



TEXAS DEPARTMENT OF SAVINGS & MORTGAGE LENDING

Douglas B. Foster
Commissioner

April 6, 2011

Flagstone Financial Services, Inc., NMLS# 337283
Cary Cox, NMLS# 336786
1800 Bering Drive, Suite 100
Houston, Texas 77056

Dear Mr. Cox:

Enclosed please find a copy of the Report of Examination issued by the Department related to the examination conducted on March 15, 2011, by Jill Rafferty, an examiner with the Department, pursuant to the direction of the Commissioner.

We are pleased to report that the examination identified no adverse findings with respect to your mortgage company activities, and you were assigned a compliance rating of 1. (A list of Department ratings and definitions is provided for your information.) The Department defines a mortgage company with a compliance rating of 1 as having the following characteristics:

A mortgage company in this category is in a strong compliance position. There is sufficient knowledge of applicable state and federal statutes and regulations, and adequate staff for effectuating compliance. An effective formal compliance program, including an efficient system of internal procedures and controls, has been established. Changes in consumer statutes and regulations are promptly reflected in the mortgage company's policies, procedures, and compliance training. Adequate training for employees is provided. If any violations are noted, they relate to relatively minor deficiencies in forms or practices that are easily corrected. The examination reveals no evidence of discriminatory acts or practices, reimbursable violations, or practices resulting in repeat violations. Any violations were promptly corrected. As a result, there is no cause for supervisory concern.

The primary area of compliance concern was:

- Failure to Document Delivery of False or Misleading Statement Disclosure

We ask that you review the report carefully and, to the extent violations were identified in your mortgage company operation, we recommend that you implement remedial actions promptly. We appreciate your attention to these important matters. If you have any questions, please do not hesitate to call.

Sincerely,

A handwritten signature in black ink, appearing to read "Tony Florence".

Tony Florence
Chief Examiner