

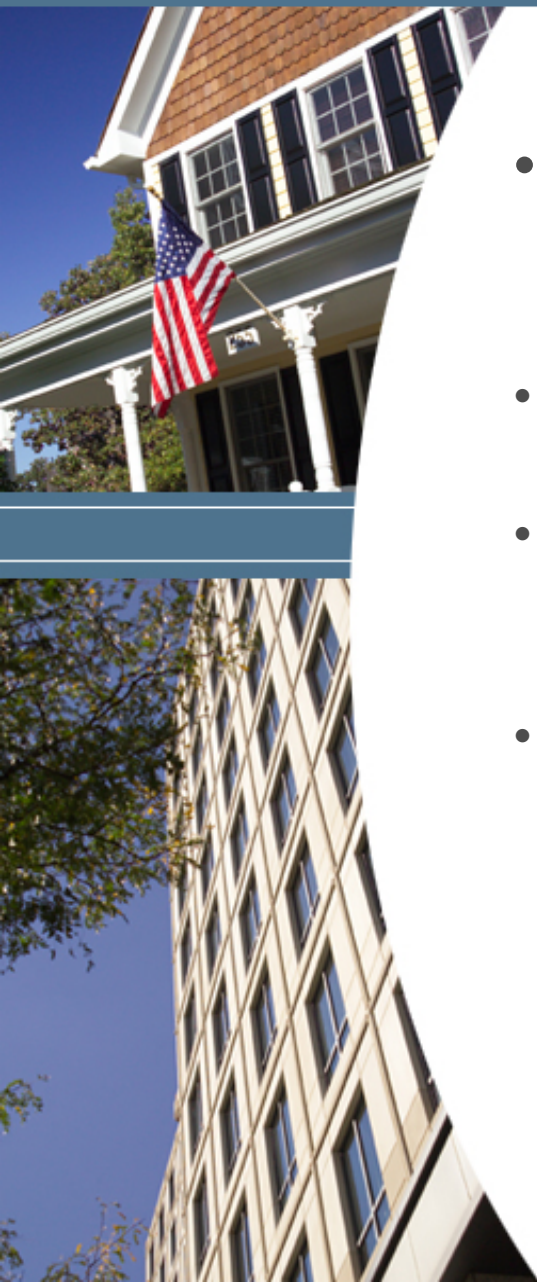


Hiring/Assessing and Maintaining Underwriters with High Risk Decisioning Skills

Presented by
Diane Kobayashi

**WELLS
FARGO**

HOME
MORTGAGE



- **TODAY'S REALITY**

- Industry environment today requires a much different skill set than previous years.
- Large percentage of underwriters have relied heavily upon automated decisioning tools, appreciating values and streamlined documentation programs.
- To create a robust underwriting staff, the following training, monitoring and feedback processes should be considered.

Required Skills Sets

- Identify red flags and take appropriate action
 - Assets,
 - Credit,
 - Debt,
 - Employment
 - Gifts
 - Income
 - Misrepresentation
 - Layered Risk* - A critical component!

Required Skills Sets(cont.)

- Identifying Layered Risk*
 - Poor Credit +
 - High Ratios +
 - Payment Shock +
 - Cash Out Refinance +
 - High Loan to Value =
 - **Layered Risk**

Required Skills Sets (cont.)

- **“Weighing of Risks and Compensating Factors”**
(Risk & Comp Guide Handout)
 - Reviewing the entire transaction.
 - Deciding the mortgage is acceptable by balancing the weaknesses of one or several risk factors with the strength of one or several compensating factors.



Required Skills Sets (cont.)

- Incorporating the use of automated tools
 - Use to assist determining the level of risk
- Ensure data accuracy
 - Do all names, addresses, social security numbers, timelines, etc. match?
- Appropriate Conditioning
 - “Provide pay stub from ____ Company for the week of ____ verifying weekly earnings of \$____. “ versus “Provide current pay stub”.



- **New Hire / Underwriting Authority**

- Decisioner / Underwriting Roadmap should include the probationary or on-boarding process for any new hires to the company.
 - Advancement of an internal candidate to higher authority levels would be included.
- Full underwriting authority not immediately available for new hires. It is granted after satisfactory completion of the designated number of files.
- Number/timeframe of oversight/second level reviews based on resume/experience.
- Differing levels of authority is granted from “junior” to “senior” underwriting levels.

➤ Utilization of standard worksheets/checklists/job aids

- Risk Assessment Worksheet (See handout)
- Include all decisioning logic in the underwriting notes
 - List risks and compensating factors.
 - Include detail information from borrower's explanation and documentation (must make sense)
 - The inclusion of detailed underwriting logic



➤ Develop Certification Process (Annual)

- An annual certification process should be developed and utilized.
 - Series of loan scenarios
 - Income calculations
 - Identification of risk layers, etc.
 - A minimum score must be maintained
 - External industry training sessions



➤ Underwriting Scorecards

- Must be clearly defined to be useful
- Management tool to identify individuals outside thresholds
- Does not predict performance
- Clearly defines the drivers
- Historical data updated monthly
- Define the areas of risk to be used to compile the score:
 - Level of underwriter (Sr. vs Jr. Underwriter)
 - Layered Risk
 - Early Payment Default



➤ Underwriting Scorecards

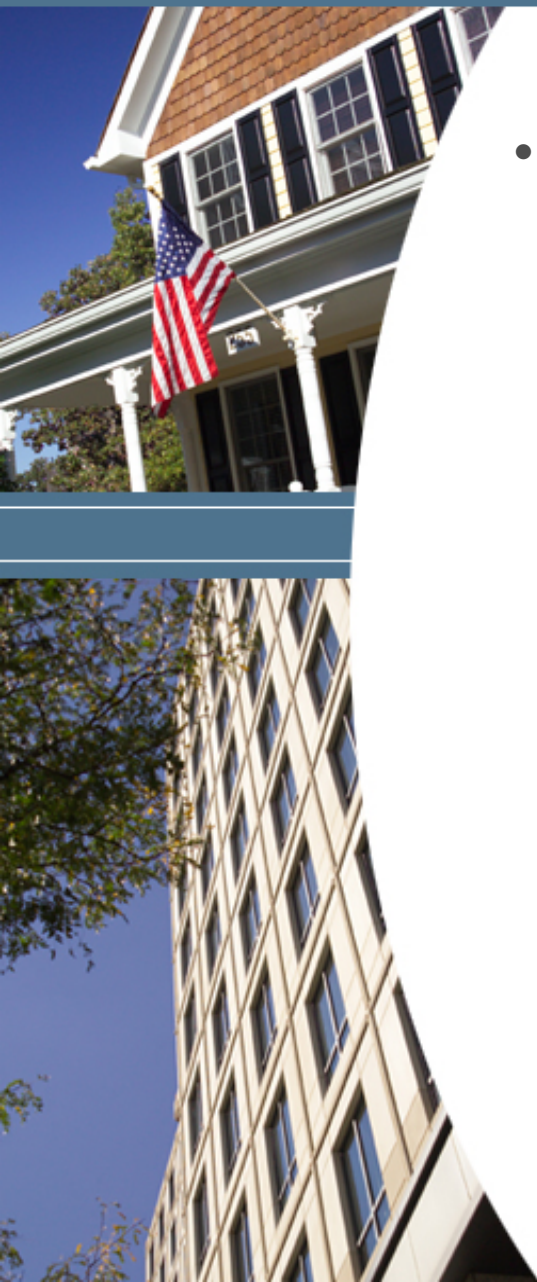
Identifiers of Risk:

- Volume by program (government, conventional, non agency, etc.)
- Early Payment Defaults
- Audit results (internal and external)
- FICO
- Deficiency type
- Property Type

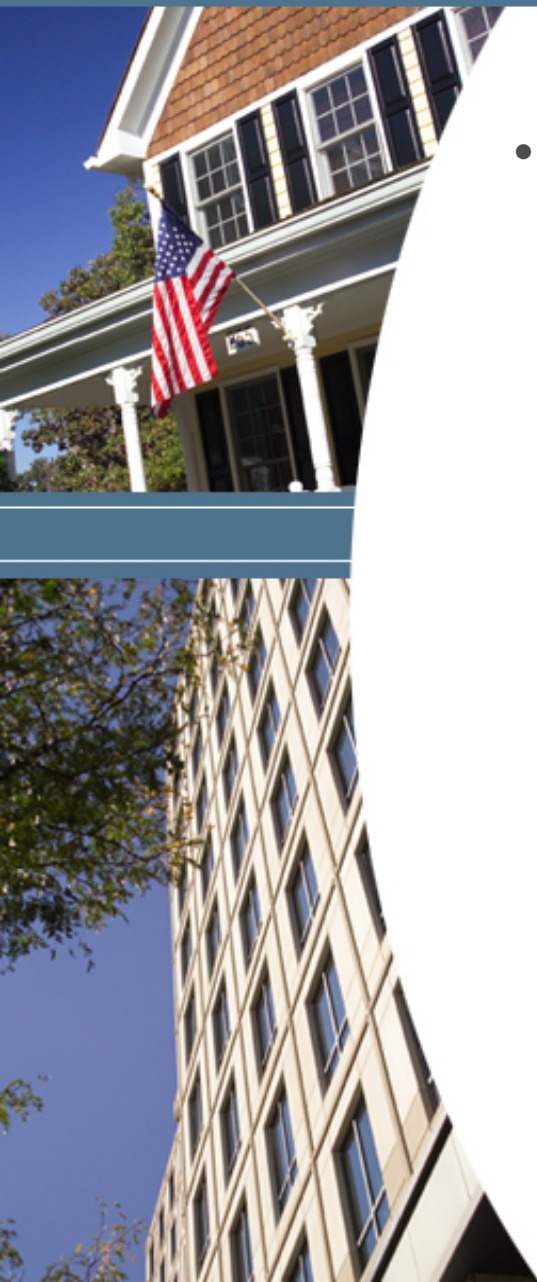


➤ **Establish measurable benchmarks**

- Establish acceptable tolerances
- Develop reporting and communicating results
- Utilize these results to determine training needs and identify the Subject Matter Experts (SME's)
- Develop Corrective Action Planning process
(Refer to Action Plan template)



- **Action Planning**
 - Who administers
 - Root Cause Analysis
 - Data analysis is needed to make the determination
 - Is it individual, program or geographic issue?
 - Proposed Corrective Action Plan should identify:
 - Issue / Deficiency
 - Cause
 - Corrective action taken (or to be taken)
 - Date of Implementation
 - How improvement will be measured
 - Expected time frame for noted improvement
 - Consequences if not met



- **Action Planning** (cont.)
 - If the plan does not provide expected results in the defined timeline, the root cause may not have been accurate.
 - **What is Plan “B”**