on- or off-balance-sheet accounts. They may also provide guidance on which parameters to use in selecting a sample. Such guidance may be part of a year's OCC operating plan, as well as other OCC issuances. For example, the examination procedures for fair lending and community bank consumer compliance have specific guidance on sampling methods.

When conducting statistical sampling, examiners should use the following guidelines:

- The populations to be sampled should be the portfolios identified in the bank's approved supervisory strategy. If the focus is on the internally rated nonclassified portion of the bank's loan portfolio, the population should generally exclude Shared National Credit (SNC) loans. However, there may be circumstances (e.g., testing for process, policy or underwriting exceptions) in which examiners are justified in including SNC loans in the sample population. The population should also exclude "credit basket" loans (small business loans requiring limited documentation as outlined in the March 30, 1993 "Interagency Policy Statement on Documentation of Loans").
  - If the bank's management information system accurately reports legally binding commitments, the sample should be selected on the commitment amount. When the sample can be selected by either the note (an individual loan) or the borrower, examiners should choose the borrower.
- The sampling plans for banks that are part of multibank holding companies should be consistent for all national banks in the company. For example, if the company strategy calls for using proportional sampling when reviewing the quality of commercial loans in one of the five national bank subsidiaries, the EIC should use proportional sampling on the commercial loans at each of the other subsidiary banks.

- The EIC should deem statistical sampling reasonable and feasible with respect to the national bank being examined. The size and composition of the sample should be commensurate with the risk characteristics of the population being tested. Common sense and judgment are critical in determining the focus and extent of testing. The examiner should consider any known resource constraints on the bank or examining personnel relating to time, personnel, and costs. These include, but are not limited to, actual or projected sample sizes, availability of examining and bank staff, availability of data processing hardware and software, and any other pertinent factors.
- Although proportional and numerical sampling can be done manually, an automated sampling program or module can be more efficient and less burdensome. Examiners should try to use a bank's own automated sampling program, if available. Examiners may also use other available automated programs.
- Because precision and reliability levels (i.e., statistical assurance) affect the size of samples, the OCC recommends that examiners use the following guidelines. For proportional sampling, examiners should use precision levels of 5 percent, 10 percent, 15 percent, or 20 percent and reliability levels of 80 percent, 86 percent, 90 percent, or 95 percent. For numerical sampling, examiners should use precision levels of 5 percent or 10 percent and reliability levels of 90 percent or 95 percent. This booklet discusses statistical assurance in a later section.

## Sampling Objectives

Supervisory strategies for national banks should specifically note if the examination process will use sampling. Based upon the objectives of the supervisory activities, the strategy should identify the portfolios to sample, the type of sampling to use, and the purpose of the sampling. If examination planning activities indicate a previously unidentified need for sampling, the EIC should change the strategy to note this.

In determining the type of sampling to use, examiners consider the quantity, quality, and nature of the population to be reviewed; the bank's risk management systems, the bank's appetite for risk; the objectives and benefits of the different sampling methods; the purpose and objective of the sample; and resource constraints. Examiners may choose which of the three sampling methods — judgmental, proportional, or numerical — will best meet the objectives of supervisory strategy.

The following list highlights some strategic objectives that examiners may want to meet by using sampling.

- Commercial loans, commercial real estate loans, floor plan, and receivable financing:
  - Validate risk management and internal problem loan identification systems or test process effectiveness.
  - Identify additional credit risk exposure in the sampled portfolio.
  - Determine compliance with underwriting standards
  - Identify administrative weaknesses (e.g., financial statement or other documentation exceptions)
  - Assess the adequacy of the allowance for loan and lease losses (ALLL).
- Retail loans (e.g., consumer paper, credit card, check credit, residential real estate, and home equity lending):
  - Validate adherence to appropriate performance reporting standards by checking extension or re-aging history.
  - Determine lien perfection status.
  - Assess compliance with underwriting standards through a review of overrides, extensions, renewals or other loans.
  - Determine compliance with laws and regulations (e.g., consumer compliance).
- Municipal investments or derivatives.
  - Validate risk management systems.
  - Identify credit or market risk exposure.
  - Determine compliance with investment standards
  - Identify administrative weaknesses (e.g., financial statement or other documentation exceptions).

- Deposit accounts
  - Verify the accuracy of the interest rate, terms, and conditions when compared to the disclosed contractual information.
  - Determine compliance with a bank’s deposit policies.
  - Identify weaknesses in a bank’s deposit operations.
  - Determine compliance with applicable laws and regulations.
- Consumer compliance:
  - Determine compliance with fair lending laws and regulations.
  - Determine compliance with truth-in-lending and other consumer compliance disclosure requirements.
  - Evaluate the reliability of a bank’s compliance management system

## Sampling Methods

### Nonstatistical Sampling – Judgmental

Judgmental sampling is sampling without statistical measurement. The OCC has historically used, and continues to use, nonstatistical judgmental sampling in its examinations. Using sound judgment and knowledge of a bank’s policies, controls, and systems, examiners identify the bank’s areas of greatest risk exposure and select items for review

Judgmental sampling allows examiners to review an identified percentage (coverage) of a specific population. Although examiners cannot statistically relate the results of this sample to the entire population of items, they can identify specific exceptions. The results of the judgmental sample are considered when examiners evaluate the quality of the population reviewed. Examiners should comment on exceptions, identifying the root causes of those exceptions. For example, exceptions noted in a review of loan documentation on instalment loan extensions could be the result of bank personnel’s lack of training or inadequate knowledge of bank policy.

### Statistical Sampling – Proportional

Proportional sampling is appropriate when the dollar amount of items is relevant to the objective of a procedure, particularly when those dollar amounts vary significantly. In proportional sampling, the population to be sampled is defined by dollar amount. Large dollar amounts have a greater

chance of being selected than smaller ones, all items greater than a certain amount and a representative number of smaller items are selected. Proportional sampling is useful to examiners evaluating the quality of a loan portfolio because of the effect larger dollar items can have on asset quality. Sometimes, a strategic objective will call specifically for this approach.

The objective of the sample is to review items for a specific characteristic, which is also called the feature of interest. The OCC has historically endorsed the use of proportional sampling to discover additional classified loans in commercial loan portfolios. Proportional sampling also is appropriate when examiners want to test population items for monetary errors (i.e., incorrect finance charges, incorrect late charges) or compliance errors (i.e., compliance with underwriting standards, incomplete disclosure statements).

### Statistical Sampling – Numerical

In numerical sampling, the population to be sample is defined by the number of items. Numerical sampling is usually used to reveal the presence (or absence) of a defined characteristic in a portfolio of items with similar characteristics. Each item in the population has the same probability of selection as any other. Therefore, examiners may evaluate the results of applying numerical sampling and the related examination of selected items only in terms of the number of errors or exceptions. This statistical sampling method is appropriate for examination procedures in which the frequency of errors, exceptions, or another feature of interest is of primary concern and the dollar amount of the exception is not considered relevant.

This method is a valid sampling procedure for determining adherence to a requirement, such as a bank's underwriting standards or interagency classification policies for delinquent loans. The OCC has historically endorsed the use of numerical sampling to evaluate retail credit portfolios such as instalment loans and residential real estate loans. Examiners can use numerical sampling to gain a broad perspective about the adequacy of a bank's administrative controls and practices. Sample results can indicate the effectiveness of these systems but do not provide a quantitative measure of the results. Depending upon the sample objectives, results are indicated by the level of compliance with a bank's administrative controls, banking laws and regulations, bank policy, or OCC policy.

### Application of Methods of Sampling

Following are suggestions for applying statistical sampling plans and specific procedures to areas of examination interest:

<i>Program</i>	<i>Examples of Sampling Procedures</i>
Due From Banks	Use proportional sampling to select accounts whose reconcilements are to be reviewed.
Investment Securities	Use proportional sampling to select municipal securities and money market holdings to determine compliance with investment standards.
Bank Dealer Activities	Use proportional sampling to select trading account securities for examination
Loan Portfolio Management	Use proportional or numerical sampling to validate internal loan review.
Commercial Loans Accounts Receivable Floor Plan Commercial Real Estate Commercial Lease Financing Indirect Dealer Lines	Use proportional or numerical sampling to evaluate credit quality, compliance with underwriting standards, accuracy of internal risk rating.
Instalment Loans Credit Cards Check Credit Home Equity Residential Real Estate	Use numerical sampling to test: <ul style="list-style-type: none"> <li>- The accuracy of MIS, such as bank-prepared past due, problem loan listing, and insider loans</li> <li>- Renewals, deferrals and extensions for compliance with policy, degree of usage, accuracy of reporting</li> <li>- Score overrides for compliance with policy guidelines and fair lending laws and regulations, documentation, reasonableness of credit decision</li> <li>- Recently extended loans for compliance with underwriting policy, credit criteria, laws and regulations</li> </ul>
Other Real Estate Owned	Use proportional sampling to test for policy adherence, when appropriate, based on number and volume
Deposit Accounts	Use numerical sampling to select accounts to test computation of interest, early withdrawal penalty, compliance with laws and regulations.

Fiduciary Accounts	Use numerical sampling to test compliance with trust agreements
Off-balance-sheet accounts	Depending upon the sample objectives, use either proportional or numerical sampling
Consumer Compliance	Use numerical sampling to identify a sample for Truth-in-Lending or Truth-in-Savings reviews, or to test the integrity of HMDA and CRA small business lending reports.
Community Reinvestment Act	Use numerical sampling to select sample for comparison of credit extended inside and outside a bank's assessment area or to perform a lending test.

**Examples of how to sample for specific objectives:**

<i>Objective</i>	<i>Suggested Method</i>
Identify unrecognized classified loans in commercial loan portfolios.	Proportional sample of all loans that are not internally rated.
Validate current internal risk ratings and identify classified loans in commercial loan portfolios.	Proportional or numerical sample of all commercial loans, both those that are internally rated and those that are not.
Test for compliance with underwriting practices and, credit criteria, documentation, pricing and terms.	Numerical or proportional sample from new assets booked since the last policy, e.g , examination for a defined period (e.g , 30 to 90 days).
Test for compliance of credit score loan overrides with policy and fair lending laws and regulations by checking compliance with guidelines, documentation of reason for override, and appropriateness of credit decision.	Numerical sample of new loans that scored below a cutoff, but were approved in the recent past (e.g , 30 to 90 days)

Test loan renewals and extensions for compliance with policy, degree of usage, and accuracy of reporting.

Numerical sample from the entire population to test usage and accuracy of reporting, or numerical sample from the bank's renewal and extension listing to test for compliance with policy.

Determine accuracy of the bank's management information system.

Numerical sample from the entire population and trace reportable items to appropriate listings, e.g., past due, renewals and extensions, re-aging, prepayments, and insider loans.

Identify risk exposure in the municipal bond Portfolio.

Proportional sample of all municipal bonds and evaluate the sample for asset quality

Determine accuracy of the bank's external reports, such as HMDA and CRA small business reports

Numerical sample from the entire population to test the accuracy of reported data

Determine compliance of deposit accounts with policy guidelines, deposit contract terms, and applicable laws and regulations.

Numerical sample of deposit accounts booked within the last six months or since the last examination and determine compliance with bank policy. Ensure that rates and terms of the deposit are in agreement with the contract and any applicable laws and regulations

Determine compliance of fiduciary accounts with trust agreements

Numerical sample of all accounts or accounts booked since the last examination and evaluate the accounts to ensure that the accounts are being handled in accordance with the trust agreement.

## Statistical Sampling Assurance

### Precision

"Precision" is the examiner's tolerance for exceptions in the sample. Normally, precision implies a range of acceptable values. Most examination procedures are designed to test exceptions to a bank's risk management systems, i.e., its policies, practices, and procedures. Since few exceptions should exist, sampling procedures are concerned primarily with the upper precision limit. Examiners want to know the greatest effect (the upper

precision) that sampling exceptions will have on the bank's condition. They should adequately document in working papers their reasons for selecting a certain precision value. Examiners should consider quantity of risk, direction of risk, and quality of risk management in determining precision levels to use. In designing samples, the precision limit affects the sample size; the smaller the precision limits, the larger the size of the sample selected.

### *Proportional Sampling*

When examiners use proportional sampling, precision is set using a percentage of Tier 1 capital plus the allowance for loan and lease losses (ALLL). The larger the quantity or number of exceptions the EIC can tolerate, the larger the precision limit should be. Examiners should base the precision limit for proportional samples on their knowledge of a bank's financial and operating conditions.

Examiners should consider:

- The composition of the bank's portfolio. For example, the examiner may tolerate more exceptions in a loan portfolio segment supported by liquid or marketable collateral than in one secured by real estate construction loans.
- The bank's risk management systems and controls. The better the bank's risk management system, the more exceptions an examiner may tolerate (in the belief that the bank will identify deficiencies).
- The amount of previously identified classified loans. If a bank has a high level of classified loans, the examiner may select a lower precision level because she or he is less tolerant of additional classified loans in the portfolio.
- The local economy. If the local economy is strong and stable, the examiner may tolerate more exceptions than if the economy is experiencing a decline.

Individual bank circumstances may support a precision limit of 5 percent, 10 percent, 15 percent, or a maximum of 20 percent for proportional sampling. (Any value less than 20 percent can be chosen; for discussion purposes in this booklet, increments of five are used.) When an examiner can tolerate few exceptions, a precision of 5 percent is normally chosen. When an examiner can tolerate a large rate of exceptions, a precision of 20 percent is normally chosen. Precision levels greater than 20 percent are not recommended.

For example, assume that since its last examination, a bank began extending a significant amount of new loans to the cable television industry. The bank's loan review division has not performed an in-depth review of this area before

the scheduled examination date. Several of these credits appear on the delinquency report. Based on reported delinquencies in a portfolio not yet internally reviewed, the examiner may select a precision of 5 percent and the sample size will be relatively large.

On the other hand, when a bank's internal classified figure is low, it is sufficiently capitalized, the examiner has confidence in the internal loan review system, sound control systems are in place, and the nonclassified commercial loan portfolio is to be reviewed, a precision of 20 percent and a relatively small sample may be appropriate.

### *Numerical Sampling*

An examiner sets a precision limit in numerical sampling by deciding how many exception items can be tolerated in the sample population. The more exceptions the examiner can tolerate, the higher the precision limit should be. Because noncompliance indicates weakness in policies, systems, or controls, bankers and examiners should have a low tolerance for exceptions in that area. Examiners should consider setting the precision level at 5 percent or 10 percent.

## Reliability

"Reliability" is the level of confidence in sample results. Selecting a reliability level will affect the size of a sample: the higher the reliability level, the greater the number of items examiners will review. Examiners should document in working papers why they selected a certain reliability level. They should not select reliability levels without considering the bank's financial condition, risk profile and risk management systems. The more confidence examiners have in the institution and its risk management process, the fewer OCC examiner resources should be needed to evaluate transactions.

Reliability factors are numbers that reflect reliability levels (95 percent reliability equates to a 3.0 factor, 80 percent reliability equals a 1.6 factor). Reliability factors are used to determine sample sizes and precision adjustment factors. When exceptions are found, examiners use reliability factors to adjust previously selected precision limits to evaluate sample results and perform statistical sampling projections. (See examples in this booklet's section "Sampling Plans" under "Sample Design and Selection" and "Numerical Sample Evaluation Worksheet Example.") The reliability factors in this booklet, which are taken from Poisson probability distributions (see glossary for definition), are approximations of the probability of finding at least one exception in a sample of selected items at a given reliability level and error rate. Reliability factors and their associated reliability levels and precision adjustment factors are noted in appendixes C and D and are common references for audit sampling purposes.

Examiners should consider four different reliability levels when using proportional statistical sampling – 95 percent, 90 percent, 86 percent, and 80 percent. These levels allow examiners some flexibility in structuring the sample based on an assessment of the factors mentioned at the beginning of this section and the resultant tolerance for exceptions. These levels also allow examiners to control the associated degree of sampling risk (defined below).

Two reliability levels should normally be considered for numerical sampling — 90 percent and 95 percent. Because the objective of numerical sampling is generally to determine whether the bank adheres to a policy, system, or control, the OCC desires a high degree of confidence (i.e., minimal sampling risk) in the results.

## Sampling Risk

Sampling risk is the difference of one minus the reliability level. With 95 percent reliability, the sampling risk is 5 percent. This means that 5 percent of the time the results of the sample may not be truly indicative of the entire portfolio. With 80 percent reliability, the sampling risk is 20 percent. This means that 20 percent of the time, or one time in five, the results of the sample may not be truly indicative of the entire portfolio. Because the objective of sampling is to test for deviations from a bank's policies, procedures or practices, the OCC wants to maintain sampling risk at levels that allow a high degree of confidence in sample results and their validity. Sampling risk greater than 20 percent is not acceptable.

## Sampling Plans

When sampling is used, examiners devise a sample plan to make the most efficient and effective use of resources to meet the objectives of the review. Each sample plan design involves the same concepts:

- Population selection.
- Sample design and sample selection
- Sample evaluation and interpretation of results.

The following comments and examples are provided to illustrate the sampling plan design process for the three sampling methodologies. Although the comments and examples below relate to the commercial and installment loan portfolios, examiners can use sampling in any asset, liability, or off-balance-sheet account.

## Population Selection

In population selection, examiners decide which portfolios to sample. They do so by considering the approved strategy for the bank and the objectives of the examination. Strategies may call for examiners to review the entire commercial loan portfolio or focus on particular types of loans. Types are grouped by credit, industry affiliation, or bank lending division. Selecting a very broad category, such as the entire commercial loan portfolio, can result in a very large sample size. When possible, examiners should consider further segmenting such large portfolios to reduce the workload. **To make statistically valid conclusions, examiners must define or stratify (group) the selected population as much as possible by their characteristics.**

For OCC purposes, assets generally can be grouped into two categories. In one category are assets that typically use common, uniform underwriting standards (e.g., one-to-four-family residential real estate loans, consumer instalment loans, credit card loans, home improvement loans, home equity loans, and overdraft lines of credit). In the other category are assets with broader common characteristics, such as type of credit, industry, or bank division (e.g., commercial real estate loans, real estate construction or development loans, municipal investment securities, private placements, oil and gas loans, and mortgage warehousing)

### *Example of Population Selection — Judgmental Sampling*

The examiner is concerned about the accuracy of the bank's risk grading system for commercial real estate loans identified as problem credits. In judgmental sampling, an examiner may decide to review files for commercial real estate loans of \$500,000 or more that are internally classified. The examiner reviews all files selected.

### *Example of Population Selection — Proportional Sampling*

The examiner wants to determine whether the nonclassified loans in a bank's asset-based lending division pose unrecognized risk. Proportional sampling can be used effectively to select a statistical sample of loans internally rated pass. This portfolio is considered "grouped" because the population includes all nonclassified loans in this particular division.

### *Example of Population Selection — Numerical Sampling*

The examiner is concerned about the number of overrides in a bank's instalment loan portfolio. The examiner can use numerical sampling to test the extent of compliance with the bank's override policy.

## Sample Design and Selection

In sample design and selection, the examiner determines which items should be in the sample and bases selection of the sample items on selected reliability and precision levels. Examiners can conduct a statistical sample manually or by using an automated sampling program.

### *Sample Selection — Judgmental Sampling*

The examiner uses sound judgment to determine and select items for review. For example, the selected loans might include ten loans extended since the last examination, five significant doubtful-rated classified loans, seven large-dollar substandard loans, two new loans to insiders, and any other type of loan that the examiner decides to review. The examiner determines whether the internal loan rating is accurate (by reviewing the loans' quality) and whether the underwriting standards are safe and sound.

### *Sample Selection — Proportional Sampling*

Sample design, with a proportional statistical sample, consists of selecting the reliability and precision.

To select sample items from loan portfolios, the examiner may use the same criteria followed by the bank's internal loan review. Alternatively, the examiner can sample from every loan in the population or, to eliminate a loan review of small dollar loans, the examiner can specify that the sample is taken of all loans exceeding a certain dollar amount

When examining the internally rated, nonclassified commercial loan portfolio, loans to be excluded from the sample are ones extended as part of the minimal loan documentation program, i.e., "credit basket" loans. Additionally, shared national credits might be excluded from samples designed to test risk rating accuracy because they are reviewed separately as part of a specific program.

With the internally rated, nonclassified commercial loan portfolio, examiners might consider using a precision level of 20 percent and a reliability level of 80 percent. These levels can be justified when the bank has adequate capital, acceptable internal loan review, sound risk management systems, and good asset quality.

Once examiners establish precision and reliability, the sample is selected. The size for a proportional sample (based on selecting the sample by note) is estimated as:

$$\frac{\text{population amount in \$}}{\text{monetary interval}} = \text{sample size (\# of items)}$$

The monetary interval is calculated as:

$$\frac{(\text{Tier 1 capital} + \text{ALLL}) \times \text{precision level as a decimal}}{\text{reliability factor (From table 1, appendix C)}}$$

NOTE: (Tier 1 capital + ALLL) x precision level is also known as monetary precision

Stated another way, the equation for estimating the sample size is as follows:

$$\text{population amount in \$} \times \frac{\text{reliability factor}}{\text{monetary precision}} = \text{sample size}$$

Examples of calculations: An examiner is examining a regional bank with \$345 million in Tier 1 capital plus the ALLL. The nonclassified commercial loan portfolio, excluding "basket" and, if warranted, SNC loans, is \$1.3 billion.

- 1 With a desired precision level of 20 percent and a reliability level of 80 percent, the equation for calculating the monetary interval is.

$$\frac{\$345\text{MM} \times .20}{1.6} = \frac{\$69\text{MM}}{1.6} = \$43\text{MM}$$

The estimated sample size is equal to the dollar amount of the sample population divided by the monetary interval. (If the result is a fraction, the rule of thumb is to round down to the next whole number.)

$$\frac{\$1,300\text{MM}}{\$43\text{MM}} = 30 \text{ loans}$$

2. If the desired precision level is 5 percent and the reliability level is 95 percent, the equation for the monetary interval is:

$$\frac{\$345\text{MM} \times .05}{3} = \frac{\$17.25\text{MM}}{3} = \$5.75\text{MM}$$

The estimated sample size is equal to the sample population divided by the monetary interval.

$$\frac{\$1,300\text{MM}}{\$5.75\text{MM}} = 226 \text{ loans}$$

Once the appropriate sample design is completed, sample items need to be selected. The examiner must begin the sample selection from a random starting point. This starting point is a randomly chosen number between zero and the monetary interval.

For example, if the monetary interval is \$5,750,000, the random numerical starting point must be a number between zero and 5,750,000. The random number may be obtained from various methods, such as a table of random numbers or the serial number of a dollar bill. Automated sampling software will normally have a random number generator feature.

Discussed below are two sample methods for selecting items using a standard calculator and the bank's trial balance or other report listing sample population items. For illustration, the following examples use 462,021 as the sample's random numerical start.

**Cumulative total.** Beginning with the first item on the trial balance, this method involves adding the dollar amount of each item to an ongoing total. The item whose balance results in the subtotal equaling or surpassing the random numerical start (e.g., \$462,021) is chosen as the first sample item. The remaining sample items are selected by continually adding item amounts from the trial balance and selecting each item whose balance causes the subtotal to equal or exceed each increment of the monetary interval (i.e., \$6,212,021, \$11,962,021, etc.).

**Negative/Positive.** Beginning with the random numerical start entered into an adding machine as a negative number (e.g., -462,021), the dollar amounts of the trial balance items are added until they subtotal zero or a positive number. The item that triggers this event is selected as the first sample item. From the subtotal, the random numerical start is then continually subtracted until the subtotal again results in a negative number. Then the dollar

amounts of the remaining trial balance items are added until the subtotal is again zero or a positive number. The item that triggers the zero or positive subtotal is the next sample item selection. This process is repeated to select each subsequent sample item until the population of items is exhausted.

*Sample Selection — Numerical Sampling*

The sample size for a numerical sample is determined by the reliability and precision levels selected.

$$\text{sample size} = \frac{\text{reliability factor (from table 1)}}{\text{precision (as a decimal)}}$$

The following chart shows the sample sizes associated with OCC desired precision and reliability levels for numerical sampling.

Sample Sizes

	Reliability - 90%	Reliability - 95%
Precision 5%	46	60
Precision 10%	23	30

When reliability is 95 percent (the corresponding reliability factor is 3.0, from appendixes C and D) and precision is 5 percent, the examiner selects 60 items.

When reliability is 90 percent (the corresponding reliability factor is 2.3, from appendixes C and D) and precision is 10 percent, the examiner selects 23 items. Although a sample of fewer than 30 items can be selected and reviewed, examiners should not project sample results based on such a small sample because of the high degree of error inherent in such a small sample population.

Examiners should use a bank’s automated sampling software, if available, to perform numerical sampling. However, a numerical sample can be selected manually.

When selecting a numerical sample manually, examiners should divide the population size by the sample size to determine the sampling interval.

$$\frac{\text{population size in number of items}}{\text{sample size}} = \text{sampling interval}$$

(If the result is a fraction, the rule of thumb is to round down to the next whole number.)

For example, if there are a total of 1,000 override instalment loans, the sampling interval is 33 when reliability is 95 percent and precision is 10 percent (30-item sample size).

$$\frac{1,000}{30} = 33$$

The item that coincides with the random starting point (using a random number selected from a dollar bill, random number table, or other source) is the first sample item selected for review. The examiner continues counting and selecting subsequent items that coincide with the sampling interval

The sampling interval for numerical sampling can also be derived using other selection techniques. These techniques include measured interval, specific position, and terminal digit, and are applied after determining the random starting point

- *Measured interval* uses a set distance (e.g., inches) to select items for review. Each subsequent sample item will be the same measured interval from the last sample item. If the distance from the first sampled item on a trial balance to the second is five inches, the examiner measures every five inches on the trial balance and selects a sample item.
- *Specific position* uses a set position on each page of a list to select items for review. If, for example, the first selected sampled item was the last item on a page, the examiner could select that same item from each subsequent page.
- *Terminal digit* selects sample items using the same terminal digits, i.e., the one or more digits furthest to the right. Those items having the same terminal digits – for example, 0089, 0189, 0289, 9989 – would be selected.

## Sample Evaluation and Interpretation

In sample evaluation and interpretation, examiners review the sample results and draw conclusions about the entire population of data. By designing a sample plan, examiners attempt to control the risk of a significant deteriorating condition remaining undetected. The evaluation of the sample helps examiners achieve that objective.

Statisticians recommend that a sample be at least 30 items. When smaller samples are used to make projections about the population from which they are drawn, the degree of error is too great. Examiners can still pull samples of less than 30 items, but they should not be used to make projections about the larger population.

### *Judgmental Sampling*

Sample results from nonstatistical sampling cannot be projected beyond the loans sampled. However, exceptions discovered when evaluating these credits may suggest a larger problem. The results of a judgmental sample are considered when examiners evaluate the quality of the population from which the sample was selected. Examiners should comment on exceptions and identify the nature and possible root causes of the exceptions. For example, an individual bank employee's lack of training or inadequate knowledge of bank policy could cause exceptions. Examiners should discuss exceptions and root causes with bank management.

### *Proportional Sampling*

One of the OCC's objectives in performing a proportional statistical sample in a commercial loan portfolio is to identify exceptions. An exception in this case is, for example, a loan classified by the OCC but not classified by the bank. Such exceptions can either be full exceptions (the entire loan amount is classified) or partial exceptions (only a portion of the loan is classified).

When reviewing a sample of loans a bank has not classified, an examiner might consider screening loans using credit file information. Doing so could reduce file review time. Since none of the loans in the sample has been classified by the bank, only a minimal file review might be warranted. However, screening requires experience and knowledge (see the "Classification of Credit" section of the *Comptroller's Handbook*). When screening loans, examiners could answer the following questions:

- Is the purpose of the loan identified?
- Is the source of repayment identified and is the loan paying as agreed?
- Is the loan secured by marketable or liquid collateral?

- Is the financial statement current and does it support the source of repayment?
- Does the nature of the business warrant further consideration?

Based on the answers to these questions, examiners decide whether additional loan file analysis is necessary. If screening suggests that the loan should be classified, examiners must analyze it more extensively using traditional methods.

In this example of reviewing pass loans for rating accuracy, OCC examiners assign loan ratings (pass, special mention, substandard, doubtful, loss) to all sample loans reviewed. The degree of classification (substandard, doubtful, or loss) is not factored into a statistical probability evaluation, the significant factor is that the OCC considers the loan to be classified and the bank's internal loan review system has not classified it. If the OCC classifies a loan that the bank does not, the difference is an "exception of overstatement."

When an examiner reviews a portfolio containing both classified and nonclassified loans, the evaluation is conducted in a slightly different manner. Even if ratings are somewhat different (i.e., the OCC classifies the loan substandard, while internal loan review rates it doubtful), no exception exists for statistical sampling purposes. But an exception could exist if sampling was done on a population of loans all of which are rated substandard by the bank and a portion of which are rated doubtful by the OCC. If internal loan review rates a loan as classified and the OCC considers it a pass or special mention loan, the difference is an "exception of understatement."

Both understatements and overstatements are considered when interpreting sample results.

If no exceptions are found, the desired statistical assurance (reliability level and precision level) has been attained and no further evaluation is required. When exceptions are found, examiners should further analyze and evaluate the exceptions. Examiners should attempt to determine the root causes of exceptions and whether exceptions are isolated occurrences or a pattern or practice. Some possibilities to explain an exception could be:

- The inexperience of a bank officer.
- An intentional disregard for policies and procedures
- Exception items unique to a particular type of asset, division in the bank, or industry

- Internal reviewers assigning ratings differently because they misunderstood internal classification definitions.
- Untimeliness of bank rating changes (information was not available at the time of the internal review).

Examiners could identify other reasons for the exception. A reasonable explanation for an exception does not mean examiners should exclude it from sample results. Examiners should note causes of exceptions and discuss them with bank management. Examiners may recommend that management conduct its own review of exceptions.

If exceptions are found, the original reliability and precision levels are no longer valid. Examiners must revise their statistical assurance based upon sample findings, but should not enlarge the statistical sample or alter the reliability level. Enlarging the sample would assume that original sample exceptions were not representative of exceptions in the population and corrupt the statistical validity of the sample. However, the type and causes of exceptions noted may indicate a need for further testing under supervision by risk.

Since the reliability level is the confidence in the sample, changing reliability is not desirable. Therefore, examiners must adjust the precision level after identifying exceptions. Appendixes C and D are tables that examiners can use to arrive at precision-adjusted exception levels. Appendix C determines the adjusted precision for overstatement exceptions, appendix D determines the adjusted precision for understatement exceptions.

A proportional sample evaluation worksheet will help examiners evaluate the sample (see examples of completed worksheets on the following two pages). By projecting the value of all sample exceptions to the population from which the sample was selected, the worksheets arrive at an estimated additional percentage of classified loans in the commercial loan portfolio.

The worksheet can be prepared manually or in an automated format. Instructions for the worksheet can be found in appendix A.

### PROPORTIONAL SAMPLE EVALUATION WORKSHEET I

Example A statistical sample was conducted of all commercial loans rated "pass" by the bank's Internal Loan Review (ILR). ILR identified a total of \$362,413,000 classified commercial loans (105 percent of Tier 1 + ALLL). A review of the sample items resulted in four loans (all below the cutoff, i.e., the monetary interval) being classified by the examiner which the bank considered Pass. This example worksheet is completed to show how the value of those exceptions relate to the precision factor.

Tier 1 Capital + ALLL \$ 345MM Reliability 90% Precision 10% Monetary Precision(MP) \$ 34.5MM Monetary Interval (MI) \$ 15MM

OCC Rating	Borrower	Loan Balance (L)	Sample Exception (SE)	Sample Interval M/IL=SI	Cutoff Loans	Population Exception SExSI=PE	Rank	Precision Adjustment Factor (P)	Precision-adjusted Exception PE x P
		\$2,188	\$2,188	6.8556		\$15,000	1	1.59	\$23,850
		\$6,007	\$2,857	2.4971		\$ 7,134	3	1.36	\$ 9,702
		\$3,850	\$3,850	3.8961		\$15,000	2	1.44	\$21,600
		\$ 200	\$ 40	75.0000		\$ 3,000	4	1.32	\$ 3,960
		TOTALS	\$8,935			\$40,134			\$59,112

**RESULTS.** Precision-adjusted Exceptions = \$ 59,112  
 Precision Level of (as % of Tier 1 + ALLL) = + \$ 34,500  
 Additional Projected Classified Loans = \$ 93,612  
 Bank Reported Classified Loans = \$ 362,413  
 Adjusted Projected Classified Loans = \$ 456,025

**THEREFORE:** With 90% reliability, we infer that actual classified commercial loans should not exceed 132% of Tier 1 Capital plus ALLL.

### PROPORTIONAL SAMPLE EVALUATION WORKSHEET II

Example This situation is similar to the previous page in data used However, in this example the sample was taken of a whole commercial loan portfolio consisting of both classified and nonclassified loans The sample resulted in three loans (all below the cutoff, i e, the monetary interval) not classified by the bank being classified by examiners, and one internally classified loan being rated "pass" by examiners (denoted by amount in parentheses below) This worksheet reflects the impact of the understatement and the overstatements to the precision factor

Tier 1 Capital + ALLL		Reliability		90 % Precision		10 % Monetary Precision(MP)		34 5MM Monetary Interval (MI)		\$ 15MM	
OCC Rating	Borrower	Loan Balance (L)	Sample Exception (SE)	Sample Interval MI/L = SI	Cutoff Loans	Population Exception SEXSI = PE	Rank	Precision Adjustment Factor (P)	Precision-adjusted Exception PE x P		
		\$2,188	\$2,188	6 8556		\$15,000	1	1 59	\$23,850		
		\$6,007	\$2,857	2 4971		\$ 7,134	2	1 44	\$10,273		
		(\$3,850)	(\$3,850)	3 8961		(\$15,000)	1	.10	(\$ 1,500)		
		\$ 200	\$ 40	75 0000		\$ 3,000	3	1 36	\$ 4,808		
		TOTALS	\$5,085			\$10,134			\$36,703		

**RESULTS:** Precision-adjusted Exceptions = \$ 36,703  
 Precision Level of (as % of Tier 1 + ALLL) = + \$ 34,500  
 Bank Reported Classified Loans = \$ 71,203  
 Additional Projected Classified Loans = \$ 362,413  
 Adjusted Projected Classified Loans = \$ 433,616

**THEREFORE:** With 90 % reliability, we infer that actual classified commercial loans should not exceed 126 % of Tier 1 Capital plus ALLL

### Numerical Sampling

In our example, the objective of performing a numerical sample on override instalment loans is to determine whether they are safely and soundly underwritten and in compliance with any override policy. An exception would be a loan that is not in compliance with policy or not underwritten prudently.

The same evaluation guidance noted in "Proportional Sampling" above is applicable to whether exceptions are found or not.

However, examiners use the following numerical evaluation worksheet to determine the precision-adjusted value of the exceptions.

### Numerical Sample Evaluation Worksheet Example

An examiner performed a numerical sample of the instalment loan department to determine compliance with the bank's override underwriting standards. The sample was designed with a 95 percent reliability and 10 percent precision. Two exceptions were found.

Precision (upper limit of the exception rate)	P	10%
Population size	N	1000
Reliability factor	R	3.0
Sample Size	n	30
Sampling interval	I	33
Number of errors	e	2
Sum of the precision adjustment factors = 1.75 + 1.56 =	S	3.31

Error Number	Loan Number	Precision Adjustment Factors
1	12345	1.75
2	54321	1.56
	TOTALS	3.31

$$P' \text{ (revised upper precision limit)} = \frac{33 \times (3.0 + 3.31)}{1000} = .208$$

The revised upper precision limit, .208 or 21 percent, exceeds the sample design upper precision limit of 10 percent. Therefore, the examiner must evaluate the errors and attempt to determine their cause.

If this level of exceptions is unacceptable, the examiner should discuss the results with appropriate bank management and obtain management's commitment to undertake a review and corrective actions.

## Probability Statement

A probability statement is a declaration of statistical assurance. Such assurance is a combination of precision and reliability. If an exception rate in a population exceeds some material level (precision), the examiner can state with a certain degree of confidence (i.e., the results have a certain reliability) that the statistical sample will contain a certain number or amount of exceptions. In other words, results of the statistical sample are used to make inferences regarding the entire portfolio (population).

The probability statement only applies to the population from which items were selected statistically. If examiners eliminated a group of items from the population before the sample selection, they cannot evaluate that group of items statistically.

Probability statements cannot be used with nonstatistical judgmental sampling because the results cannot be statistically related to the entire population.

### *Proportional Sampling*

In our example, where the OCC uses proportional sampling to determine additional classified loans in a bank's nonclassified internally rated commercial loan portfolio, a probability statement can inform bank management of the *estimated* maximum amount of classified loans in that portfolio.

Example with no exceptions: Current internally identified classified commercial loans are 30 percent of Tier 1 capital plus the ALLL. Examiners used an 80 percent reliability level and a 20 percent precision level to review nonclassified commercial loans. Sample results disclosed no exceptions. A probability statement for this sample would be:

With 80 percent reliability, we infer from our statistical sample that the amount of classified commercial loans will not exceed 50 percent (bank's identified 30 percent plus OCC's precision of 20 percent) of Tier 1 capital plus the ALLL.

Example with exceptions (see the example in the first worksheet) Current internally identified classified commercial loans are 105 percent of Tier 1 capital plus the ALLL. Examiners used a 90 percent reliability level and a 10 percent precision level to examine nonclassified commercial loans. Four exceptions were found. After completing the Proportional Loan Evaluation Worksheet, results disclosed the adjusted precision of those exceptions to be 17 percent. A probability statement for this sample would be:

With 90 percent reliability, we infer from our statistical sample that the amount of classified commercial loans will not exceed 132 percent of Tier 1 capital plus the ALLL (bank's internally classified 105 percent plus OCC precision of 10 percent plus adjusted precision value of exceptions 17 percent.)

**Note:** For official purposes in the report of examination and OCC's electronic information systems, the amount and per cent of criticized and classified assets should be derived from the bank's internally identified problem assets adjusted for OCC findings rather than the statistically extrapolated figures. According to the data in the first worksheet, the amount of classified loans to be reflected in the report and in OCC electronic data bases would amount to the more than \$362 million identified by the bank plus the \$9 million identified by OCC examiners as additional classified loans.

### *Numerical Sampling*

When the OCC uses numerical sampling to determine adherence to bank policies or controls, or compliance with laws and regulations, examiners can use a probability statement to inform bank management of the estimated exception rate in a specified portfolio

In our example, examiners used numerical sampling to test the accuracy of the instalment loan override underwriting standards.

Example with no exceptions. Examiners set the reliability level at 95 percent and precision level at 10 percent. Thirty loans were reviewed and no exceptions discovered. A probability statement for this sample would be:

With 95 percent reliability, our statistical sample results indicate that exceptions to the override policy in instalment loans do not exceed 10 percent of the instalment loan portfolio

Example with two exceptions: Examiners set the reliability level at 95 percent and the precision level at 10 percent. They reviewed 30 loans and discovered two exceptions (see the foregoing "Example of a Numerical Sample Evaluation Worksheet"). A probability statement for this sample would be

With 95 percent reliability our statistical sample results indicate that exceptions to the override policy in instalment loans do not exceed 21 percent of the instalment loan portfolio

If the projected level of exceptions is significant or considered unacceptable, examiners should discuss the level with bank management and recommend that management review the situation, determine the extent of the problem, and implement corrective action

## Report of Examination (ROE) Comments

When examiners use statistical sampling and note significant or unacceptable levels of exceptions, they should consider including appropriate language in the applicable ROE comment. The language should include

- The fact that statistical sampling was used.
- The method of statistical sampling used.
- The number and type of exceptions noted, the underlying root cause of exceptions, and either suggested improvements or management commitments for corrective action

Examiners should use their own words, rather than statistical language, for report comments. In addition, report comments must be supported by and based on a sufficiently large enough sample size (generally a minimum of 30 items in keeping with accepted statistical industry standards)

Examples of possible ROE comments, including probability statements:

- Proportional sampling

Currently, bank-identified classified loans in the (describe portfolio reviewed) are (ratio of classified loans to Tier 1 plus the ALLL). During our examination we reviewed a proportional statistical sample of internally rated, nonclassified (identify portfolio reviewed) loans. Our sample disclosed (number or dollar amount of) exceptions indicating that additional unidentified classified loans of \_\_\_\_ percent of Tier 1 capital plus the ALLL may exist. The causes of the sample exceptions were (reason for the exceptions). We recommend that management (suggested corrective action).

**Note:** For official purposes in the report of examination and OCC's electronic information systems, the amount and percent of criticized and classified assets should be derived from the bank's internally identified problem assets adjusted for OCC findings rather than the statistically extrapolated figures.

Using the first worksheet's data, the amount of classified loans to be reflected in the report and in OCC electronic data bases would amount to the more than \$362 million identified by the bank plus the \$9 million identified by OCC examiners as additional classified loans.

- Numerical sampling

During our examination we reviewed a numerical statistical sample of (identify portfolio reviewed) to determine compliance with (describe the specific feature of interest) Our sample disclosed (number) exceptions representing \_\_\_ percent of the (identify portfolio) The causes of the sample exceptions were (reason for the exceptions). We recommend that management (suggested corrective action)

## **Sampling Methodologies**

## **Examination Objectives**

1. Determine whether sampling is an efficient and effective tool in evaluating areas of examination interest.
2. Select the sampling method that will achieve the objectives of the supervisory strategy
3. Use a sample to draw conclusions about the data from which it is taken.

## Proportional Sampling

Examiners can use these procedures when dollar amounts are of particular importance and quantifying exceptions or differences in dollars is appropriate, e.g., when sampling the internally rated, nonclassified portions of a bank's loan portfolios.

1. Determine sampling objectives by reviewing the approved supervisory strategy for the bank.
2. Identify and select the population to be reviewed and identify why it is being reviewed
3. Define the feature of interest for which the identified portfolio is being sampled. For example, in the review of a nonclassified commercial loan portfolio, the feature of interest or exception may be defined as an internally unidentified classified commercial loan.
4. Identify the desired reliability and precision levels for the sample

Precision level = \_\_\_\_\_ %

Reliability level = \_\_\_\_\_ %

Monetary interval = \$ \_\_\_\_\_

$$\frac{(\$ \text{ Tier 1 Capital} + \text{ ALLL}) \times \text{precision as a decimal}}{\text{reliability factor (from appendix C based on reliability \% )}}$$

If reviewing portions of loan portfolios that the bank has not classified, consider the following

- Bank loan identification system
  - Bank reviews all loans exceeding \$ \_\_\_\_\_
- Internal identified classification level \$ \_\_\_\_\_ % \_\_\_\_\_
- Document accuracy of internal identification of past classifications
  - How do bank ratings compare with OCC classifications?
- Sample Population \$ \_\_\_\_\_  
(Exclude "credit basket" loans and SNC loans if warranted.)

5. Select the sample population This can be done manually or by using an automated sampling program
6. Analyze the selected sample items When analyzing the nonclassified portion of a loan portfolio, consider conducting a minimum file review by screening sampled loans as follows.
  - Is the loans's purpose identified?
  - Is the source of repayment identified and is the loan paying as agreed?
  - Is the loan secured by marketable or liquid collateral?
  - Is the financial statement current and does it support the source or repayment?
  - Does the nature of the business warrant further consideration?

If the answers suggest that the loan should be classified, conduct a more extensive analysis of the loan using traditional methods

7. Evaluate the sample results (number of sample exceptions \_\_\_\_\_)
  - If no exceptions are found, the initial reliability and precision levels are valid
  - If exceptions are found, determine whether they are a result of inadvertent error or a pattern or practice Inadvertent exceptions are still exceptions and should not be excluded from sample results. A pattern or practice determination helps with analysis of the sample but does not affect sample results. Determine, based on the type and causes of exceptions, whether additional testing is warranted using the principles of supervision by risk.
  - If sample exceptions exist, adjust the initially selected precision limit to apply sampling results to the entire population. See appendix A for a proportional sample evaluation worksheet that can be prepared manually or using an automated format
  - If a sample is selected from an entire portfolio (i.e., it includes classified and nonclassified loans), remember to consider both overstatements (loans OCC classified as substandard, doubtful, or loss) and understatements (loans the OCC rates as pass or special mention and the bank classifies as substandard, doubtful, or loss).
8. Document results in working papers and OCC electronic data bases (if significant).

OCC electronic data base should show:

Bank internally identified classified loans:	\$ _____
Additional OCC-identified classified loans:	\$ _____
Enter total in supervisory data asset statistics application	\$ _____ *

**\*This figure should not be the statistically extrapolated amount.**

9. If warranted, prepare comments for the report of examination, focusing on exceptions and their root causes.

## Numerical Sampling

Examiners can use these procedures when sampling loan portfolios or other balance sheet accounts to discover whether a defined feature of interest is present. Such features include compliance with laws or regulations or adherence to a bank's underwriting standards

- 1 Determine sampling objectives by reviewing the approved supervisory strategy for the bank
- 2 Identify and select the population to be reviewed and why it is being reviewed.
- 3 Define the feature of interest for which the portfolio is being sampled (e.g., adherence to the bank's underwriting standards for extensions in the instalment loan portfolio.)
- 4 Identify the reliability and precision levels for the sample.
- 5 Select the sample population. This can be done manually or by using an automated format
- 6 Analyze the selected sample items
- 7 Evaluate the sample results (number of sample exceptions \_\_\_\_\_)
  - If no sample errors are found, the initial reliability and precision levels are valid.
  - If exceptions are found, determine whether they are a result of inadvertent error or a pattern or practice. Inadvertent exceptions are still exceptions and should not be excluded from sample results. A pattern or practice determination helps with analysis of the sample, but does not affect sample results
  - When sample exceptions exist, adjust the initially selected precision limit to project sampling results for the entire population sampled.

Appendix B's "Numerical Sample Evaluation Worksheet" can be prepared manually to accomplish this. If the sample size is 30 items or more, consider formulating a probability statement

- Compare the revised precision limit with the original precision limit. If the revised limit exceeds the original one, evaluate the exceptions and attempt to determine their root cause.
  - If the exception level is unacceptable, discuss the results with appropriate bank management and obtain a commitment for corrective action.
8. Document results in working papers and in the OCC's electronic data base (if significant)
  9. If warranted, prepare comments for the report of examination, focusing on the level of exceptions and their root causes



## Proportional Sampling Evaluation Worksheet

### Instructions

If at least one exception is found, revise the statistical assurance based on sample findings. Raise the precision limits. Do this by completing the following.

OCC Rating:	Enter OCC rating (substandard, doubtful, or loss).
Borrower:	For exceptions, enter borrower's name in Borrower column.
Balance:	Enter loan balance in the Balance (L) column.
Sample Exception.	Enter the dollar amount of the sample exception (SE). This amount may be different from "Balance" when only a portion of the loan is classified. Sample exceptions can be overstatements or understatements. An overstatement is an OCC-classified loan. An understatement is a bank-classified loan that the OCC does not classify. Understatements occur only when the OCC conducts a statistical review of internally classified loans.
Sampling Interval.	Enter the sampling intervals (SI) for each exception. The sampling interval is calculated by dividing the monetary interval by the loan balance (MI/L). The sampling interval is the probability of selecting a loan balance (L) as one of every SI balances of like amount. The sampling interval applies the level of sampling exceptions observed to the population. Sample loan exceptions exceeding the cutoff are always selected; their sampling interval is set at 1.0.
Cutoff Loans.	Enter the dollar amount of loans equal to or exceeding the monetary intervals which are exceptions (CL). Because these loans are selected with certainty, the estimated population exception is the same as the sample exception.
Population Exception.	Obtain the value in this column by multiplying the sample exception (overstatement or understatement loans) by its probability as indicated in the sampling interval column ( $SE \times SI = PE$ ). This statistically projects the value of the sample exception to the population. Record overstatements (or understatements) as appropriate. (NOTE: Loans that are full exceptions will have the monetary interval as its population exception.)

Rank. Rank the population exceptions separately. The exceptions should be ranked in descending order of amounts because of the bias given to larger dollar loan samples in proportional sampling. When exceptions have the same values, rank each separately. Loans exceeding the cutoff are not ranked.

Precision: Enter the adjustment factors for overstatements (appendix C) or understatements (appendix D) based on the reliability of the sample. These factors are used to convert the estimated exceptions in the population into precision-adjusted exceptions. No precision adjustment factor is required for cutoff loans.

Precision Adjustment Exceptions: Enter the dollar value of each cutoff loan. For the other sample exceptions, multiply the population exception by its precision adjustment factor to yield the precision-adjusted exceptions. The overstatement calculations have increased (and the understatement calculations have decreased) the precision limit based on the sample exceptions so that the same reliability level can be used to evaluate the sample.

The total of this column and the monetary precision (Tier 1 capital and ALLL x precision percent) represents the potential additional amount of classified loans in the portfolio. This figure is added to the known classified loan totals to estimate the upper limit of classifications.

A probability statement such as those in this booklet's section "Probability Statement" can then be made using this data.

#### Additional Evaluation:

Examiners analyze and evaluate the sample exceptions to determine the root cause and decide whether the sample exceptions are a pattern or practice.

#### Consider:

- Inexperience of a loan officer.
- An exception by type, division, or industry.
- Differences by individuals assigning ratings in adhering to internal classification definitions.
- Timeliness of bank rating changes.

## NUMERICAL SAMPLE EVALUATION WORKSHEET

### Sample Design

Precision P \_\_\_\_\_  
 Population size N \_\_\_\_\_  
 Reliability factor (From appendix C, 2.3 for 90%, 3.0 for 95%) R \_\_\_\_\_

Sample size =  $\frac{R}{P}$  n \_\_\_\_\_

Sampling interval =  $\frac{N}{n}$  I \_\_\_\_\_

### Sample Evaluation

Number of errors found e \_\_\_\_\_  
 Sum of the precision adjustment factors S \_\_\_\_\_

ERROR NUMBER	LOAN NUMBER	PRECISION ADJUSTMENT FACTOR (From appendix C)
<b>TOTALS</b>		

Revised upper precision limit  $P' = \frac{I(R + S)}{N}$

**Statistical Sampling Overstatements** (OCC classified, bank nonclassified)

Reliability Factors (R)	1 6	2 0	2 3	3 0
Reliability Levels	80%	86%	90%	95%
Rank of Errors <sup>1</sup>	Precision Adjustment Factors (P) For Evaluating Samples at Above Levels			
1	1 39	1 51	1 59	1 75
2	1 28	1 38	1 44	1 56
3	1 24	1 31	1 36	1 46
4	1 21	1 27	1 32	1 40
5	1 19	1 25	1 29	1 36
6	1 17	1 23	1 26	1 33
7	1 16	1 21	1 24	1 31
8	1 15	1 20	1 23	1 29
9	1 14	1 19	1 22	1 28
10	1 14	1 18	1 21	1 26
11	1 13	1 17	1 20	1 25
12	1 13	1 16	1 19	1 24
13	1 12	1 16	1 18	1 23
14	1 12	1 15	1 18	1 22
15-19	1 11	1 15	1 17	1 22
20-24	1 10	1 13	1 15	1 19
25-29	1 09	1 01	1 13	1 17
30-39	1 08	1 00	1 12	1 15
40-49	1 07	1 09	1 10	1 13
50-74	1 06	1 08	1 09	1 12
75-99	1 05	1 07	1 08	1 10
100 and Over	1 04	1 06	1 07	1 09

1 Errors of overstatement should be ranked separately from those of understatement, and within each group the ranking should be from the largest to the smallest amount of error

**Statistical Sampling Understatements** (OCC nonclassified, bank classified)

Reliability Factors (R)	1 6	2 0	2 3	3 0
Reliability Levels	80%	86%	90%	95%
Rank of Errors <sup>1</sup>	Precision Adjustment Factors (P) For Evaluating Samples at Above Levels			
1	22	14	10	05
2	60	49	42	30
3	71	62	57	46
4	76	69	64	54
5	79	73	68	60
6	81	75	71	64
7	83	77	74	67
8	84	79	76	69
9	85	80	77	71
10	86	81	78	73
11	86	82	79	74
12	87	83	80	75
13	87	84	81	76
14	88	84	82	77
15-19	88	85	83	78
20-24	90	87	85	81
25-29	91	89	87	83
30-39	92	90	88	85
40-49	93	91	90	87
50-74	94	92	91	88
75-99	95	93	92	90
100 and Over	96	94	93	91

1 The distinction between errors of overstatement and understatement should be based on their effect on the population from which the sample was drawn. If this population is reciprocal to the one of primary interest, errors will have an opposite effect on the population of primary interest.

**Adjusted precision level** is a recalculated statistical assurance based on the number or monetary amount of tolerable errors noted. If errors are found in a sample, precision must be revised to maintain the original degree of reliability set by the sample plan

**Compliance exception or error** is a deviation from established policies, procedures, or practices, i.e., internal control. Examples are noncompliance with loan underwriting standards (such as exceeding approved officer lending limits or failure to obtain required documentation) and violations of laws or regulations (such as incomplete Truth-in-Lending or Truth-in-Savings disclosure statements)

**Exception** in sampling is an error or deviation in a feature of interest. Exceptions may be monetary (dollar amount) or compliance (nonconformance with policies, procedures, or practices or violations of law or regulation). For example, in a proportional sample of a bank's commercial loan portfolio, an exception is a loan that the bank does not classify internally but the examiners do. In a numerical sample of an instalment loan portfolio, an exception could be a loan that is not in compliance with the bank's underwriting standards or extension, renewal, or override policies (or it could be a loan that is not underwritten in a safe and sound manner).

**Feature of interest** is the characteristic for which the sample is being taken, e.g., compliance with a regulation or adherence to a bank's policy (such as instalment loan overrides). Features of interest are defined by the objective of the review and commonly are represented as exceptions.

**Monetary exception or error** causes a dollar amount to be inaccurate. For example, a loan classified by examiners but passed by a bank is a monetary error because it affects the accuracy of the bank's amount of classified assets.

**Monetary interval** is the dollar measurement used in a proportional sample to select sample items. All items equal to or greater than the dollar amount of the monetary interval will be selected for review.

**Nonstatistical or judgmental sampling** is the selection of items based on the judgment of an individual. Results of a judgmental sample cannot be used to draw statistically valid inferences about a population.

**Numerical statistical sampling** is the selection of sample items based on the number of items in a population. No item has a greater probability of being selected than any other and the dollar amount of items is not relevant to sampling objectives (in contrast to proportional statistical sampling). Selection begins from a random starting point and proceeds in a constant measured interval between the selected items

**Poisson distribution** expresses the mathematical probabilities that an expected number of exceptions will occur in a selected sample of items from a population in relation to specific confidence intervals (precision and reliability). Appendixes C and D are quick references for parameters associated with the distribution probabilities and precision and reliability levels

**Population** is a whole group of related items from which a sample is drawn. For example, all of a bank's internally rated nonclassified notes in its commercial loan portfolio may be the population from which an examiner draws a sample.

**Precision, precision limit, or precision level** is the amount that sample results can deviate from the most likely results of a review of the entire population and still be acceptable to the examiner. It can be viewed as the OCC's tolerance for the error inherent in not analyzing each item in the population. The OCC allows some imprecision in drawing sample conclusions to avoid analyzing each item in the population. The lower the tolerance for error, the larger the number of items that need to be selected in a sample.

**Probability statement** is a statement of statistical assurance. Using results of a statistical sample, examiners can draw conclusions about the entire portfolio from which the sample was taken. The probability statement expresses the examiner's degree of confidence that the sample can stand for the entire population

**Proportional statistical sampling** is the selection, based on monetary amounts, of items from a population. Larger items have a greater probability of being selected than smaller ones and the dollar amount of items is relevant to sampling objectives (in contrast to numerical statistical sampling). An item's probability of being selected is proportional to its monetary amount relative to an established monetary interval

**Reliability or reliability level** is the probability that the value of the feature of interest in the sample is representative of the entire population, i.e., within the desired precision level. Reliability is a reflection of the degree of confidence an examiner has in the sample results and how much risk of imprecision she or he is willing to accept

**Reliability factor** is a mathematically calculated approximation of the probability of finding at least one exception in a sample of selected items at a given reliability level and error rate. Reliability factors are used to determine sample sizes and precision adjustment factors. They are common references for audit sampling purposes. See appendixes C and D.

**Sample, sample items or sample population** is the group of items selected, using a sampling method, from a larger general population.

**Sample interval** is the constant measured interval between items selected for a sample. This interval can be every nth item, e.g., every 10th item. Intervals can also be a set distance or position between items or the terminal digits of population items.

**Sample plan** is the process of setting objectives for the sample, selecting the population to be sampled, designing and selecting the sample, and evaluating and interpreting sample results.

**Sampling risk** is the risk that the sample is not representative of the entire population. Sampling risk is determined by a formula — 1 minus the reliability level as a decimal. For example, with 90 percent reliability, the sampling risk is 10 percent ( $1 - .90 = .10$ ). This means that 10 percent of the time, or one time in ten, the results of the sample may not be indicative of the entire portfolio.

**Statistical assurance**, a product of precision and reliability, is the measure of reliance an examiner places on inferences drawn using the sample. It is commonly expressed in a probability statement.

**Statistical or sample projection** uses probability theory to apply sample results to the entire population sampled and depends on a random selection process. To understand probability theory, examiners must understand reliability and precision, as well as their interrelationship.