

MBA Document Custody Presentation '07

Passing Muster – Preparing for Audits

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The Audit Landscape

- Internal Audits
- Investor Audits
- Acquisition Due Diligence Audits
- Agency Audits
- State and Federal Compliance Audits
- Regulatory Audits



The Alphabet Soup of Regulatory and Compliance Acts

- Lending Related
 - State Mortgage Brokerage and Lending Laws
 - ECOA - Equal Credit Opportunity Act
 - HMDA – Home Mortgage Disclosure Act
 - Reg BB/CRA – Community Reinvestment Act
 - FCRA – Fair Credit Reporting Act
 - FACT – Fair and Accurate Credit Transactions
 - Fair Housing Act
 - Fair Lending Act
 - NFIA - National Flood Insurance Act
 - HUD Reg-X/RESPA - Real Estate Settlement Procedures Act
 - Reg-Z/TILA - Truth in Lending Act
 - HOEPA – Home Ownership and Equity Protection Act (High Cost Mortgages)
 - Reg AA – Unfair or Deceptive Practices Act
- Financial Intelligence Related
 - AML - Anti Money Laundering Act for Lenders
 - BSA – Bank Secrecy Act
 - Patriot Anti-Terrorism Act
 - GLB – Graham Leach Bliley
 - OFAC – Office of Foreign Asset Control
- Operational/Consumer Protection Related
 - FDCPA – Fair Debt Collection Practices Act
 - Regulation P – Privacy of Consumer Financial Information
 - RFPA - Right to Financial Privacy Act
 - DNC – Do Not Call Act



Pre-Audit Data Collection and Data Hygiene Checks

- Inventory all loan documents and properly stack them into individual document types. Identify and retrieve missing and trailing documents
 - Ensure LOS has correct data entry by cross-checking with loan docs
 - Perform sample/ full QC of loans and identify deficiencies and corrective actions
- * * Consider third party audit companies to reduce this work overhead and prevent audit bias.



Audit Deficiency Risk Grades



Critical Risk – This category might include:

- Any breach of federal or state law that could result in regulatory actions, fines, penalties and/or sanctions.
- Pricing errors that could impact the marketability of the loan to the investor or result in a significant loss of revenue.
- Underwriting errors that could impact the value of the loan in the secondary market or increase the risk of default.
- Closing errors that could impact the enforceability of the documents and/or the value of the loan in the secondary market.
- Fraud, collusion and material misrepresentation.
- Early payment defaults (loans that default within the first three to six months of the obligation).
- Repurchase requests.
- Internal control breaches.
- Breaches of internal policies and procedures that could result in a financial or legal impact to the company.

Significant Risk – This category would include:

- Any breach of federal or state law that would not necessarily result in regulatory actions, fines, penalties and/or sanctions.
- Section 32 loans as defined under the Truth in Lending Act.
- Procedural or training issues that impact workflows and/or productivity.
- Processes and procedures that are not yet in place but are deemed necessary to improve workflows in a particular area.
- Breaches of internal policies and procedures that would not necessarily result in a financial or legal impact.
- Underwriting errors that would not necessarily impact the value of the loan in the secondary market but could result in a higher risk of default.
- Pricing errors that would not necessarily impact the value of the loan in the secondary market but result in lost income to the company.
- Closing errors that would not impact the enforceability of the documents or the value of the loan in the secondary market.
- Unsupported valuations that result in an increase in the loan to value ratio but would not be considered fraud.

Moderately Significant Risk – Deficiencies that impact productivity and profitability, such as procedural and workflow issues.

Insignificant Risk – Deficiencies that would not necessarily result in a legal or economic impact but could be improved with a revised procedure.




Common Issues Causing Violations

1. Disclosures – Undue Reliance on 3rd Party Software
2. Disclosures – Form Errors
3. RESPA – GFE Error – Using Generic Cost Information
4. RESPA – Payment of Illegal Referral Fees
5. TILA – Failure to properly disclose Terms and Costs
6. FCRA – Unauthorized Access/ Disclosure of Credit Report
7. ECOA – Failure to provide timely Adverse Action Notice
8. Licensing – Failure to register as an Originator
9. New Laws and PitFalls – Loan Flipping or “Equity Stripping” schemes

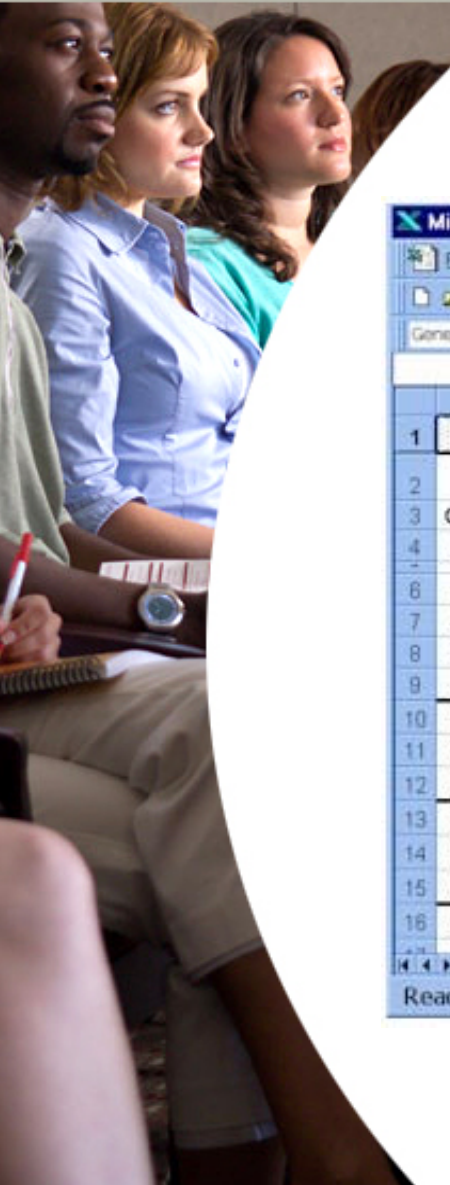


Avoiding Violations

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- Monitor the Regulatory Landscape
 - Respond Promptly to Regulatory Inquiries
 - Respond Promptly to Customer Inquiries
 - Regularly Audit Outside Vendors



The Audit Calendar



Microsoft Excel - 98 Audit Wbkb.xls

Geneva 12


A1 = COMPLIANCE AUDIT CALENDAR - 1997

COMPLIANCE AUDIT CALENDAR - 1997							Actual Completion Date		
Calendar	Period to be Reviewed	Regulation-Requirement	Audit Manual References	Primary Auditor	Due Date	By Bank	By Branch	By Bank	By Branch
Jan-98	Jul.-Dec.	BSA	Bank Secrecy Act	Andy Zavoina	02-25-98				
Jan-98	Jul.-Dec.	Reg. B-FCRA	ECOA/FCRA	Andy Zavoina	02-05-98				
Jan-98	Annual	Reg. O-Reports Require	Internal Worksheet	Andy Zavoina	01-31-98				
Jan-98	Oct.-Dec.	CRA LAR	Internal Worksheet	Andy Zavoina	01-26-98				
Feb-98	Aug.-Jan.	Reg. Z-Detailed	TILA Reg. Z	Andy Zavoina	03-18-98				
Feb-98	Prior Year	HMDA Preparation	Internal Worksheet	Andy Zavoina	03-23-98				
Feb-98	Prior Year	CRA/HMDA Update	Internal Worksheet	Andy Zavoina	03-18-98				
Mar-98	Annual	Interest on Loans	Interest on Loans	Andy Zavoina	04-15-98				
Mar-98	Annual	Interest on Deposits	Interest on Deposits	Andy Zavoina	04-15-98				
Mar-98	Sep.-Feb.	Reg. E	EFTA-Reg. E	Andy Zavoina	03-31-98				
Apr-98	Jan.-Mar.	Rvw. CRA/HMDA LAR	Internal Worksheet	Andy Zavoina	04-26-98				

Ready NUM




Pre-Audit Check List

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1. Who are members of the audit team, and what are their roles and assignments?
 2. What are the credentials and experience of the assigned audit team?
 3. What orientation or training can you provide them to be comfortable within the environment?
 4. Communicate with your managers and staff in the areas to be audited.
 5. If an area was audited before, review the prior report to see the issues raised and recommended made. Get an update of corrections or changes made as a result of prior audit work and give your staff and the audit department credit.




Audit Check List

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1. Purpose of the audit?
 2. Scope and objectives?
 3. Who are the audit staff assigned? (Ask to be notified if any staff are changed.)
 4. Timeframe for work to be performed?
 5. Use of computer time/access to system/logs/training needed.
 6. Access to IT management and staff?
 7. Communicate (1) and (2) to all IT staff affected.
 8. Set weekly or biweekly meetings with audit manager/audit team to discuss audit progress and issues.
 9. Before the audit is finished, request close-out conference from audit group.
 10. Request a copy of audit report.



Post-Audit Check List

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1. When the audit report is issued, pull your team together and discuss the report; if you follow the steps above there should be no surprises. If there are, there was a communication breakdown somewhere.
 2. If you disagree with the report or portions of the report, do so in writing with supporting evidence. Remember, the auditor has supporting evidence for their reports, and this exists in their working papers. For those areas you agree, indicate what corrective actions your team plans to take.
 3. Have your team provide a status report to you on a 3- to 6-month cycle with a copy to go to Internal Audit. This shows you value their work.



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THANK YOU!

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