

December 21, 2006

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Kim D'Arruda
Assistant Attorney General
North Carolina Department of Justice
9001 Mail Service Center
Raleigh, NC 27699-9001
phone (919) 716-6013
fax (919) 716-6050
kdarruda@ncdoj.gov

Re: Report to Attorney General of the actions taken by Haywood Mortgage Associates, Inc. to the Security Breach which occurred on September 7th, 2006.

Dear Mrs. D'Arruda

Please find an outline that summarizes the actions that have been taken by Haywood Mortgage Associates to comply with NCGS. § 75-65. Protection from security breaches. The Security Breach occurred September 7th, 2006.

Step 1. Secure the System:

On September 7th, the day of the breach, Haywood Mortgage Associates did the following:

1. Contacted Tim Arrowood, a Microsoft Certified Systems Engineer, and instructed him to secure the system.
2. I changed the passwords on the following:
The phone system.
The Credit Report Service Provider our company uses. (Landsafe).
The locks were changed on the entrance doors, Thomas Butler's private office door, the file room door, and to the storage compartment that holds our network server.

Step 2. Notify the Affected the Secure the System:

On January 8th, 2007, we mailed the notification letter. The following steps were used to determine who would receive a notification.

The sensitive data of our customers is stored electronically in one location in our network. That location is the Genesis 2000 Application Software program. Sensitive Data is also available at www.landsafe.com. This is the web site of Landsafe Inc. They are the credit report provider for Haywood Mortgage Associates. Their web site is User ID and Password protected. Thomas Butler had access with his own User ID and Password.

Landsafe Credit reports are capable of being viewed for 120 days after the ORDER DATE. Therefore any credit reports for the previous 120 days were able to be viewed and, therefore, were at risk

We mailed to all Customers pulled for 150 days prior to September 07th, 2006.

All Customers with credit reports pulled from April 1st, 2006 through September 07th, 2006 will receive written notification. This is approximately 228 Customer Contacts.

The other source of sensitive information is the Genesis 2000 Application Software program.

Tim Arrowood has verified that no information was copied from the Genesis 2000 Application Software program.

Therefore, we feel that all customers with sensitive data that was accessible have been notified.

As an additional precaution, we have purchased new application software, Calyx. In addition, we have moved our haywoodmortgage.com web page host from e-traffickers to ImagePro.

Enclosed you will find a sample of the letter that we mailed.

I appreciate all of your assistance in this matter. I will keep you informed of the criminal and civil progress.

Thank you again.

Sincerely,
Troy Dills

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Sincerely,
Troy Dills

January 8, 2007

DILLS, TROY
49 SKYLINE
CANTON, NC 28716

CJ4946407292

Security Breach Notification

Very Important

DEAR TROY DILLS:

I am writing to you because of a recent security incident at Haywood Mortgage Associates. On September 07, 2006, an employee of our firm, Thomas A. Butler resigned without notice. Mr. Butler had access to our company data base. This database includes the following personal information of our customers:

Names, addresses, social security numbers, dates of birth, drivers license numbers, credit card account numbers, mortgage loan account numbers, auto and personal loan numbers, employment information, and the actual credit report pull with account contact numbers.

The information you provided to us is safeguarded through a password protected network. Because of the access that was available to Mr. Butler and the circumstances with which he left our employ, I retained the services of Network Computer Solutions, Inc., (NCS), to examine the computer that Mr. Butler used. Please find the summary of those findings as provided in this statement from Tim Arrowood, President of NCS and a Microsoft Certified Systems Engineer.

To Whom It May Concern:

I have been contacted by Troy Dills on behalf of Haywood Mortgage Associates to evaluate a computer for a possible security breach. My initial investigation showed that a removable storage device had been inserted into a USB port on the computer at 8:40am on 9.07.06 and removed at 11:23am on the same day. The device was an Iomega zip100 USB drive. This device uses 100mb (mega-byte) discs used for portable storage. The only limit to the storage capacity is the number of blank discs used. Mr. Dills expressed concern that the contact list used for the company had been stored in the Outlook contact folder on the said computer. All of the Outlook data had been deleted from the computer. The computer (named "TommyB" in NetBIOS) had a restore feature that enabled me to restore the computer to the prior day (9.06.06) at 11:00 am. This did restore the Outlook data (189mb) and the contact list in question. It is my professional opinion that files were deleted and the opportunity was present for data removal via the Iomega USB zip drive. At this time, it is not possible to determine exactly what if any data was copied to the zip drive. Steps have been taken to secure the server and deny remote or local access to any files by the former employee.

*Tim Arrowood A+, MCSE
9.14.2006*

EFX EQUIFAX CREDIT INFORMATION SERVICES, INC. (800) 685-1111
P.O. BOX 740241 (ORDER A REPORT)
P.O. BOX 740256 (DISPUTE AN ITEM)
ATLANTA, GA 30374

Web site: www.equifax.com

XPN EXPERIAN - NATIONAL CONSUMER ASSISTANCE CENTER (888) 397-3742
P.O. BOX 2104 (ORDER A REPORT)
P.O. BOX 9701 (DISPUTE AN ITEM)
ALLEN, TX 75013-3742

Web site: www.experian.com

TUC TRANSUNION CONSUMER SOLUTIONS (800) 888-4213
P.O. BOX 1000 (ORDER A REPORT)
P.O. BOX 2000 (DISPUTE AN ITEM)
CHESTER, PA 19022

Web site: www.transunion.com

You can get a free copy of your credit report annually from each credit bureau by visiting www.annualcreditreport.com.

When you receive your credit reports look them over carefully. Look for accounts you did not open. Look for inquiries from creditors that you did not initiate. And look for personal information, such as home address and Social Security number, that is not accurate. If you see anything you do not understand, call the credit reporting agency at the telephone number on the report. If you do find suspicious activity on your credit reports, call your local police or sheriff's office and file a police report of identity theft. Get a copy of the police report. You may need to give copies of the police report to creditors to clear up your records.

Even if you do not find any signs of fraud on your reports, we recommend that you check your credit report every three months for the next year. Just call one of the numbers above to order your reports and keep the fraud alert in place. For more information on identity theft, we suggest that you visit the Web site of the **North Carolina Department of Justice ID theft website at www.noscamnc.gov**. or the **Federal Trade Commission at www.consumer.gov/idtheft**.

You have my most sincere apology for this unfortunate incident. At Haywood Mortgage Associates, we take pride in the fact that you trust us enough to provide this critically important, private information. I want to personally assure you, that I will pursue this matter with all of the legal means available until it is resolved.

If there is anything Haywood Mortgage Associates can do to assist you, please contact me directly.

You may contact me at these numbers

Local:(828) 235-9290 Ext. 202

Toll Free (877) 779-1988 Ext.202.

Mobile (828) 712-9290

troy@haywoodmortgage.com

Once again, I apologize for this inconvenience.

Sincerely,

Troy Dills
President
Haywood Mortgage Associates, Inc.
94 Main Street
Canton, NC 28716

**North Carolina Security Breach Reporting Form
Pursuant to the Identity Theft Protection Act of 2005**

Name of Business Owning or Licensing Information Affected by the Breach: Haywood Mortgage Associates, Inc.
Troy Dills, President

Address: 94 Main Street,
Canton NC 28716

Telephone: (828)235-9290 Ext.202

Fax: 828 235- 8157

Email: troy@haywoodmortgage.com

PLEASE SUBMIT FORM TO:
Consumer Protection Division
NC Attorney General's Office
9001 Mail Service Center
Raleigh, NC 27699-9001
Telephone: (919) 716-6000
Toll Free in NC: (877) 566-7226
FAX: (919) 716-6050

Date Security Breach Reporting Form submitted: 11/20/2006

Date the Security Breach was discovered: 09/07/2006

Estimated number of affected individuals: a possible 5,000 application files

Estimated number of NC residents affected: all are NC residents

Name of business maintaining or possessing information that was the subject of the Security Breach, if the business that experienced the Security Breach is not the same entity as the business reporting the Security Breach (pursuant to N.C.G.S. § 75-65(b):

Same

Describe the circumstances surrounding the Security Breach and state whether the information breached was in electronic or paper format: See attached report from Computer Network Solutions, Tim Arrowood, President

phone 828-231-0809
email:timarrow@bellsouth.net

Regarding electronic information breached, state whether the information breached or potentially breached was password protected or encrypted in some manner. Password Protected If so, please describe the security measures protecting the information: Information was maintained on a secure server with password access only.

Describe any measures taken to prevent a similar Security Breach from occurring in the future:
All remote access has been denied.

Local access venues have been severed except for active employees. Passwords have been changed

Date affected NC residents were/will be notified: To be
determined

If there has been any delay in notifying affected NC residents, describe the circumstances surrounding the delay pursuant to N.C.G.S. § 75-65(a) and (c): At the time of the breach, I contacted Computer Solutions to secure the system. I also contacted the NC Banking Commission as well as my attorney. I have followed the instruction of those parties regarding what the appropriate steps to follow. The Data was secured immediately and claims have been filed against both Thomas A. Butler and Chelsey Saunders. A request was filed with the District court Judge to have the computers of Butler and Saunders seized by the court. Instead, a temporary restraining order was filed on October 24th. by the District Court Judge. The Judge is to hear this matter on Wednesday, November 22nd.

If the delay was pursuant to a request from law enforcement pursuant to N.C.G.S. § 75-65(c), please include the written request or the contemporaneous memorandum.

How NC residents were/will be notified?
(pursuant to N.C.G.S. § 75-65(e))

- written notice
 electronic notice (email)
 telephone notice
 substitute notice

Please attach copy of the notice if in written form or a copy of any scripted notice if in telephonic form.

Signature: Troy Dills Date: November 20th,
2006

Contact Person, Title: Troy Dills, President, Haywood Mortgage Associates,
Inc.

Address: 94 Main Street, Canton NC
28716

(if different from above)

Telephone: (828)235-9290 Ext.202 Fax: (828) 235-
8157 Email: troy@haywoodmortgage.com