

Chapter 5 – Evaluating and Approving Mortgage Brokers and Correspondents

5.1 Introduction

Freddie Mac strongly suggests that you have and implement specific written controls for evaluating and approving mortgage brokers and correspondents. We encourage you to include controls that help you decide with whom you wish to do business. It is important to take the time to learn about mortgage brokers and correspondents to control the risks inherent in wholesale originations.

We believe that you will be more confident in the quality of your wholesale home mortgages if you maintain high standards for evaluating and approving the mortgage brokers and correspondents with whom you do business.

This chapter covers:

- General best practices for evaluating mortgage brokers and correspondents,
- Reviewing resumes,
- Checking the Freddie Mac Exclusionary List,
- Checking references,
- Verifying mortgage brokers' and correspondents' authority,
- Reviewing credit reports,
- Reviewing wholesale procedures,
- Conducting on-site visits and
- Reviewing other useful information.

5.2 Written Procedures

Procedures for evaluating and approving mortgage brokers and correspondents should:

- Ensure that a wholesale home mortgage is originated by a mortgage broker or correspondent with sufficient experience and demonstrated integrity to produce an investment-quality wholesale home mortgage,
- Contain criteria and standards for evaluation and approval, including specification of the approval authority in your organization,
- Include a check of the Freddie Mac Exclusionary List and
- Verify the mortgage broker's or correspondent's current compliance with all applicable laws related to licensing, qualification or approval to originate wholesale home mortgages.

5.3 General Best Practices for Evaluating Mortgage Brokers and Correspondents

5.3.1 Overview

Specific steps for evaluating mortgage brokers and correspondents may help you gather as much meaningful information as possible from which to make a sound business decision. This section will give you some suggested best practices for how to organize your evaluation efforts.

5.3.2 Selecting Quality Mortgage Brokers and Correspondents

What you need to make an informed decision will vary depending on:

- The scope of services that the mortgage broker or correspondent will provide to you and
- Any prior business experience you may have had with that mortgage broker or correspondent.

5.3.3 Gathering Information

Your written procedures should include details outlining:

- What information to collect, differentiated by the way you will use mortgage brokers and correspondents,
- Appropriate sources from whom to gather information,
- How the information is to be gathered and
- Who is responsible for gathering and validating the information.

5.3.4 Mortgage Broker and Correspondent Application/Questionnaire

You may wish to begin your evaluation of the mortgage broker or correspondent by requesting that it complete an informational questionnaire or application. For an example, refer to Exhibit WO4, *Sample Mortgage Broker/Correspondent Approval Checklist*, in this section of *Discover Gold Through Quality*. This type of completed document will help you to determine:

- What information you might need to make an approval decision and
- Where that information can be obtained.

5.3.5 Company Profiles

If you are unfamiliar with a particular mortgage broker or correspondent, you should request that a company profile be submitted along with the application/questionnaire. For an example, refer to Exhibit WO4.

You could review the company profile to:

- Determine if the company is established or just getting started:
- Check the names of principals and other information against licenses and other business documents:
- Evaluate whether the company has a history of successfully performing the services you will use:
- Determine whether the mortgage broker or correspondent does other business functions, such as appraising or real estate brokering, that might create a conflict of interest. (You need to be aware when a mortgage broker or correspondent "wears two hats" in a transaction so that you can take appropriate measures to control any increased risk.): and
- Determine the size, complexity and history of the company.

5.4 Background Checks

Freddie Mac recommends that you perform a background check on every mortgage broker and correspondent you use in your wholesale operation. Performing a background check is the most important process in evaluating and approving mortgage brokers and correspondents because it gives you a better understanding of who you may do business with in your wholesale operation. The information obtained from a background check can help you customize your relationship with a mortgage broker or correspondent or determine that you should not do any business with that mortgage broker or correspondent. We recommend that the scope of your background check include all of the items listed below. You may decide to perform all or some of the recommended items for each of your mortgage brokers and correspondents. However, the more you check, the more likely you will uncover any derogatory information that exists.

Items Checked*	Process	Source
Resumes	Search for any former, mortgage-related companies in which the principal/owner was an owner.	N/A
Newspaper Articles	Search for any derogatory information (i.e., articles about suits, financial problems, fraud issues, etc).	Subscriber database service
Licenses	Call the mortgage broker regulator in the state where the applicant is located. (Each state has different requirements, so it may not be applicable for all applicants.) Call the regulatory office and ensure that the company has an active license, and inquire about any sanctions or complaints. Check with the Department of Real Estate (DRE) if the applicant is located in California. Check to see if there have been any actions taken or complaints filed against the company.	Mortgage regulator directory; Internet (for DRE)
Corporate Records	Search to ensure that the companies are licensed and in good standing. Determine if the principals/owners have been an owner/director of any other mortgage-related companies, and see if those companies are in good standing or were at the time of dissolution.	Subscriber database service
Civil and Criminal Cases	Search for all civil and criminal cases (both current and former) that have been filed against the company or any of the individuals.	Subscriber database service and third-party fraud detection service
Judgments/Liens	Search for any liens or judgments that have been filed against the company or any of the individuals.	Subscriber database service and third-party fraud detection service
Bankruptcies	Check for all personal and business bankruptcies.	Subscriber database service
Business Reports	Review information about the company's history, officers, affiliated companies and public records. Review a financial history of the company.	Subscriber database service
Sanctions/ Complaints	Check for sanctions and/or disciplinary actions filed against the companies and individuals.	Subscriber database service and third-party fraud detection service

Items Checked*	Process	Source
Freddie Mac Exclusionary List	Check the Freddie Mac Exclusionary List for companies and individuals.	Freddie Mac Exclusionary List
Industry Feedback	Check for non-public data relating to the mortgage industry.	Third-party fraud detection service

* We recommend that you go back about 10 years to ensure that you’re collecting all of the relevant, available data in all states where the individual/company resided during that time.

We strongly encourage you to expand your information gathering activities if the information you gather through your normal procedures:

- Is inconsistent,
- Does not give you sufficient basis to determine if the mortgage broker or correspondent meets your standards, or
- Raises concern about the ability of the mortgage broker or correspondent to originate an investment-quality wholesale home mortgage.

5.4.1 Selecting Third-Party Fraud Detection Services

You may decide to use automated, third-party, fraud detection services to perform the background check process. There are currently several third parties available to perform these services. You may decide to use one or more of these third parties to perform some or all of the background check process based on the scope of your background reviews. Your use of a third-party service should not change your senior management’s responsibility to review their findings and determine appropriate responses. Senior management should review third-party findings and take the same corrective actions as it would with respect to findings made by your own staff.

We strongly recommend that you evaluate the companies and the services they provide to determine whether they meet your needs. When selecting a third-party fraud detection service, you should:

- Conduct a detailed review of the third party’s qualifications,
- Require and check references of the third party,
- Review its automated services and processes to ensure they meet your needs and our recommendations,
- Determine that the third party is not on the Freddie Mac Exclusionary List,

- Review examples of its records and reports for completeness, clarity and usefulness and
- Consider the experience of the third party and its staff.

You might find that the quality of your third-party services varies over time. For this reason, you will need to monitor and evaluate the performance of your outside fraud detection services on a regular basis.

5.4.2 Record-keeping

As discussed earlier, we recommend that you start a file on each mortgage broker and correspondent and document your evaluation and approval process.

Beginning the file at the start of the evaluation process will ensure that you have a complete record.

5.5 Reviewing Resumes

5.5.1 Overview

We recommend that you include reviewing resumes in your procedures for evaluating new mortgage brokers and correspondents. You will find that resumes are a starting point for determining whether a mortgage broker or correspondent has the minimum qualifications needed to meet your standards.

This section will give you some direction about which resumes to review and discuss what information to look for during your review.

5.5.2 Resumes

We suggest that you require resumes from persons who run the mortgage broker or correspondent organization. Usually your request will begin with the principals.

When the principals are not active in the daily operation of their business or your review concludes that they do not have sufficient mortgage lending experience, you may find it useful to expand your requirement to include senior management.

5.5.3 Key Staff

Mortgage brokers and correspondents may perform services for you that

require specific technical knowledge. These services might include:

- Processing,
- Underwriting and
- Conducting quality control reviews.

Since you are ultimately responsible for the quality of wholesale originations no matter who provides these services, you may decide to review the resumes of key staff performing these services.

5.5.4 Resume Content

Your mortgage brokers and correspondents should be experienced in originating, processing or underwriting investment-quality wholesale home mortgages that are salable to the secondary mortgage market.

Besides establishing whether a mortgage broker or correspondent has prior experience originating wholesale home mortgages, a resume may provide other insights about the mortgage broker or correspondent. For example, if the resume shows that a person is newly employed with a mortgage broker or correspondent organization, the person's prior employer could be a good reference check to give you another perspective of his or her qualifications.

You should evaluate the content of the resume with an understanding that events in the mortgage market, such as a rising-rate environment or industry consolidation, justifiably may have caused frequent moves. You could ask individuals to supplement resumes with explanations of any extenuating circumstances.

Reviewing resumes can also tell you when you may need to provide additional training for a mortgage broker or correspondent if its staff's experience is limited.

5.5.5 Staff Help to Determine Qualified Mortgage Brokers and Correspondents

Allow your key staff who perform, or have performed, the service that the mortgage broker or correspondent will provide, to review the resume. Ask them if they would hire the individual to do that job. If not, ask why.

5.6 Checking the Freddie Mac Exclusionary List

5.6.1 Overview

This section will give you suggestions to help you meet our requirements related to the Freddie Mac Exclusionary List.

5.6.2 Freddie Mac Exclusionary List

As part of meeting our purchase requirements, you represent and warrant that you have not knowingly retained as a mortgage broker or correspondent any person or entity listed on the Freddie Mac Exclusionary List, in the capacity of a principal, in connection with any mortgage sold to us (or in connection with any related function) after the effective date of the list.

It is essential that your written standards and procedures for evaluating and approving mortgage brokers and correspondents include checking the most current Freddie Mac Exclusionary List. You may find it efficient to have your staff check the Freddie Mac Exclusionary List in conjunction with reviewing the resumes of mortgage brokers and correspondents.

5.6.3 Documenting Your Check

We feel that it is important that your procedures include documenting that the Freddie Mac Exclusionary list was checked. This record should be kept as part of the permanent file on each mortgage broker and correspondent.

5.6.4 Other Lists

Some of our customers keep their own watch lists. You might consider adding a step in your procedures to check your organization's list for mortgage brokers, correspondents and principals.

5.7 Checking References

5.7.1 Overview

Thorough reference checks will give you information and a valuable understanding of the:

- Quality of a mortgage broker or correspondent's work,
- The mortgage broker or correspondent's level of integrity and
- The mortgage broker or correspondent's ability to perform specific services.

This section will give you some idea on how to check references. For examples, refer to Exhibit WO5, *Sample Reference Letter*, and Exhibit WO6, *Sample Telephone Reference Call Record*, in this section of *Discover Gold Through Quality*.

5.7.2 How Many References?

The number of references you decide to contact may vary depending on the amount of business you intend to do with the mortgage broker and correspondent and any prior business relationship you have had with them.

We suggest three references as a minimum unless you have some other basis on which to judge the mortgage broker or correspondent's work. For example, a prior business relationship with the mortgage broker or correspondent would give you an understanding of the quality of their work. You might decide that you do not need three references if the mortgage broker or correspondent performed similar services for you in the past.

5.7.3 Useful References

The most useful references are from investors that have recently used the mortgage broker or correspondent for the same or similar services that you will be approving the mortgage broker or correspondent to provide.

In most cases, these investors will be agency-approved conventional lenders. You might also include references from investors who use mortgage brokers and correspondents to originate government mortgages.

5.7.4 Non-investor References

Mortgage brokers and correspondents may list non-investor references on their applications. These references might include:

- Other mortgage brokers and correspondents,
- Loan officers,
- Real estate agents,
- Appraisers,
- Builders or developers,
- Mortgage insurance companies and
- The Better Business Bureau.

References from non-investor entities should not be used as a substitute for investor (lender) references. They have not used the mortgage broker and correspondent for the services you will, so they do not have first-hand experience in your area of inquiry.

You may wish to use these references in addition to investor references. In many cases they will add useful information.

5.7.5 Caution

If you use non-investor references, we suggest that you consider whether the references have a potential for gain if the mortgage broker and correspondent is approved. Potential for their own gain could affect the responses they provide to you.

5.7.6 Who Should Check References

You will want to select a person to check the references who is:

- Knowledgeable in the details of the specific services the mortgage broker or correspondent will provide and
- Capable of evaluating the entire reference communication.

When calling, the person selected to check the reference should make every effort to determine that the person giving the reference:

- Has had direct experience using the mortgage broker's or correspondent's services and
- Has sufficient knowledge and experience to be able to discuss the services received relative to the concept of an investment-quality wholesale home mortgage.

5.7.7 Written or Verbal References

Both written and verbal means of obtaining references have merits and weaknesses. By sending a written request, you:

- Give the reference the opportunity to gather information from throughout the organization,
- Allow the reference to choose when to complete the information and
- Create a record of the reference check.

However, the reference may be hesitant to put negative information in writing. In a telephone conversation the reference may be willing to provide this critical information.

You should decide what procedures will give you the most useful information on which to base your approval decision. You might even include a telephone call followed up by a brief written request, or vice versa.

5.7.8 Questions About Service

You should ask the reference for as much information as possible about the mortgage broker's or correspondent's ability to provide quality services. Your questions might cover such topics as:

- The extent and type of services the reference received from the mortgage broker or correspondent,
- The length of time the reference used the services of the mortgage broker or correspondent,
- Whether the mortgage broker or correspondent is currently approved to provide services to the reference,
- If the reference no longer uses the mortgage broker or correspondent, the reason for discontinuing the use,
- The mortgage broker or correspondent's response to any request for clarifications, additional underwriting conditions or resolution of discrepancies and
- Whether the reference would recommend that you approve the mortgage broker or correspondent.

5.7.9 Questions About the Quality of the Mortgages

You will want to be specific about questions relating to the quality of the wholesale home mortgages originated by the mortgage broker or correspondent. To gather this information, you might ask about:

- The percent of wholesale home mortgages submitted which are approved or rejected,
- The completeness of the information in the mortgage files submitted,
- Any major problems or recurring discrepancies found in re-underwriting, prefunding reverifications or quality control reviews,
- The overall quality of the underwriting, if performed by the correspondent,
- Prefunding and/or other quality control statistics,
- Early payment default rates,
- Secondary market acceptance, feedback letters and repurchase requests, and
- Delinquency and foreclosure trends.

It is always advisable to ask the reference to elaborate or give examples wherever possible.

5.7.10 References for Newly Formed Mortgage Brokers and Correspondents

When a mortgage broker or correspondent applicant is newly formed, it may be unable to provide you with sufficient references. Often new companies are formed by individuals who have gained lending experience while previously working at other companies. In some cases, you may be able to get references on key individuals rather than the new company itself. Additionally, you may decide to place more emphasis on other evaluating criteria, such as experience.

5.7.11 Documentation

You may want to develop standard materials for your staff to use in documenting your reference checks. Guidance for using these materials should be included in your procedure for checking references.

5.8 Verifying Mortgage Brokers' and Correspondents' Authority to Originate Home Mortgages

5.8.1 Overview

Laws covering licensing, approval or qualifications to originate wholesale home mortgages vary depending on jurisdiction. This section will give you some ideas for verifying whether a mortgage broker or correspondent has authority to originate wholesale home mortgages.

5.8.2 General Controls

We strongly suggest your controls include steps to ensure that the mortgage broker or correspondent who originated the mortgage has complied with all applicable laws related to licensing, qualification or approval to originate home mortgages.

We believe it is important that you obtain and validate all applicable approvals and licenses before accepting services from a mortgage broker or correspondent. By doing so, you will reduce the risk that the mortgage broker or correspondent has misrepresented itself.

5.8.3 Documenting Compliance

You may want to require mortgage brokers and correspondents to submit copies of documents verifying their compliance with applicable laws with their application or questionnaire.

If the mortgage broker or correspondent does not have copies available, it should be able to provide licensing numbers or other identifying information.

5.8.4 Verification

You can verify the current status of a mortgage broker's or correspondent's authority to originate wholesale home mortgages by contacting the appropriate governmental authority. If you choose to do a telephone verification rather than written verification, you should document the call.

5.9 Reviewing Credit Reports

5.9.1 Overview

To get a more complete picture of the mortgage broker or correspondent, we suggest that you obtain and review credit reports. You can use the reports to:

- Check the mortgage broker or correspondent's debt and payment history,
- Identify lawsuits, judgments, or credit-related criminal convictions and
- Reconcile the information provided in the report with reference checks and resumes.

By reviewing this information you may be able to identify potential problems of both financial and business integrity.

This subsection will give you best practices for reviewing credit reports.

5.9.2 Intent of the Review

We suggest that you use credit report information to evaluate a mortgage broker's or correspondent's ability and probable intent to provide quality services. If the mortgage broker or correspondent has severe credit problems, it may not be able to financially support its own operation.

5.9.3 Personal Credit Reports

Personal credit reports are useful for evaluating:

- Individuals,
- Sole proprietors,
- General partners of mortgage brokers and correspondents that are partnership firms and
- Owners of closely held corporations.

5.9.4 Business Credit Reports

Business credit reports are appropriate for evaluating all mortgage brokers or correspondents unless a mortgage broker or correspondent is an individual conducting business under the individual's personal name only.

5.9.5 Poor Credit History

You may choose to approve a mortgage broker or correspondent with a less-than-spotless credit report. Other factors may outweigh the risk, such as a change in circumstances which indicates that the problems were not a reflection of the mortgage broker's or correspondent's ability to originate investment-quality wholesale home mortgages.

5.9.6 Mortgage Broker or Correspondent's Input

We suggest that you discuss the report with the mortgage broker or correspondent and include this feedback in your evaluation.

5.9.7 Lawsuits, Judgments and Criminal Convictions

Lawsuits, judgments and criminal convictions are serious references and may indicate a lack of integrity. If, after reviewing the reports and discussing them with the mortgage broker or correspondent, you conclude that the broker's or correspondent's integrity is not well-established, approval of the broker's or correspondent's application may not be prudent.

5.10 Reviewing Mortgage Broker and Correspondent Wholesale Procedures

5.10.1 Overview

When you sell wholesale home mortgages to us, you have full responsibility for their quality. The quality could be affected by the process used in their origination.

Your controls should assist you in determining whether a mortgage broker or correspondent has established procedures that meet your minimum standards and reflect an effort to originate investment-quality wholesale home mortgages.

This subsection will give you some suggestions on evaluating the origination procedures of mortgage brokers and correspondents.

We suggest that you begin your analysis by checking that the mortgage broker or correspondent has established procedures. If you are going to depend on the mortgage broker or correspondent to perform specific services on your behalf, you will need to know how those services will be performed.

Mortgage broker and correspondent procedures will be more or less formalized depending on the originations it does. But, in every case, the mortgage broker or correspondent should be able to show you what its procedures are and how each step is performed.

You will want to ensure that the mortgage broker and correspondent procedures meet all applicable Freddie Mac and regulatory requirements. You should require additional procedures as necessary to ensure that the mortgage broker and correspondent mortgages meet your standards.

Mortgage brokers and correspondents may answer your inquiry about their procedures with broad or generalized statements. They may state that they follow industry or agency standards. They may say that they apply Freddie Mac best practices. We suggest that you ask each mortgage broker and correspondent to give you more detail so that you can assess what it routinely does.

5.10.2 Compare Procedures

Compare the mortgage broker and correspondent procedures to your retail production process. Does the mortgage broker or correspondent do everything that you require of your own staff? If not, you may need to require additional procedures before using the mortgage broker or correspondent.

5.10.3 Specific Underwriting Procedures

If you have delegated underwriting to a correspondent, you will want to focus on its underwriting procedures. Besides establishing that the correspondent's procedures meet your standards, you should verify that the underwriting decision is not made or influenced by persons whose compensation is dependent on approval or closing.

5.10.4 Appraisal Policies/Procedures

You cannot feel confident about the investment quality of a wholesale origination if you are not sure about the quality of the appraisal. If the mortgage broker or correspondent orders the appraisal, it is essential that you control against poor quality and appraisal fraud.

Your controls should include a careful review of the mortgage broker's and correspondent's appraisal policy and procedures.

The appraisal report must be signed by an appraiser that you approved. You will have to provide the mortgage broker or correspondent with a current list of approved appraisers and notify it regularly of any additions or deletions.

If a mortgage broker or correspondent requests that you approve an appraiser not on your current approved list, we encourage you to:

- Deny approval of the appraiser unless the request to approve is supported by non-solicited requests from your staff or other mortgage brokers or correspondents,
- Determine that the mortgage broker or correspondent has no business relationships with the appraiser that might compromise the objectivity of the appraisal report or
- Require that the mortgage broker and correspondent not use the newly approved appraiser exclusively.

We recommend that in all cases you require mortgage brokers or correspondents to request appraisals from a variety of appraisers.

5.11 Conducting On-site Visits and Personal Interviews

5.11.1 Overview

In a face-to-face meeting with a mortgage broker or correspondent, you have an opportunity to ask questions that have arisen as a result of your other evaluation activities. The mortgage broker or correspondent will have the opportunity to present information that you might otherwise not receive.

You will get the best understanding of a mortgage broker or correspondent by meeting with the principals at their office. A quick visual survey will tell you a lot about their business.

This section will give you some insight on conducting on-site visits and personal interviews.

5.11.2 On-site Visit Example

One industry practice is to arrange three visits to each mortgage broker's or correspondent's location as part of the evaluation process. The first visit is conducted by senior management in order to evaluate the mortgage broker's or correspondent's overall operation. Next, the underwriting manager sets up a meeting to evaluate the mortgage broker's or correspondent's processing, and if applicable, underwriting departments. Depending on the services the mortgage broker or correspondent will provide, a third visit is made by the accounting or servicing manager.

By following this process before approving a mortgage broker or correspondent, you would have three:

- Looks at the mortgage broker's or correspondent's operations,
- Key areas evaluated and
- Different points of view.

As a result, you acquire a strong basis for evaluating the mortgage broker or correspondent. Some suggested activities for on-site visits are:

- Check the mortgage broker's or correspondent's procedures and several mortgage files,
- Interview employees who will perform services for you and
- Tour the mortgage broker's or correspondent's facility and note key equipment.

5.11.3 Personal Interview

Sometimes distance may make an on-site visit impractical. You may want to use the services of a third-party fraud detection service to perform the on-site inspection. Please review Chapter 7, *Managing Mortgage Service Providers*, before using any third-party services. You may decide to substitute personal interviews with key personnel in the mortgage broker or correspondent's organization. You may even have to depend on a series of telephone calls.

We believe that some direct contact is critical to your evaluation. We encourage you to be thorough in questioning and follow-up conversations. You can have copies of mortgage files and procedure manuals sent to you if needed to complete your evaluation.

5.12 Reviewing Other Useful Information

5.12.1 Overview

Mortgage brokers and correspondents offer a wide variety of services. Depending on the services they will provide you, you may need to include additional evaluation procedures.

The following section will give you a few suggestions to consider what else you want to request from a mortgage broker or correspondent.

5.12.2 Insurance

You may consider requiring proof of fidelity bond and errors and omissions insurance when the correspondent has repurchase liability. These policies may be difficult or very expensive for your correspondent to obtain. You should weigh the benefit you might receive from the coverage against whether it is practical to require your correspondent to obtain the insurance.

5.12.3 Mortgage Brokers Used by Correspondents

We believe that the risk of poor quality increases in transactions where a correspondent uses a mortgage broker to perform some of the origination process. The potential for fraud is also greater. We suggest that your written procedures include controls that address the increased risks. Your procedures should:

- Establish that a correspondent has controls for managing the use of mortgage brokers,
- Document a mortgage broker's compliance with all applicable laws related to licensing, approval or qualification to originate home mortgages before accepting a wholesale home mortgage,
- Limit the use of mortgage brokers if you feel that a correspondent lacks the staff to effectively enforce its wholesale controls and
- Limit or disallow wholesale home mortgages originated by mortgage brokers from correspondents that do not have your complete confidence.

You may want your correspondent to have wholesale controls that are in many ways the same as the best practices included here.

5.12.4 Affiliated Businesses

Problems can arise and quality may be compromised if a mortgage broker or correspondent has influence over other entities that perform non-originating services (such as appraisers, escrow agents or title companies).

By requesting that the mortgage broker or correspondent provide a list of affiliated businesses, you can adopt appropriate controls. You might:

- Refuse mortgages for which the mortgage broker's or correspondent's business affiliates were used,

- Perform higher quality control and performance tracking on mortgages when affiliated businesses are involved, until you become confident that quality has not been compromised and
 - Restrict a mortgage broker or correspondent from using affiliated businesses exclusively
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5.13 General Guidelines for Approving Mortgage Brokers and Correspondents

5.13.1 Overview

High standards for approving mortgage brokers and correspondents is your first defense against the risks inherent in wholesale originations. Establishing and implementing these standards decrease the probability that you receive substandard services. This subsection will give you some suggestions for procedures to use when approving mortgage brokers and correspondents.

5.13.2 General Guidelines

Your written procedures for approving mortgage brokers and correspondents should include specific criteria and standards for approval and the steps to follow to reach the approval decision, as well as identify the approval authority within your organization.

5.13.3 Approval Criteria and Standards

You should decide what criteria should be used to evaluate mortgage brokers and correspondents for approval. We suggest you choose criteria that emphasize the risks associated with a particular applicant and facilitate making an informed decision. When identifying the approval criteria, you should define the minimum evaluation results you will accept and clearly indicate what is unacceptable.

5.13.4 Approval Authority

Ideally, the decision to approve a mortgage broker or correspondent should be made by your senior management. They have the requisite experience and overall perspective to make a decision that supports the goal of originating investment-quality wholesale home mortgages.

You may decide to permit senior management to delegate their approval authority as you determine appropriate for your organization. We recommend that your choice be experienced in risk management.

The approval decision should be made without any conflict of interest or inappropriate influence. We strongly believe that any individual whose compensation is based on the volume of wholesale home mortgages originated should not have the ultimate or sole authority for approving mortgage brokers or correspondents.

5.13.5 Appeals

You may also decide to provide an appeal process for application denials.

5.13.6 Documentation

You should retain the documentation of the approval or denial decision along with the information gathered in the evaluation process. This information will be:

- A foundation for determining specific requirements you will want to include in your written agreement with the mortgage broker or correspondent,
- A useful comparison for ongoing monitoring of approved mortgage brokers or correspondents,
- A basis for further evaluation of denied mortgage brokers or correspondents that subsequently appeal or reapply and
- A record of your adherence to your written standards and procedures.

We may request that you provide this documentation as we monitor your relationship with us.
