



Broker/Correspondent Approval

MBA Quality Assurance Conference

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NUMBER ONE RULE: **KNOW WHO YOU ARE DOING BUSINESS WITH**



Do You Know Him?



Trust

But verify

Ronald Reagan



Why the Fuss?



- Misrepresented loans cost money
- Community damage
- Loss of company integrity in market
- Increased Regulations

In-House Credit Review

- Required Business License(s)
- Financial Records (Minimum 2 years)
- Credit Check on Principals
- Criminal Records Search
- Credit Check on Business
- Regulatory/disciplinary Check
- Exclusionary Lists (FHLMC, HUD)
- MARI
- NMLS
- Reference Checks
- Resumes of Key Employees
- Internal Watch List and QC Checks

Required Business License(s)

- Licensed to do business in all states/cities where they originate loans?
- Are all Licenses current?

Financial Records (Minimum 2 years)

- Should be reviewed by an experienced financial analyst
 - Change in business patterns?
 - Indications that financial statements have been altered?

Credit Check on Principals

- All must provide their full name and Social Security number
- All must provide and authorization to obtain a credit report
- Credit Report should be reviewed by credit analyst:
 - Are there serious financial difficulties?
 - Are there indications of serious financial difficulties in the past?

Social Security Number Trace Benefit:

- **Locate Potential Affiliates by researching all addresses associated with the Principal.**
 - Are the Properties Commercial or Residential?
 - Property Search
- **Types Of Businesses Are Located At The Address?**
 - MapPoint – Locate nearest business function
- **Why Would That Business Address Be Associated With The Principal?**
 - Review Approval File for disclosure of affiliated businesses
- **Does Principal Own Any Of These Properties?**

WHAT IF:

Principal is also owner of the Closing Company

- **Lenders**
 - Insured Closing Protection Letters
- **Warehouse Lenders**
 - Insured Closing Protection Letters
 - Collateral Exception Reports
 - Set Maximum Exposure Limits for Wet Fundings

Principal is also owner of Appraisal Company

- Lenders

- Errors and Omission Insurance
- Require review appraisal on all loans (over dollar threshold)
- Increase Percentage of Review through QC

- Warehouse Lenders

- Collateral Exception Reports
 - Loans over 60 days in pipeline without Take Out
 - Contact Broker/Source for Explanation and Expected Take out Date
 - Loans over 90 days in pipeline without Take Out
 - Obtain a AVM, BPO,
 - Fraud Filter Tool

Internal Watch List and QC Checks

- When a new broker, correspondent or vendor is being considered, the names and addresses should be cross-checked against your institution's Fraud Database and/or Quality Control Database.
- Any negative (or positive) information should be communicated to the appropriate functional area.

Resumes of Key Employees

- Experience Level of Staff

List of ALL Loan Officers:

- This is the main point of RISK
- All loan officer names should be checked against MARI, Agency and State watch list

Onsite Audit -

- Obtain copy of Policy and Procedures for each functional area Prior to Onsite:
 - Origination
 - Underwriting
 - Closing
 - Funding
 - Servicing
 - Quality Control/Quality Assurance
 - Also request last 3 months QC/QA reports
- Review P & Ps Prior to Onsite
 - Make note of any questions or P&P variances



Minimal Performance Standards

- Volume (past six months at least)
- Drop Out Rate
- Delinquencies – EPDs – Foreclosures
 - Average Loss on Foreclosures
- Quality Control Issues/reports
- Fraud Investigation Unit Concerns

Perform a Cost Benefit Analysis Based on Above
Compare Sources Production Results With Like Sources

Red Flags Of Troubled Brokers:

- Quality Issues
- Higher Than Benchmark
 - Resubmits
 - Drop-Out Rate
 - Delinquencies
 - Low Quality Product
 - Quality Control Issues
 - Fraud Related Loans
 - REO Losses



Red Flags Of Troubled Brokers:

- Higher Than Average Number of Exception Requests
- Business License Out of Date
- Repurchase Requests Delayed



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