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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

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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.