
Mortgage Banking — Production Program

Examination Objectives

To assess the quality control, internal controls, and risks of the thrift's mortgage banking production area.

To review the correspondent mortgage banking relationships for areas of risk.

Examination Procedures

Perform the following examination steps to ensure that the mortgage banking activities are profitable and not a drain on the thrift. Those steps that do not apply may be omitted; however, a notation should be made as to why they do not apply.

Level I

Wkp. Ref.

1. Review organization charts to determine the structure of the production function and its status within the thrift. Verify that the underwriting and quality control units are independent functions.

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2. Review the previous report of examination and all mortgage banking production-related exceptions noted and determine if management has taken appropriate corrective action.

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3. Determine the types of mortgage products offered and the company's target markets. Evaluate portfolio trends for overreliance on one product type and undue concentrations in one geographic area.

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4. Review policies and procedures for retail origination and the extent to which they are being followed. Review the mortgage pricing policies for reasonableness and responsiveness to changes in the secondary mortgage market.

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5. Determine if the thrift:

- Has become excessively reliant on production income;

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- Has excessive amounts invested in fixed assets for production;
- Is originating a level of unsalable or nonconforming mortgages that is excessive;
and
- Has interest-rate lock-in periods that are excessively long.

6. Determine whether commercial or multifamily mortgages are originated without specific written commitments. Determine if large commercial or multifamily mortgages are closed before the investor purchase.

7. Review policies and procedures for wholesale purchases. Determine purchase pricing policies and compare them to market prices. Determine whether purchase agreements are utilized and if they are adequate. Determine if the thrift has become excessively exposed to any one or two correspondents.

8. Review the method for approving mortgage brokers and specific programs under which mortgages are purchased. Determine whether there is an approved list of brokers; how it is updated; and how exceptions are made to the list, by whom, and under what authority.

9. Review the list of wholesale sources of mortgages. For each source, determine if the following were reviewed prior to purchases:

- References;
- Credit report;
- Financial and operating statements;
- HUD/FNMA/FHLMC/GNMA/PMI status;
- Delinquency, default, and foreclosure rates and trends;

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- Documentation deficiencies; and
- Nondelivery and history of other problems.

10. Determine if individual wholesale purchases are reunderwritten at delivery. If so, determine whether funding is delayed until reunderwriting is complete.

11. Determine if wholesale purchases are tracked by seller and if any seller has excessive delinquency, default, or documentation errors. Determine if those mortgages are repurchased or corrected by the sellers.

12. Determine if the book values assigned to PMSR from table funding purchases are in excess of approximate market values for similar PMSR.

13. Determine how MIS tracks mortgages through all the phases of mortgage production and if these systems are adequate. Determine if the mortgage type and production channel are tracked. Determine if exception reports are generated and monitored by management.

14. Evaluate procedures, checklists, and systems for closing mortgages. Determine if: (1) checklists are carefully observed; (2) all required documents are obtained from the borrower before funds are disbursed; and (3) suspense reports are prepared and monitored.

15. Determine if FNMA/FHLMC approved documents are used. Determine if the escrow accounts and closing documents conform to RESPA requirements and limitations.

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16. Review the post-closing procedures and determine if missing checklist items, final recorded mortgages, and final mortgage title policies (without serious exceptions) have been obtained.

17. Review the quality control function and determine if it meets investor guidelines for scope, timeliness, content, and independence and if it covers both retail and wholesale production.

18. Review Level II procedures and perform those necessary to test, support, and present conclusions derived from performance of Level I procedures.

Level II

19. Review a sample of reports issued by the quality control unit to determine if conclusions are adequately documented and communicated to management of the organization in a timely manner.

20. Determine if follow-up is performed by the quality control unit to ensure prompt and satisfactory correction of noted deficiencies and weaknesses in the retail origination process.

21. Determine if the quality control group samples wholesale purchases and if that sampling is adequate to protect the thrift. Determine the exceptions noted and whether they have been corrected.

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22. Determine if the fraud unit promptly investigates and effectively resolves fraud referral cases and that criminal referrals are promptly submitted. Review the effectiveness of the fraud unit's training program.

23. Evaluate the thrift's early warning system for detecting potential fraud and if management information systems (MIS) are adequate in this area.

24. See Section 573, Accounting, to determine if all five accounting requirements for table funded mortgages are being met on mortgages funded where PMSR is recorded.

25. Ensure that the Objectives of this Handbook Section have been met. State your findings and conclusions, as well as appropriate recommendations for any necessary corrective measures, on the appropriate work papers and report pages.

Examiner's Summary, Recommendations, and Comments

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