

Confidential

Quality Assurance Conference

**Key Quality Control Elements
Required for Conducting
Non-Traditional Business**

AURORA LOAN SERVICES

A Lehman Brothers Company

Quality Control Procedures

- The quality control procedures established should keep pace with the growth and changing risk profile of lender portfolios and changes in the market.
- Checklists utilized for pre-funding, post closing, early payment default, and servicing should be reviewed frequently to ensure all applicable risk areas are being covered and modified if need be.
- Modifications to procedures and checklist must be tracked to ensure accurate trending

Key Elements

- Have thresholds for payment shock been established?
- Are borrowers qualified on the fully-indexed rate?
- On stated income products, is the reasonableness of income reviewed and supported by the borrowers credit profile and assets?
- Is the underwriting decision supported and is layered risk offset by valid and documented compensating factors?
- How are exceptions to underwriting policies tracked and trended?
- Are proper product and federal disclosures provided within the required time frame?
- Are policy exceptions made by servicing and are collections personnel carefully monitored to confirm that practices such as re-aging, payment deferrals, and loan modifications are not inadvertently increasing risk?

Lender Performance

- Lenders need to track and trend the type of business they are receiving from third parties. This should include but is not limited to product mix, loan quality, delinquency, and pricing.
- Those clients consistently closing loans just under the compliance threshold should be carefully monitored and counseled.

Lender Management Life Cycle

Performance Based Purchase Model

- purchase model based on lender performance; supporting fast track processing
- Team member performance incentive
- *Increase speed to fund*
- *Increase client satisfaction*
- *Increase wallet and market share*
- *Reduce operating costs*

Today's Discussion

Targeted Sales Strategy

- Targeted sales focus to add high performing lenders and increase wallet share from current high performers
- Sales comp plan based on overall lender performance
- Efficient, value driven sales model
- Clear lender base performance criteria for sales staff
- TPO management and methodology



Lender Performance Analysis/Mngt

- **Data driven decisions and actions**
- **Key component of the entire management cycle**
- *Lender incented to high performance*
- *Improve portfolio performance*
- *improve earnings*
- *improve investor confidence*
- *improve regulator confidence*

New Client Solicitation

- Based on profitability and risk profiler
- Ability to simulate performance will drive targeted sales strategy

Active Management Of Current Client Base

- Lender management model; partner participation and recommendations
- Further develop sales "advisor" role leveraging performance data
- *Increase client satisfaction*
- *Reinforce customer base*
- *Drive Continuous improvement*
- *Develop robust repeatable model*

Manage Out Poor Performing Lenders

Opportunities of Performance Management

High Level Performance Review Process

- Monthly meeting with internal core group to discuss; trends, clients with top % of performance, clients with lowest % of performance. Aggregate scores and some analyst review and summary will assist.
- Review of data prior to meeting will be essential as meeting participants will be asked to add flavor of relationship and performance from their view (e.g. someone may know of impending market expansion, etc.)
- Menu of action options based on clients score; not limited to, but including review/increase/decrease of delegated authority, visit from Aurora senior Mngrs (could be different groups/people depending on need), metal change, etc.
- Separate meeting for risk folks as a precursor to Risk Committee.

Added Value

- Key component of the full Lender Management Life Cycle.
- Using information to develop a targeted sales effort toward more profitable clients; including added involvement of partner groups in process of building relationship.
- Developing the building blocks of risk based performance model, extendable to other areas such as streamlined purchase review for conduit high performers.
- Added benefit of positive control and risk management from an audit perspective (internal and external).

Possible Constraints

- Lack of development and IT resources
- Lack of key critical data, particularly for scoring methodology. It is believed most of the data can be compiled, however new metrics may not be available day one (such as lender profitability).

Reporting/Management Action Plans

- Monthly reports should outline findings by responsible party, within lenders shopped, or applicable third party.
- Monthly reports should show tracking and trending for all high risk factors.
- Management action plans should be established and monitored when finding warrant corrective action is needed.

Target

- Target reviews are critical in current environment.
- Findings noted during the monthly reviewed should be analyzed and targets reviews should be conducted on trends noted.
- Target reviews should also be conducted to ensure all parties the lender is doing business have been selected for reviewed.