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Introduction

Within every organization there may exist a task, or range of tasks, outside of the company's core competencies. When it is impractical to install a permanent structural or human resources solution we may rely on outside, "third party" vendors. We need to consider the compliance-related risks associated with using third-party service providers.

Common Types of Third-Party Relationships

- Product providers
 - mortgage brokers
- Loan servicing providers
 - flood insurance monitoring
 - debt collection
 - loss mitigation/foreclosure activities;
- Disclosure preparers
 - disclosure preparation software
 - doc prep vendors
- Technology providers
 - software vendors
 - website developers
- outsourced compliance functions
 - compliance audits
 - fair lending reviews
 - compliance monitoring

Risks of Using Vendors

- Compliance risks
 - violations of laws, rules, or regulations
 - noncompliance with policies or procedures
 - most frequent - unfair or deceptive acts or practices (UDAP)
- Reputation risks
 - dissatisfied customers
 - violations of laws or regulations leading to public enforcement actions
 - most frequent - credit discrimination
- Operational risks
 - losses from failed processes or systems
 - losses of data that result in privacy issues;
- Transaction risks
 - problems with service delivery
- Credit risks
 - Inability of a third party to meet its contractual obligations.

Vendor Due Diligence

Before selecting a vendor, we conduct due diligence, including obtaining references, particularly from other financial institutions. Depending on the contract, we may request the vendor's audited financial statements for review. The vendor must have:

- data back-up systems
- continuity and contingency plans
- management information systems

In addition, all vendors are researched as to background, qualifications and reputations of the vendor's principals and overall reputation. We conduct a court records check for filings of financial, civil or bankruptcy actions

Review of Contract

We review the contract with each vendor to insure it contains:

- the scope of outsourced services;
- the procedures the vendor must follow;
- service-level expectations;
- approval of a vendor's use of subcontractors;
- right to conduct audits or request third-party reviews;
- the confidentiality of data;
- the vendor's warranties, liability, and disclaimers;
- dispute resolution mechanisms;
- default and termination provisions;
- customer complaints and responsibility for responses.

Monitoring

While operations or the operating division of the organization is responsible for soliciting and requesting vendor relationships, and will remain the primary contact with the vendor, the Compliance Manager is responsible for verifying that the vendor is maintained in good standing. Each vendor receives an initial and annual review and failure to comply with any instance or requirement can result in termination at Company Name's sole discretion.

Section 1 – Vendor Management Personnel

Operations Manager

Position Description

I. Title: Manger of Operations

II. Reports To: Branch Manager

III. Basic Functions:

Under the direction Senior Management, the Manager of Operations is responsible for Planning and directing the operations function of the branch officer including office management, processing, closing, and underwriting.

IV: Specific Responsibilities:

- Participate in the establishment of operating objectives for the operations function,
- Work with senior management to formulate Policies and implement such to meet operating objectives.
- Work with senior management in the hiring and training of operations personnel.
- Supervise the activities of operations personnel on a day to day basis
- Review, maintain and manage approval of vendors
- Review submissions prior to submission to underwriting. If required, underwrite submissions
- Maintain documentation required to support the processing, closing and underwriting functions,
- Prepare management and other reports as directed by the Supervisor,
- Perform other tasks as assigned by the Supervisor,

V. Desired Education and Experience

Prefer 2-4 years of college. Minimum 3 years experiences as a processor, settlement coordinator, and/or underwriter. Supervisory experience preferred.

VI. Approvals

Supervisor

Section 2 - Outside Vendors & Service Providers

In addition to demonstrating a capacity to meet service and product needs, outside vendors must have their own policies and procedures. We must review these prior to providing approval.

ALL Vendors

- Information Security and Red Flag ID Theft plan
- Disaster Recovery and Business Continuity Plan
- Liability Insurance

Customer Facing Vendors

- Fair Lending/Anti-Discrimination
- Unfair and Deceptive Practices

Credit Bureaus

Schedule an appointment with the credit reporting agencies in your area.
Determine from the services offered.

- Time required for turnaround on credit reports
- Cost of the reports
- Whether or not the agency has a fax machine available for rapid reporting and sending of requests
- If Company Name is on-line
- Accuracy and completeness of reports
- Special services such as maiden name reports
- Response time for updates or corrections
- Will your software interface with processing software?
- Do they offer Alternative credit reports

Provide the office staff with the name of the preferred credit agency, cost of the reports, and instructions on how to order the reports, our account number with the credit agency and the phone number.

- During weekly staff meetings ask the processors what the turnaround time is for the reports and corrections. Determine what problems are being encountered with the agency and/or the reports.
- Call the Customer Service representative regarding problems with service as soon as you are made aware of them.
- Continue to monitor the reports as they come in daily and check with the processor as the reports are distributed on quality and response time.

Ordering

Only the processing staff may order FULL RMCR Credit reports. All personnel may order in-file, single or tri-merge credit reports. A credit authorization from the customer is required.

Appraisers

Appraisers are one of the most crucial components of the mortgage process. Their research and reports are often as painstaking as those we endeavor to conduct. As a result there are often severe time constraints placed upon appraisers during periods of high volume. It is important to insure that we select appraisers who will place our work as a priority for speed and accuracy.

Because of the Appraiser Independence Rule, Appraiser Nominations must be done independently from any branch production or origination staff. Only Underwriting and Audit personnel can seek out reputable appraisers for inclusion on our Roster of Approved Appraisers.

In cases where we cannot locate a qualified appraiser from our roster, we will utilize a third party appraisal management firm.

Appraiser Approval Process

When it is necessary to select an appraisal service for a given geographic region, schedule an interview with two or more of the well-known services in that area. Request:

- Resumes
- State Licenses
- 3 samples of each type of appraisal - provided by each signing appraiser
- Approved Appraiser Application

Some items to consider when making the recommendation are:

- What is the optimum turnaround time for receipt of appraisals once ordered?
- Does the service have a fax machine for use in ordering appraisals, etc.?
- Can or will the service use the addendum listing items that are in some way different from typical guidelines but do not constitute significant discrepancies.
- What are the fees for typical property types and for unusual or high value properties?
- What are the fees for final inspections and re-certifications?
- Under what circumstances would the service be available for appraisals outside normal jurisdiction?
- Will members of the appraisal service be able to work with our underwriting or quality control staff members without undue difficulties should questions regarding one or more items on the appraisal arise?
- Will the appraisers be available for questions outside the office?

Underwriting/Quality Control approves appraisers. Once an appraisal service has been approved for use by the branch, incorporate their specific appraisal order or utilize the order form provided in the processing module that is integrated with the software.

Send a memorandum to the staff regarding the use of the service and review during the next staff meeting. Add the appraiser to the approved appraiser list.

IT IS IMPORTANT TO NOTE THAT NOT ALL APPRAISERS WILL BE APPROVED WITH OUTSIDE INVESTORS. ON THE APPRAISER LIST, INDICATE WHICH OUTSIDE INVESTOR(S) EACH IS APPROVED WITH.

APPRAISER APPROVAL APPLICATION For use with HVCC policy			
Applicant's Name: _____			
Company Name: _____			
CONTACT INFORMATION			
Address: _____			
Phone #: _____		Fax #: _____	
QUESTIONNAIRE			
<input type="checkbox"/> Yes <input type="checkbox"/> No Have you ever been removed from a lender's approved list?			
Explanation: _____			
<input type="checkbox"/> Yes <input type="checkbox"/> No Have you been subject to Disciplinary Actions			
Explanation: _____			
<input type="checkbox"/> Yes <input type="checkbox"/> No Have you ever been the subject of a lawsuit initiated by a lender or investor?			
Explanation: _____			
<input type="checkbox"/> Yes <input type="checkbox"/> No Have you ever been disciplined by a state licensing agency or professional appraisal organization?			
Explanation: _____			
LICENSING INFORMATION (attach list if necessary)			
State	License Number	Expiration	
MEMBERSHIPS AND DESIGNATIONS			
Group Name	Date	Type	
EDUCATION			
Degree	College/University	From	To

APPRAISER APPROVAL APPLICATION For use with HVCC policy			
Additional Classes/Courses/Training			
Course Title	Sponsoring Organization	Date Completed	
Experience Summary			
Please note the number of assignments completed in the last 5 Years			
SFD	Condo	PUD	2-4
Data Sources			
Market Data, Cost			
Estimates, Flood,			
Other			
I certify that all of the information contained in this application and the supporting documents is true, correct, and complete.			
Signature _____			
Date _____			
Please return this application along with:			
<ul style="list-style-type: none"> • A complete current resume • A list of current lender references • A copy of your current Errors & Omissions policy • A copy of your license(s) or certifications • Copies of 3 sample appraisal reports (1 SFR, 1 Condo, 1 2-4 unit) 			

Settlement Agents – Attorneys

Approved Settlement Service Provider Process

Company Name must closely follow the performance of settlement agents closing Company Name loans. The philosophy behind this system is that attorneys closing our loans must protect our interests.

To implement this system the following components are utilized as tracking and data evaluating systems.

1. Approved Attorneys Listing. This listing allows borrowers to select from a wide range of settlement agents with whom we have had positive experience.
2. Approved Attorneys Files. This system records any substandard or positive performance. This approved attorney files also contain an information log indicating who is responsible for what functions, and a log for positive and negative comments.

The approved attorney file also is a record of all correspondence with that specific attorney. Settlement Exception reports and other substantive correspondence is maintained in the approve attorney file.

3. This system also sets up a barrier of distinction between approved attorneys and a level of flexibility we will allow them, and un-approved attorneys for whom different standards apply.

Couriers

Courier services, regular couriers, overnight and local deliveries, incoming and outgoing are a regular part of the mortgage business.

Established Daily/Inter-Agency/Inter-Office Courier services

These are items for /from the Regional Office, from headquarters, other Regional Offices, agencies and credit bureaus. These come in the office twice a day, once in the morning and in the afternoon.

The arrival of the courier must be announced to all the staff.

Packages arriving via the interoffice courier are given immediately to the Operations Manager unless otherwise indicated.

Outside Courier Services

Incoming Item Log

All incoming documents that arrive throughout the day via borrowers, attorneys, and various couriers are recorded on the Incoming Log form.

- Items to be completed on the form are:
- Borrower's name
- Date/time arrived
- Courier used
- Contents
- The documents are dated and immediately routed to the appropriate party.

Items that must always be logged in are:

- Appraisals
- Credit reports
- Title binders/commitments
- Surveys
- Hazard insurance policies
- Termite inspections

Broker/Correspondent Approval

Broker/Correspondent Approval Requirements

To become approved, any Third Party Originator (Broker/TPO) or correspondent must submit a completed Application Package with all items on the Application Package Checklist included.

We require the following documents (Broker/Correspondent Checklist)

- _____ Completed TPO Application with original signature(s)
- _____ Resumes Documenting Experience of Applicant, Officer and Key Personnel (principals, processors, underwriters, managers)
- _____ Loan Purchase Agreement with original signature(s) (correspondent agreement)
- _____ List of References (minimum of three)
- _____ Authorization to Release Information with original signature(s)
- _____ Credit Report Authorization
- _____ MARI – MIDX Report (If participating)
- _____ Branch Office List
(address, contact person, phone, fax, email address for each branch)
- _____ Employee List
(include branch location, Full Name and NMLS ID)
- _____ W-9 Form with original signature(s)
- _____ Articles of Incorporation/Organization and Good Standing Certificate
- _____ Copy of Resolution to accept Correspondent Agreement (If applicable)
- _____ Financial Statements (previous years' tax return or audited financial statements)
- _____ Applicant's Quality Control Plan
- _____ Most recent Quality Control Audit Report
- _____ Applicant's Fraud Prevention Policy
- _____ Copy of State Broker's/Lender's License
- _____ Copy of Surety Bond/E&O policy declarations page
- _____ Applicant's Compliance Policies to Include
 - _____ Federal Law Compliance Standards
 - _____ Loan Originators are W-2 employees (FHA)
 - _____ Appraiser Independence
 - _____ Information Security/FACTA Red Flag Plan
 - _____ Applicant's Employment Policy – Background Checks and Excluded Parties
 - _____ SAFE Act
 - _____ Dodd-Frank Compensation and Anti-Steering
- _____
- _____