



Operational Risk and Your QA Department – Friend or Foe

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Agenda

- Areas of Focus
- Self Examination
- Preparing for an Operational Review
 - Scope
 - QA Role
 - Interdepartmental Coordination
- Quality Assurance Specific Focus
- Interview Process
- Discussion of Issues
- Final Report
- Recommendation Follow Up

Possible Areas of Focus

- Product Offerings
- Organization Controls and Staffing
- Quality Control – pre/post/servicing
- Processing
- Underwriting
- Exceptions – process, monitoring
- Appraisal & Broker Approval – monitoring, trending, QC
- Automated Decisioning
- Credit Policy
- Fraud Risk Management
- Risk Management – performance monitoring, portfolio, etc.
- Funding
- Repurchase Management
- Loan Originations – sales, compensation
- Secondary Marketing
- Capital Markets – buying/selling of loans
- Counter Party Risk – approval, monitoring, repurchases
- Compliance
- General Audit
- Customer Service
- Legal Complaints
- Servicing
- Investor Reporting
- Cash Processing & Custodial Accounts
- Default Management
- Origination Quality – file review


Self Examination

- Just Do it!
- Utilize Existing Questionnaires
 - Investors, rating agencies, regulators, industry contacts, etc.
- Complete a Gap Analysis
 - Base on current and anticipated market conditions
- Risk Management Committee(s)
 - Include all key areas of the organization
 - Formalize structure, minutes, action logs, etc.
 - Reporting structure to executive management
 - Regularly review key risk indicators

Preparation for an Operational Review

- Who is the performing the operational review?
 - Has there been a prior review from the same entity?
 - Are there any recommendations and/or follow up items from a prior review?
- Engagement Letter
 - Questionnaire
 - Documentation Request
- Is QA taking the lead in the risk review?
- Schedule Kick Off Meeting
 - Include all impacted departments.
 - Assign project manager
- Regular Preparation Meetings
 - Complete questionnaire
 - Gather documents
 - Review presentations
 - Anticipate issues and areas of concern

Quality Assurance Specific Focus

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- Organization Overview
 - Mission Statement and Primary Functions
 - Sampling Methodology
 - Random
 - Targeted
 - Non Performing
 - QA Process – Scope of Review
 - QA Test Scripts/Work Papers
 - Data Integrity Process
 - Rating Methodology


Quality Assurance Specific Focus Continued...

- Second Level Review Process – QA Analyst Feedback
- Current Test Plans
- Benchmarks
- Communication Process to Business Partners
- Communication Process to Senior Management
- Response and Action Steps from Business Partners
- Previous Audit Results
- Provide All QA Plans

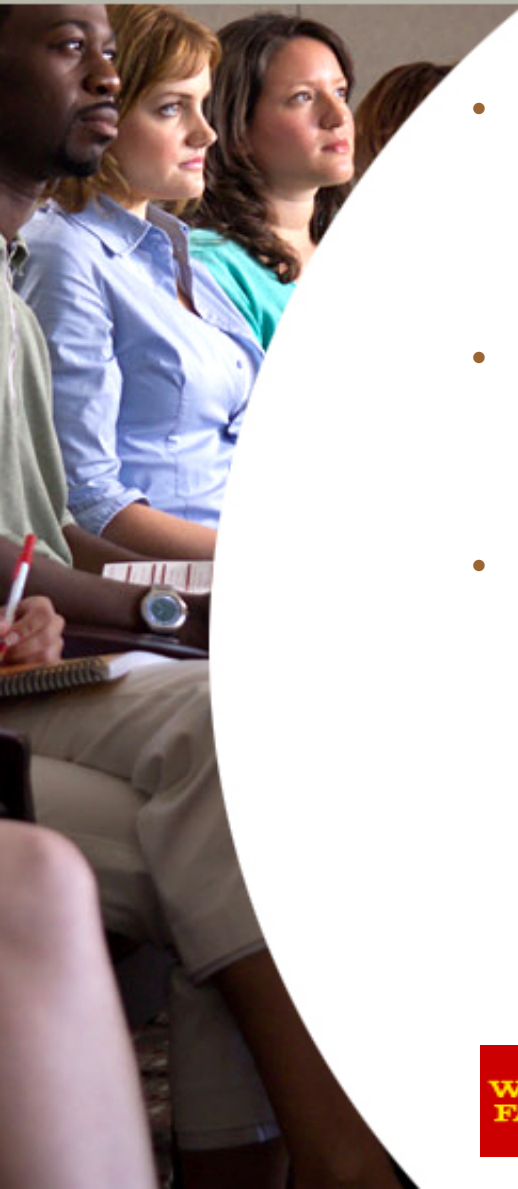
Interview Process

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- Provide Adequate Facilities and Accommodations
 - Appropriately Schedule Kick Off Meetings and Initial Interviews
 - Be Prepared!
 - Presentations
 - Documentation
 - Loan files
 - Establish a Cordial Relationship

Discussion of Issues


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- Avoid Taking a Defensive Position
 - Thoroughly Discuss and Understand Any Concerns/Issues
 - Provide follow up explanations, documentation, etc.
 - Ensure Each Other's Perspectives are Understood
 - May agree to disagree
 - Understand Impact of Issue on Overall Rating(s)
 - Choose your battles wisely

Final Report



- Review Draft Report
 - Discuss all areas of concern
 - Include lender response if needed and if possible
- Prepare Senior Management
 - Obtain consensus on lender response
 - No surprises
- Review all Deliverables
 - Response dates
 - Outstanding items
 - Agree on next steps

Recommendation Follow Up

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- Identify all Follow Up Items and Issues
 - Establish an owner for each item.
 - Progress Assessment
 - Owner for overall monitoring of progress.
 - Regular progress updates.
 - Report progress to senior management.