

# Wholesale Originations Best Practices

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# WHOLESALE ORIGINATIONS BEST PRACTICES

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## Chapter 1 – Wholesale Originations

### Introduction

To meet the competitive challenges of the residential mortgage market, many of our customers use mortgage brokers and correspondents in the origination of mortgages. Freddie Mac purchases wholesale home mortgages from customers that have sufficient controls to ensure the investment quality of the wholesale home mortgages.

These best practices are based on our research and the input of many Freddie Mac sellers. These best practices are recommendations, not inflexible rules or requirements. Also, this information may not address all circumstances and needs of your particular organization.

The information contained in Wholesale Originations Best Practices is intended to help you:

- Ensure quality wholesale home mortgages,
- Recognize the importance of having wholesale controls,
- Understand Freddie Mac's expectations and
- Implement an effective wholesale program or improve your existing wholesale controls.

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## General Requirements and Best Practices

We have summarized our wholesale origination requirements and suggested best practices for implementing wholesale controls. You must meet the wholesale origination requirements found in our *Single-Family Seller/Service Guide* (Guide), including those in Section 4201.10 of the Guide, as a condition to selling us wholesale home mortgages.

The best practices are provided to give you ideas and convey our expectations around wholesale controls. They are based on our experience and actual controls currently being used in the industry. We do not require you to use these suggestions, but we strongly believe that the right controls can significantly reduce the risks inherent in wholesale originations.

We realize that complexity in the marketplace has resulted in a wide variety of ways for sellers to set up their wholesale operations. These best practices are generally appropriate controls for most wholesale operations; however, they do not cover all possible ways to ensure the investment quality of wholesale home mortgages.

## **WHOLESALE ORIGINATIONS BEST PRACTICES**

You may find that some of these best practices and examples do not relate to the way you conduct your wholesale business. We encourage you to carefully read each chapter so that you can identify which best practices meet or are closely related to the needs of your organization.

Keep in mind that although the wholesale controls suggested here should assist you in originating investment-quality wholesale home mortgages, this information is not a substitute for the Guide. Furthermore, wholesale controls are not a substitute for required underwriting, postclosing quality control reviews or mortgage file documentation.

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## Chapter 2 – Understanding Freddie Mac's Wholesale Requirements

### Introduction

The risks associated with wholesale home mortgages can be managed with appropriate controls. Our Guide requires you to have appropriate controls relating to the origination of wholesale home mortgages sold to us.

Chapters 2 and 3 will give you:

- Information to help you understand the philosophy behind our wholesale requirements,
- General best practices for establishing wholesale controls and
- Definitions of certain terms used in our requirements (found in Chapter 3).

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## Philosophy Behind Freddie Mac's Wholesale Requirements

### Overview

We recognize the need for controls in a wholesale operation and our customers' need for flexibility in applying and implementing those controls. You should carefully review the best practices contained in this publication while developing your wholesale controls. We expect you to implement controls you determine are prudent in managing your specific mortgage broker and correspondent relationships.

### Need for Controls

The investment quality of wholesale home mortgages is directly affected by the level of controls sellers have in place to manage the wholesale process. If adequate controls are not used, sellers may attract mortgage brokers and correspondents that originate poor-quality wholesale home mortgages. With proper controls, you can successfully manage the use of mortgage brokers and correspondents while producing investment-quality wholesale home mortgages.

## Need for Flexibility

Controls should be designed to meet the specific needs of your organization. They should reflect the type and scope of your wholesale operation.

## Guide Required Seller Representations and Warranties

Freddie Mac's Guide Section 4201.10 requires that you represent and warrant that for each wholesale home mortgage you sell to Freddie Mac you have management controls in place that:

- Ensure the mortgage complies with the terms of the purchase documents
- Correspond to the scope and types of risks associated with your wholesale business. Factors to be considered include but are not limited to:
  - Number of correspondents and mortgage brokers you use
  - Length of time the business relationship has been established
  - Types of services provided by the correspondent or mortgage broker.

## Customized Wholesale Controls

Mortgage brokers and correspondents differ in their level of experience and ability. The way mortgage brokers and correspondents are used and the services they provide also vary greatly throughout the industry. Additionally, the point in the origination process when the Seller acquires a wholesale home mortgage and the method of compensation to the mortgage broker or correspondent may vary.

This lack of uniformity may create a need to customize wholesale controls. You should review the way you manage your wholesale business and select controls that will increase your effectiveness based on how you utilize mortgage broker and correspondent services. If you use mortgage brokers and correspondents and they provide a variety of services, you may have to significantly increase your controls. We believe that you are best positioned to determine the level of controls you need for a particular mortgage broker or correspondent relationship to ensure the investment quality of wholesale home mortgages.

## Chapter 3 – Wholesale Terminology

### Affiliate

Any entity that is related to another party as a consequence of the entity, directly or indirectly, controlling the other party, being controlled by the other party, or being under common control with the other party.

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### Correspondent

An entity that typically sells the Mortgages it originates to other lenders. The Correspondent performs some or all of the loan processing functions such as taking the Mortgage application; ordering credit reports, appraisals, and title reports; and verifying the Borrower's income and employment. The Correspondent may or may not have delegated underwriting and typically funds the loans at settlement. The Mortgage is closed in the Correspondent's name and the Correspondent may or may not service the Mortgage. The Correspondent may use a Mortgage Broker to perform some of the processing functions or even to fund loan on its behalf; however, under such circumstances, such a Mortgage is considered a Mortgage Broker third party origination Mortgage and not a Correspondent third party origination Mortgage. (See the definition of "Affiliate" and "Mortgage Broker.")

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### Mortgage Broker

A person or entity that specializes in loan originations, receiving a commission (from a Correspondent or other lender) to match Borrowers and lenders. The Mortgage Broker performs some or most of the loan processing functions, such as taking loan applications, or ordering credit reports, appraisals and title reports. Typically, the Mortgage Broker does not underwrite or service the loan and generally does not use its own funds for closing; however, a Mortgage Broker could fund a Mortgage on a lender's behalf and such a Mortgage will be considered, and should be delivered as, a Mortgage Broker third party origination Mortgage. The Mortgage is generally closed in the name of the lender who commissioned the Mortgage Broker's services.

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### Mortgage Service Provider

A mortgage service provider is an entity or individual engaged to handle or perform, for a seller or correspondent, part of the mortgage application processing, underwriting, funding or postclosing functions, but not any activities related to obtaining an application

## WHOLESALE ORIGINATIONS BEST PRACTICES

for a wholesale origination. This entity is typically paid on a fee basis for services performed, with the payment of fees not being contingent on mortgage approval or closing.

Mortgage service providers include:

- Contract underwriters
- Contract processing firms
- Contract quality control services
- Escrow companies and settlement agents
- Contract document preparation companies

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### Texas Equity Section 50(a)(6) Mortgage

A First Lien home equity refinance Mortgage originated pursuant to Section 50(a)(6) of Article XVI of the Texas Constitution secured by homestead property located in Texas and meeting the requirements of Section 4301.7 and other sections referenced in Section 4301.7.

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### Wholesale Home Mortgage

A Home Mortgage that a Mortgage Broker or Correspondent completely or partially originated, processed, underwrote, packaged, funded or closed, and sold or assigned to a non-Affiliate Seller who subsequently sold it to Freddie Mac.

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## Chapter 4 – General Best Practices for Establishing Wholesale Controls

### Overview

As you establish your mortgage broker and correspondent relationships, keep in mind the goal of producing investment-quality wholesale home mortgages. If you set high standards and diligently enforce your controls, you will be able to minimize future problems. This section will give you general best practices for establishing your wholesale controls.

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### Using Mortgage Brokers and Correspondents

The use of mortgage brokers and correspondents can be a very profitable, efficient way to increase the volume of wholesale home mortgages you produce. If you are just beginning your wholesale operation or have not previously relied on mortgage brokers and correspondents, we recommend you limit the use of mortgage brokers and correspondents to a level your staff can easily manage. Expanding too quickly could result in weak controls and compromise the quality of your mortgages.

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### Insurance

Before using mortgage brokers and correspondents, you should consider how their use will affect your ability to claim under your insurance. Most fidelity and mortgage errors and omissions insurance policies do not cover acts of non-employees.

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### Establish Partnerships With Mortgage Brokers and Correspondents

When you do business with mortgage brokers and correspondents, work to establish an ongoing partnership with them that will provide you with quality services. Long-term relationships with mortgage brokers and correspondents may, over time:

- Reduce the need for some controls,
  - Give you a high level of confidence in the quality of their work and
  - Contribute to the profitability of your operation.
- 

### Written Agreements

We strongly suggest you have a written agreement with each mortgage broker and correspondent with whom you do business. The agreement should include your responsibilities and the responsibilities of the mortgage broker or correspondent. By clearly defining the responsibilities of both parties, you effectively communicate your expectations.

We encourage you to incorporate provisions into your agreement that emphasize your decision to do business with the mortgage broker or correspondent based solely on the quality and performance of the mortgages it submits.

For new agreements with mortgage brokers and correspondents, we suggest that the following provisions be included:

- Clear statements about circumstances under which a mortgage broker or correspondent has indemnification or repurchase liability,
- Details on the actions that may be taken against the mortgage broker or correspondent if it submits false information,
- Requirements for handling mortgage deficiencies,
- Your expectations concerning mortgage quality,
- Compliance with investor requirements (such a provision might include a certification by the mortgage broker or correspondent stating that it has obtained and reviewed your underwriting guidelines and operating procedures and will comply with their contents),
- Responsibilities of the mortgage broker or correspondent in the event of mortgage default,
- Clear procedures for monitoring quality and
- Specific criteria for continuing the business relationship with the mortgage broker or correspondent.

The written agreement between you and a mortgage broker or correspondent may be included in more than one document. For example, when a mortgage broker or correspondent is an affiliate or subsidiary, your responsibilities and the responsibilities of your affiliate or subsidiary might be established in internal ownership documentation or in operating manuals.

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## Training Mortgage Brokers and Correspondents

You may need to provide training to mortgage brokers and correspondents if you identify weaknesses in their work. By clearly communicating your expectations and assisting them in developing their programs, you can avoid costly errors.

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## Written Standards and Procedures

You should maintain written standards and procedures as part of your wholesale operation. Your standards and procedures will provide the foundation on which you can build a strong and comprehensive control program.

You should ensure that the standards and procedures you adopt yield investment-quality wholesale mortgages and include standards and procedures that you believe are appropriate for your organization.

The contents of your written standards and procedures should be continually updated as the type or scope of your wholesale operation changes. Train your staff fully about your standards and procedures, and keep them informed as changes and updates occur.

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## Implementation

You should apply your controls, including your written standards and procedures, to each wholesale home mortgage and to each mortgage broker and correspondent whose services you use in the origination of mortgages. You will then be able to identify and effectively manage any problem areas that you might encounter.

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## Fraud Detection

Detecting fraud should be stressed throughout your wholesale operation. Any suspicion of fraud should be considered a serious situation, and actions should be taken to counteract the problem as soon as possible.

See the [Fraud Prevention Best Practices](#) at for more information.

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## Record-keeping

We strongly recommend that you maintain a separate file for each mortgage broker and correspondent. You may want to keep information in a computerized system. For examples, refer to Exhibit WO1, *Sample Mortgage Broker File Checklist*, and Exhibit WO2, *Sample Correspondent File Checklist*. Keeping records will:

- Provide you with information to identify problems, make decisions and measure your program's success and
- Be a basis for feedback to your mortgage brokers and correspondents.

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## Controls for Affiliates and Subsidiaries

We strongly suggest you have wholesale controls relating to your affiliate's or subsidiary's use of a mortgage broker or correspondent to process any part of the wholesale home mortgage. You may decide to differentiate your controls between affiliates/subsidiaries and non-related mortgage brokers and correspondents. Such a differentiation may be appropriate where you have a level of management control over the business operations of your affiliate or subsidiary that mitigates risk.

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## Indirect Controls for Correspondents Using Mortgage Brokers

You should consider including controls for mortgage brokers used by your correspondents, as their use can affect the quality of wholesale home mortgages. Since more people are involved and you have little or no contact or control over them, you have a greater risk of substandard work and fraud.

As a Seller, you are responsible for the investment quality of each wholesale home mortgage you sell to us, no matter who was involved in the origination process. When you approve a correspondent, you should consider any use of mortgage brokers by that correspondent, including any practice of paying fees to real estate agents or other parties involved in the transaction. You may want to institute additional wholesale controls for correspondents that use mortgage brokers to process wholesale home mortgages.



## Controls for Mortgage Service Providers

The level of controls necessary to manage the risks associated with using mortgage brokers and correspondents is not necessarily needed to effectively manage mortgage service providers. Although we do not formally require mortgage service provider controls, we strongly recommend that you implement them as outlined in Chapter 7, *Managing Mortgage Service Providers*.

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## Chapter 5 – Evaluating and Approving Mortgage Brokers and Correspondents

### 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.

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### 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.

# General Best Practices for Evaluating Mortgage Brokers and Correspondents

## 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.

## 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.

## 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.

## 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. This type of completed document will help you to determine:

## WHOLESALE ORIGINATIONS BEST PRACTICES

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

### 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.

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## 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.

## WHOLESALE ORIGINATIONS BEST PRACTICES

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
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:

## WHOLESALE ORIGINATIONS BEST PRACTICES

- 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.

### 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.

### 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.

# Reviewing Resumes

## 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.

## 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.

## 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.

## 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.

## WHOLESALE ORIGINATIONS BEST PRACTICES

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.

### 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.

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## Checking the Freddie Mac Exclusionary List

### Overview

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

### 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.



## 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.

## 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.

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# Checking References

## 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.

## 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.

## 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.

## 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.

## 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.

## 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.

## WHOLESALE ORIGINATIONS BEST PRACTICES

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.

### 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.

### 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.

### 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 verifications 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.

### 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.

### 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.

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

## 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.

## 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.

## 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.

## 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.

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# Reviewing Credit Reports

## 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.

## 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.

## 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.

## 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.

## 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.

## 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.

## 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.

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# Reviewing Mortgage Broker and Correspondent Wholesale Procedures

## 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

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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.

### 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.

### 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.

### 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,



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- 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.

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# Conducting On-site Visits and Personal Interviews

## 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.

## 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,

## WHOLESALE ORIGINATIONS BEST PRACTICES

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

### 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.

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## Reviewing Other Useful Information

### 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.

### 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.

### 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.

### 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
-

# General Guidelines for Approving Mortgage Brokers and Correspondents

## 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.

## 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.

## 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.

## 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.

### Appeals

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

### 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.

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## Chapter 6 – Monitoring the Quality of Wholesale Home Mortgages

### Introduction

The approval process discussed in Chapter 5 of Wholesale Originations Best Practices provides sufficient information to select qualified mortgage brokers and correspondents. However, it should not be considered a substitute for controls that monitor the results of their work. You are responsible for ensuring wholesale home mortgages are investment quality.

Whenever you allow someone outside of your organization to perform services for which you have ultimate responsibility, you increase the risk that mistakes and negligent omissions will occur. You also have a much greater risk for instances of fraud. Your best protection against fraud is a comprehensive quality control program that emphasizes fraud detection.

Your quality control program should be structured to reflect the risks associated with the way you use mortgage brokers and correspondents. You should not rely solely on postclosing quality control reviews. Your program should also include prefunding reviews, due-diligence reviews and other monitoring controls as appropriate for the way you use mortgage brokers and correspondents.

See [Quality Control Best Practices](#) for more information.

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## Monitoring the Performance of Mortgage Brokers and Correspondents

### Introduction

We strongly suggest you develop written performance standards for your mortgage brokers and correspondents. The standards should be based on your:

- Overall loan performance experience and
- Awareness of the risks associated with delegating tasks outside your organization.

As a Freddie Mac seller, you are responsible for the investment quality of the home mortgages you sell. In light of this responsibility to ensure quality, you should establish and vigorously enforce your performance standards.

This chapter will give you:

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- An understanding of performance monitoring and some suggested indicators of performance (IOPs),
- Ideas on reviewing mortgage brokers and correspondents and reporting your updated findings to management and
- Suggestions for follow-up procedures.

### Written Requirements

Your written procedures for monitoring the performance of mortgage brokers and correspondents should include:

- Standards for evaluating acceptable performance,
- A system for collecting IOPs and for periodic reporting of each mortgage broker and correspondent performance to your senior management,
- Provisions for establishing greater controls over, or terminating the business relationship with, a mortgage broker or correspondent that does not meet your performance standards and

A process for regularly re-verifying the mortgage broker's or correspondent's current compliance with all applicable laws related to licensing, qualification or approval to originate home mortgages, and rechecking the Freddie Mac Exclusionary List.

### Anticipated Results

Once your standards and procedures are written and implemented, you should have a clear statement of your performance expectations and an organized system to evaluate and make necessary management decisions about each mortgage broker and correspondent you use.

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## Performance Standards and Indicators of Performance

### Overview

You can be more confident in the quality of your wholesale home mortgages if you set high standards and are diligent in evaluating whether or not your mortgage brokers and correspondents are performing to those standards. This subsection will discuss performance standards and some common indicators that can be used to evaluate performance.

## Performance Standards

In establishing standards of performance, you should determine what is acceptable performance for your business. You should determine what will give you the needed confidence to enable you to warrant the investment quality of each wholesale home mortgage. Your decisions should be based in part on the extent and scope of the services provided by your mortgage brokers and correspondents.

By using the results of your wholesale quality monitoring program, you will be able to identify the general level of performance you can expect from most mortgage brokers and correspondents. That level of performance should be regularly evaluated relative to the amount of risk you can effectively manage and be used as the basis for ongoing adjustments to what you set as acceptable performance standards.

## Establishing Indicators of Performance (IOP)

You are responsible for controlling your wholesale process. We recommend you develop and implement a system for collecting IOPs as part of your controls.

The design of your system should be based on the way you operate your business. It is important that whatever system you choose provides meaningful information for your senior management to use in making decisions about the continued use of each mortgage broker and correspondent. If possible, join an industry group to be aware of other institutions trends and reported incidences of material misrepresentation. Always report incidences of fraud to Freddie Mac and law enforcement.

To provide meaningful data, we suggest you focus your efforts on current IOPs rather than lagging IOPs. Try to isolate relevant information that could be used to predict future performance. Relevant information may include:

- Rejection rates and reason for rejection

This information may indicate a lack of ability to originate quality home mortgages. A higher-than-average rejection rate may reflect a lack of attention to important details that could result in an unacceptable level of errors. Rejection rates and the reason for rejection could indicate a misunderstanding of your underwriting or procedural requirements by the mortgage broker or correspondent.

Unfortunately, high rejection rates could also indicate a mortgage broker or correspondent is emphasizing volume over quality or intentionally disregarding your requirements. We recommend that you be wary of a mortgage broker or correspondent that brings you a number of files just to see what you will approve.



## WHOLESALE ORIGINATIONS BEST PRACTICES

### ■ Cancellation rates and reason for cancellation

You should require a mortgage broker or correspondent to give you detailed reasons when it cancels a transaction. Some reasons may be valid. One reason for withdrawal is that a mortgage broker or correspondent may submit a mortgage file to several investors. In most cases, the mortgage broker or correspondent is trying to find the institution that will approve the mortgage and offer the best rate and terms. The mortgage broker or correspondent may withdraw the file if your terms and conditions are not as favorable as those offered by another investor. Unavoidable circumstances such as a borrower's loss of employment could be another reason. You may want to consider your expenses related to a particular withdrawal, but such cancellations may not give you any information about a mortgage broker's or correspondent's ability to provide quality wholesale home mortgages.

However, if a mortgage broker or correspondent has questionable reasons for cancellation, you may have a more serious situation. Some mortgage brokers or correspondents will deliver poor quality, and even fraudulent files, but withdraw them as soon as you begin asking questions or raising concerns.

### ■ Underwriting and re-underwriting summaries

Underwriting summary information may highlight areas of weakness in the work done by a mortgage broker or correspondent. Special attention should be paid to the frequency or severity with which a mortgage broker's or correspondent's mortgage packages need exceptions to prudent underwriting guidelines. You may find it beneficial to track how many times a request for exceptions comes from a mortgage broker or correspondent at the time of submission. Frequent requests could indicate that a mortgage broker or correspondent is more interested in having transactions approved than bringing you quality wholesale home mortgages.

A consistent pattern of outstanding conditions on submitted files may indicate that the mortgage broker or correspondent is inexperienced and would benefit from more direction or training. It may also be a sign that information is being withheld. Any indication of fraud in these summaries should be immediately addressed.

### ■ Results of prefunding reviews

The results of your prefunding reviews should be evaluated in the same way as your underwriting and re-underwriting summaries. If prefunding review results are quickly communicated, you may be able to correct any deficiencies before funding. Prefunding reviews should be used to establish the mortgage broker's or correspondent's ability to process thoroughly and as a control against fraud. The prefunding review should compare the in-file credit report with the credit report submitted by the mortgage broker or correspondent. Perform in-house appraisal reviews by your underwriter or staff appraiser. Conduct telephone verifications of employment and the existence of deposit accounts. The sampling level chosen should reflect the level of confidence you have in the mortgage broker's or correspondent's ability and integrity.

## WHOLESALE ORIGINATIONS BEST PRACTICES

Prefunding reviews should be used intensively when starting a new mortgage broker or correspondent relationship. Initially, we recommend 100 percent. If you choose to do less than 100 percent prefunding reviews, we recommend that all mortgages not re-verified be tagged for postfunding quality control review. You should maintain intensive sampling until you are confident of the mortgage broker's or correspondent's integrity and ability to provide investment-quality wholesale home mortgages.

### ■ Due-diligence reviews

Due-diligence reviews are designed to be used to evaluate closed mortgages purchased in groups, often called bulk purchase. These reviews are not a substitute for routine postfunding quality control reviews. Due-diligence reviews normally include procedures that establish the characteristic of the mortgages in the group. Check the required documentation and performance of the mortgages, and review mortgage amortization and escrow agents. Due-diligence reviews may also be used to monitor the quality of mortgages that have already undergone the normal postfunding quality control review. For a due-diligence review to be an effective control, you must include procedures in the review that clearly identify the investment quality of the mortgages under review.

### ■ Quality control postfunding reviews

These indicators will also show areas of weakness and may draw attention to potential serious problems. Even if underwriting or prefunding indicators are used, postfunding quality control review results should be used as a key indicator of performance, especially if document preparation and closing were done by the mortgage broker or correspondent. If errors or discrepancies occurred when these functions were performed, they might go unnoticed until the postfunding quality control reviews are conducted.

You should track the severity and frequency of discrepancies and consider the mortgage broker's or correspondent's responsiveness and completeness in correcting any discrepancies.

### ■ Early payment defaults and delinquencies

Review all early payment defaults. This information may indicate poor underwriting. If the correspondent did the underwriting, you may need to add more controls, such as increased training and monitoring of its work. Early, especially first payment, default occurs in some cases of fraud. The "straw borrower" scheme may have been used. Pay attention to any trends, such as several loans that go into default at the same time or in the same condo project. Compare names in first payment default files or early payment defaults such as loan officers, processors, underwriters and appraisers. Always be aware of a significant variance in property value. Work with servicing to determine any change of addresses or payments that are paid by someone other than the borrower.

## WHOLESALE ORIGINATIONS BEST PRACTICES

You should take immediate action to determine if you are dealing with fraud.

See [Fraud Prevention Best Practices](#) for more information.

If you suspect fraud or poor underwriting, contact your collection staff to determine the reason for the delinquency or default. The cause may be some postsettlement event completely unrelated to the use of the correspondent.

See [Quality Control Best Practices](#) for more information.

- Later defaults and delinquencies

This information may indicate poor underwriting. Just as in early payment default, you may want to investigate whether the correspondent performed prudent underwriting and take appropriate action based on your findings.

If you transfer servicing, you may not have information about defaults and delinquencies. You should make arrangements with the new Servicer to keep you current on the performance of the mortgages so you can continue to monitor performance.

- Other Indicators of Performance (IOP)

You are encouraged to include any other IOPs that you determine are meaningful in any of your mortgage broker and correspondent relationships. For example, you might want to track complaints from borrowers. Repeated complaints could establish a pattern that should be investigated. Immediate attention should be given to allegations that the mortgage broker or correspondent asked the borrower to sign blank or incomplete applications, "bend the rules" or present fraudulent information.

Also, you might evaluate the timeliness of responses and return of requested information, underwriting conditions and final documents. Slow turnaround might indicate that the mortgage broker or correspondent lacks the staff or intent to provide quality service.

### Collecting Information

You should determine the timing and format for collection of data. We recommend that the frequency and amount of indicators collected by your system parallel the volume of business and types of services you receive.

### Monitoring and Tracking Systems

You may not know whether or not your controls are sufficient to monitor your risk without consistent, accurate information about performance. We strongly recommend that you make performance tracking a priority for all employees. Do not allow it to be delayed or omitted just because it seems like a difficult or time-consuming process. You should

make sure that employees are trained in what to look for and how to report what they find.

If the size of your organization warrants, you may need to develop a system whereby problems identified in one area automatically trigger increased monitoring in other areas.

If you determine that you do not have the capacity to effectively track a number of mortgage brokers and correspondents, you should reduce your usage to a more manageable level.

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## Eligibility Updating and Reporting

### Overview

Freddie Mac suggests that you routinely review your mortgage brokers' and correspondents' overall performance. Your routine reviews should include updating critical information and reporting performance to your senior management.

This subsection will give you some ideas about how to establish these important controls.

### Updating Compliance Information

As part of your review of overall performance, you should re-verify current compliance with all applicable laws related to licensing, qualifications or approval to originate home mortgages.

You should request documentation of current compliance from each mortgage broker and correspondent. After obtaining this information, you should contact the appropriate governmental authority to validate the documentation.

To facilitate your compliance with representations and warranties to Freddie Mac, when your correspondent uses mortgage brokers to originate, you should:

- Require that your correspondent provide you with verifying information about mortgage brokers,
- Obtain a list of mortgage brokers from your correspondent and get the information directly from each mortgage broker or

Request that the correspondent complete the same approval/monitoring process on their mortgage broker that Freddie Mac conducted on the correspondent.

### Rechecking the Freddie Mac Exclusionary List

As part of your review procedures, it is essential that you recheck the Freddie Mac Exclusionary List. To accurately recheck the list, you must have a correct list of the principals of the organization. You should request this information from each mortgage broker and correspondent. You may also want to have each mortgage broker and correspondent sign a statement agreeing to immediately notify you of any changes in principals.

### Other Updates

It may be prudent to update other information as part of your routine review. You may want to request:

- A current list of affiliated businesses,
- A current list of mortgage brokers used by the correspondent,
- A current list of mortgage service providers,
- Resumes on any new principals or key staff and
- Any changes in procedures.

### Mortgage Broker and Correspondent Files

You should create a file for each mortgage broker and correspondent. The file should contain, but is not limited to:

- Application,
- Mortgage broker or correspondent agreement,
- Resumes of the principals,
- Credit reports on the principals,
- Results of the background check and
- Errors and omission insurance policy, if applicable.

The file will be very useful when you conduct your routine reviews. You should compare new information with this information in the file. Any substantial changes in information should be evaluated. For example, if a correspondent indicated at application or in prior reviews that it did not use mortgage brokers to help originate its wholesale mortgages, but now it does, you may need to change your controls for that correspondent.

### Important Changes

If you receive information that a mortgage broker or correspondent has changed owners, form of ownership, senior management or its organized structure, you should consider such changes a reason to completely re-evaluate your risks. Until you re-approve the mortgage broker or correspondent in its new form, you might decide to suspend accepting its mortgages.

### Inactive Mortgage Brokers and Correspondents

We suggest that you routinely check your approved mortgage broker and correspondent list for inactivity. After a significant period of inactivity, you may find it wise to suspend approval of an inactive mortgage broker or correspondent until it can be re-evaluated. You should decide how long a mortgage broker or correspondent may remain inactive before you suspend it from your approved list. You might decide on a standard period of time for all or differentiate the time period based on other aspects of each business relationship.

### Reporting to Senior Management

You should have and implement procedures to routinely report performance to senior management. We recommend that you report more frequently when problems are identified. You should also increase the frequency of reporting if a mortgage broker or correspondent is bringing you a high volume of mortgages. If volume increases over a short period of time or during a generally slower period of mortgage activity, it may indicate that you were adversely selected for certain mortgages.

### Report Form

Your performance reports should include all information your senior management needs to determine the adequacy of the controls you have in place and where the controls may require strengthening or refining. Senior management should also be given any available information that would allow you to anticipate future problems.

### Freddie Mac's Requests for Reports

You should have the capability to produce reports that reflect your monitoring of each mortgage broker's and correspondent's performance. We may request such reports to evaluate your controls and to determine whether you are adhering to your written standards and procedures.

# Procedures for Follow-Up Actions

## Overview

Managing your mortgage brokers and correspondents includes more than gathering information. It is essential that you take action, such as ongoing communication of information and expectations. Sometimes, the appropriate action is calling on your mortgage brokers and correspondents to let them know that they are doing a good job. Sometimes, the action is terminating a relationship and calling the Freddie Mac fraud hotline to report any suspicions of fraud.

See [Fraud Prevention Best Practices](#) for more information.

This subsection will give you some suggestions for appropriate follow-up actions.

## Usage

Internally, the most important action you can take is to stay aware of:

- How much mortgage brokers and correspondents are being used by your organization,
- The controls that are in place to monitor them and
- Whether problems have been identified.

You can monitor your mortgage broker and correspondent usage through production and interim progress reports as well as quality control and performance reports. Your senior management may wish to delegate this day-to-day monitoring activity to area managers, but they should expect to be involved when needed.

## Noncompliance

You are encouraged to take quick action, including suspension, if monitoring indicates serious noncompliance with your requirements or in cases of suspected fraud or misrepresentation. Your business relationship with a mortgage broker or correspondent should be terminated if your suspicions are substantiated.

## Handling Problems

We recommend that you have procedures to handle less serious problems in a timely, organized way. The problems should be documented in the file, communicated to the mortgage broker or correspondent, and followed for evidence of correction. Showing the mortgage broker or correspondent that you are serious about adherence to your standards is an important deterrent to costly problems.

### Increase Controls

You should have written procedures for greater controls over, or for terminating the business relationship with, a mortgage broker or correspondent that does not meet your performance standards. When performance standards are not met, you may want to restrict the type or amount of business accepted. Additional training may be effective in helping meet your performance standards.

In all cases of poor performance, additional tracking and more frequent monitoring should be done. The increased level of monitoring would probably include prefunding reviews as well as postfunding audits. A performance watch list that subjects the mortgage broker or correspondent to an increased quality control sampling is one way to ensure that poor performers are managed appropriately.

The results of your increased controls should be reported to your senior management more frequently than your regular reporting on mortgage brokers and correspondents that have no performance problems.

### Contractual Restrictions or Sanctions

Some sellers find that the importance of their standards must be reinforced by imposing contractual restrictions or sanctions on mortgage brokers and correspondents that do not comply. They use penalties to draw attention to their expectation that mortgage brokers and correspondents meet certain standards. Some even feel that restrictions or sanctions will act as a deterrent to mortgage brokers and correspondents that are not intent on producing investment-quality wholesale home mortgages.

Listed below are a few penalties that some of our Sellers find effective:

- Suspend the mortgage broker or correspondent until a face-to-face meeting can be held.
- Restrict the volume of business until proof is obtained that the problem has been resolved.
- Restrict the services the mortgage broker or correspondent is approved to perform.
- Impose fines for any recurrence.

### Communicate Performance

If you must deny, or require repurchase of, a mortgage because a mortgage broker or correspondent did not deliver an investment-quality wholesale home mortgage, you should clearly indicate where efforts have failed to meet your standards. If your monitoring reveals a pattern of poor performance, the mortgage broker or correspondent should be informed immediately. This may discourage repeat problems.



### Communicate with Your Staff

Your staff is your front line in both monitoring and controlling mortgage brokers and correspondents. We strongly suggest that you update status lists regularly and make them available to all appropriate staff. Your staff members should be aware of their responsibility to frequently check status lists. You will need to inform your staff immediately of any change in controls or monitoring procedures for a particular mortgage broker or correspondent.

### Update and Retain Files

You can create a valuable reference tool by adding information to an existing file as you review or work with a mortgage broker or correspondent. The file can be used to perform current checks on the relationship and to develop trend information.

We hope you will build long-term, productive relationships with your mortgage brokers and correspondents. We realize problems that develop in slow economic times may be different from problems that tend to appear only in times of high volume. By having a long-term reference tool, you may be able to anticipate and control for cyclical problems.

### Retain Files on Terminated Mortgage Brokers and Correspondents

We suggest you retain information about terminated mortgage brokers and correspondents. You may want to keep a record of what caused the termination. If the termination was requested or was the result of inactivity, the records will facilitate the approval process if the mortgage broker or correspondent reapplies.

### Principal Watch List

When one mortgage broker or correspondent has problems, the principals may disband the company and re-form under a new name. You may want to develop an internal watch list made up of principals with whom you have experienced problems and their corresponding entity. This list would facilitate the evaluation of mortgage brokers and correspondents.

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## Chapter 7 – Managing Mortgage Service Providers

### Introduction

A mortgage service provider is an entity or individual engaged to handle or perform, for a seller or correspondent, part of the mortgage application processing, underwriting, funding or postfunding functions, but not activities related to obtaining an application for a wholesale origination. This entity is typically paid on a fee basis for services performed, with the payment of fees not being contingent on mortgage approval or closing. Some examples of mortgage service providers are:

- Contract underwriters,
- Contract processing firms,
- Contract quality control services,
- Escrow companies and settlement agents and
- Contract document preparation companies.

---

### Business Characteristics of Mortgage Service Providers

Mortgage service providers vary greatly in size and business type. A mortgage service provider may be capable of performing only one function, or may offer a variety of services. Generally, your risk increases if a mortgage service provider performs more than one function relative to a mortgage file.

---

### Other Characteristics of Mortgage Service Providers

A mortgage service provider usually:

- Markets its services, and is under contract to a number of lenders at one time,
- Enters into contracts that specifically state that it is not an employee or agent of the lender,
- Enters into contracts that specifically limit liability, often to the amount of the fee earned and
- Contracts only to provide a specific service or set of services.

# Using Mortgage Service Providers

## Overview

Mortgage service providers can perform important functions such as:

- Processing credit documents,
- Underwriting mortgage applications,
- Selecting the mortgage sample,
- Sending out the re-verification requests,
- Preparing legal documents,
- Conducting due-diligence reviews,
- Reviewing appraisals,
- Inspecting properties,
- Reviewing the appropriateness of the underwriting decision,
- Reviewing the legal documents for completeness and compliance and
- Performing due-diligence reviews.

Their use is often a cost-effective way to accomplish these tasks. Remember, however, that you are still responsible for the investment quality of each wholesale home mortgage, regardless of whether your employees or a mortgage service provider worked on the mortgage file.

## Using Mortgage Service Providers

While we do not have specific requirements relating to the use of mortgage service providers, we believe that some risks are involved in using them. We strongly recommend that you evaluate how you are using them and establish appropriate controls. This subsection discusses some of the risks involved with using mortgage service providers.

## Opportunities to Use Mortgage Service Providers

You may contract mortgage service providers for either your retail or wholesale production. Your correspondent might also use mortgage service providers.

## Major Risks

The quality of a home mortgage could be compromised by an mortgage service provider that:

- Lacks sufficient experience to perform the contracted function,
- Lacks sufficient trained staff and equipment to provide a quality service,
- Places undue emphasis on speed or volume at the expense of quality work or
- Has a relationship with a party to the mortgage transaction.

## Assessing Mortgage Service Providers

You should look at the scope and type of services to be provided to determine the risks in the business relationship.

Some factors are whether the mortgage service provider:

- Has any prior experience and
- Will be working independently, working with your employees, or working under the direct supervision of one of your employees.

In addition, the details of the contract for services should include:

- The mortgage service provider's roles and responsibilities,
- How acceptable services will be evaluated,
- The type of compensation,
- Any liability limits/indemnification provisions,
- Any relationship the mortgage service provider has with other parties to the transaction and
- The ability of your staff to monitor the use of mortgage service providers.

---

## Suggested Controls

### Overview

Your program for managing mortgage service providers should be similar in structure to the program used for managing correspondents. It should include steps for:

## WHOLESALE ORIGINATIONS BEST PRACTICES

- Evaluating and approving each mortgage service provider,
- Monitoring the quality of their mortgages if using contract underwriters and
- Monitoring their performance.

We recognize that you will probably have fewer mortgage service provider controls than correspondent controls. You will probably also have fewer procedures. A smaller monitoring program is consistent with the presumed lower risk.

Requirements related to Freddie Mac's Exclusionary List apply to mortgage service providers used in connection with any home mortgage sold to Freddie Mac.

### General Guidelines

Once you have evaluated your relationship with a mortgage service provider, you will be able to choose the appropriate controls. We recommend that you keep a file on each mortgage service provider and review the information periodically. You should limit the use of mortgage service providers to a level that you can effectively manage.

### Evaluation Procedures

We suggest that you evaluate the mortgage service provider before contracting with it. You will probably choose to do a more thorough evaluation if you anticipate extensive or long-term use of the mortgage service provider, or if it will be performing critical functions, such as underwriting.

### Approving Mortgage Service Providers

Your senior management should review the information gathered before contracting with a mortgage service provider. If two firms are competing for the work, the company most qualified to produce quality work should be chosen, even if its fees are higher. In the long run, working with quality firms will reduce risk as well as the costs associated with negligence and errors.

### Monitoring Mortgage Quality

We suggest that you conduct targeted quality control reviews or other types of reviews to establish and monitor the quality of the mortgages that were handled by each mortgage service provider. We recommend increasing the level of reviews early in a relationship so that you can take corrective measures before problems escalate. You may need to give more direction or training if problems recur. Increased review would also be indicated if you begin using a mortgage service provider after a period of non-use.

### Evaluating Performance

We recommend that you periodically conduct performance reviews. The performance review should begin with the results of your quality control reviews. It should also include any available performance information about how the mortgages performed.

Identifying which mortgages a mortgage service provider handled may be easier if it performed all of a specific function, or if the mortgage service provider worked on a group of mortgages that can be identified by another characteristic.

### Other Controls

Besides gathering quality control and any available performance information, you can periodically visit the mortgage service provider, review its staffing, and evaluate its procedures. The results should be communicated to your senior management and the mortgage service provider.

### Handling Poor Performance

Poor performance should be monitored and controls increased as warranted. If you feel the risks are not being controlled, we recommend that you discontinue using the mortgage service provider or at least eliminate them from consideration for future contracts.

---

## Freddie Mac Contacts

Please identify the Freddie Mac contact for your specific business need. If you're unsure of the appropriate contact, or have general questions, please call our lender helpline, (800) FREDDIE.

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# Exhibit WO1 - Sample Mortgage Broker File Checklist

Mortgage Broker Name: \_\_\_\_\_ Approval date: \_\_\_\_\_

Principals: \_\_\_\_\_ Review (owners) \_\_\_\_\_  
\_\_\_\_\_

Social Security # (for each principal) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Date of Birth (for each principal) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Home Address for each principal: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Business address: \_\_\_\_\_  
Primary contact: \_\_\_\_\_  
Phone number: \_\_\_\_\_  
Tax ID number: \_\_\_\_\_

Approved to provide the following services:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Special instructions/controls (attach sheet as needed):  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**WHOLESALE ORIGINATIONS BEST PRACTICES**

Initial file documents:

- \_\_\_\_\_ Signed approval checklist or other approval form
- \_\_\_\_\_ Fully executed agreement for services
- \_\_\_\_\_ Approval documentation including
  - \_\_\_\_\_ Licenses, approval, etc. to originate home mortgages
  - \_\_\_\_\_ Reference letters/phone reference records
  - \_\_\_\_\_ Credit report(s)
  - \_\_\_\_\_ Resumes
  - \_\_\_\_\_ Proof that Freddie Mac Exclusionary List was checked
  - \_\_\_\_\_ Other (as required)

Monitoring documentation:

Indicators of performance	Frequency of collecting
_____ Cancellation rate	_____
_____ Underwriting/reunderwriting summaries	_____
_____ Quality control results and remedial actions taken	_____
_____ Early payment defaults and delinquencies	_____
_____ Later default or delinquency	_____
_____ Other indicators	_____

Updated information	Dates received or done
_____ Verified licenses etc.	_____
_____ Ownership/principal change	_____
_____ Check Freddie Mac Exclusionary List	_____
_____ Other information	_____

Continuing approval (reports to senior management):

Date	Approved by	Changed controls (if any)
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____



**WHOLESALE ORIGINATIONS BEST PRACTICES**

Date	Approved by	Changed controls (if any)
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

# Exhibit WO2 - Sample Correspondent File Checklists

Mortgage Broker Name: \_\_\_\_\_ Approval date: \_\_\_\_\_

Principals: \_\_\_\_\_ Review (owners) \_\_\_\_\_  
\_\_\_\_\_

Social Security # (for each principal) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Date of Birth (for each principal) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Home Address for each principal: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Business address: \_\_\_\_\_  
Primary contact: \_\_\_\_\_  
Phone number: \_\_\_\_\_  
Tax ID number: \_\_\_\_\_

Approved to provide the following services:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Special instructions/controls (attach sheet as needed):  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**WHOLESALE ORIGINATIONS BEST PRACTICES**

Initial file documents:

- \_\_\_\_\_ Signed approval checklist or other approval form
- \_\_\_\_\_ Fully executed agreement for services
- \_\_\_\_\_ Approval documentation including
  - \_\_\_\_\_ Licenses, approval, etc. to originate home mortgages
  - \_\_\_\_\_ Reference letters/phone reference records
  - \_\_\_\_\_ Credit report(s)
  - \_\_\_\_\_ Resumes
  - \_\_\_\_\_ Proof that Freddie Mac Exclusionary List was checked
  - \_\_\_\_\_ Other (as required)

Monitoring documentation:

Indicators of performance	Frequency of collecting
_____ Cancellation rate	_____
_____ Underwriting/reunderwriting summaries	_____
_____ Quality control results and remedial actions taken	_____
_____ Early payment defaults and delinquencies	_____
_____ Later default or delinquency	_____
_____ Other indicators	_____

Updated information	Dates received or done
_____ Verified licenses etc.	_____
_____ Ownership/principal change	_____
_____ Check Freddie Mac Exclusionary List	_____
_____ Other information	_____

Continuing approval (reports to senior management):

Date	Approved by	Changed controls (if any)
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

**WHOLESALE ORIGINATIONS BEST PRACTICES**

Date	Approved by	Changed controls (if any)
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

# Exhibit WO3 - Sample Mortgage Broker/ Correspondent Application/ Questionnaire

1. Legal name of applicant: \_\_\_\_\_  
doing business as: \_\_\_\_\_

2. Address: \_\_\_\_\_

3. Primary contact person:  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Phone number: \_\_\_\_\_

4. Date business established: \_\_\_\_\_

5. Business type:  
\_\_\_\_\_ Corporation under the laws of  
\_\_\_\_\_ Partnership registered in \_\_\_\_\_ General or Limited? \_\_\_\_\_  
\_\_\_\_\_ Sole proprietorship \_\_\_\_\_  
\_\_\_\_\_ Other \_\_\_\_\_

6. Taxpayer identification number: \_\_\_\_\_

7. Information on owners and principals:

Name and Title	Social Security Number	Length of Time Associated With Applicant
_____	_____	_____
_____	_____	_____
_____	_____	_____

**WHOLESALE ORIGINATIONS BEST PRACTICES**

8. Scope of services you wish to provide: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

9. How long have you originated home mortgages: \_\_\_\_\_

10. Has your business ever been suspended or terminated by Freddie Mac or any other investor? \_\_\_\_\_ If yes, please provide details:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Attached additional sheets if necessary)

11. References:

a. Company name:

\_\_\_\_\_  
Name of association with reference:  
Address: \_\_\_\_\_ Phone number: \_\_\_\_\_  
Name/title of contact person: \_\_\_\_\_

b. Company name:

\_\_\_\_\_  
Name of association with reference:  
Address: \_\_\_\_\_ Phone number: \_\_\_\_\_  
Name/title of contact person: \_\_\_\_\_

c. Company name:

\_\_\_\_\_  
Name of association with reference:  
Address: \_\_\_\_\_ Phone number: \_\_\_\_\_  
Name/title of contact person: \_\_\_\_\_

**WHOLESALE ORIGINATIONS BEST PRACTICES**

12. Please attach copies of the following requirement documentation:

- Resumes on owners and principals
- Documentation of compliance with laws related to licensing, approval or qualification to originate home mortgages (as applicable)
- Articles of incorporation, partnership agreement, etc. (as applicable)
- Your procedures for services to be provided (for example, processing procedures, underwriting procedures, etc.)
- Proof of your current errors and omissions insurance and fidelity bond insurance (when applicable)
- A list of affiliated businesses, if any
- Other: \_\_\_\_\_

**INFORMATION PROVIDED BY:**

\_\_\_\_\_  
(please print name)

\_\_\_\_\_  
(title)

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

**FOR (SELLER NAME) USE ONLY:**

\_\_\_\_\_  
Received by:

\_\_\_\_\_  
Date

# Exhibit WO4 - Sample Mortgage Broker/ Correspondent Approval Checklist

Name of applicant: \_\_\_\_\_

Address: \_\_\_\_\_

Primary contact name/title: \_\_\_\_\_

**A. Documentation**

Type of Information	Date Requested	Date Received	Review/Summary Comments	Reviewed By
1) Resumes for:				
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
2) Reference checks:				
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
3) Licenses, approval or qualification documents:				
_____	_____	_____	_____	_____
(Verified current compliance with _____ on _____ )				
4) Credit reports:				
a) Principal				
_____	_____	_____	_____	_____
			_____	
			_____	
b) Business				
_____	_____	_____	_____	_____
			_____	
			_____	



**WHOLESALE ORIGINATIONS BEST PRACTICES**

5) Company profile (including articles of incorporation/partnership agreement, etc):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

6) Procedures

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

7) List of affiliated businesses (if any):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

8) Errors and omissions and fidelity bond insurance (if required):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

9) Other information (as required):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**B. On-site visit/personal interview report**

Date conducted: \_\_\_\_\_

Summary findings: \_\_\_\_\_

**C. Checklist – Representations and warranties to Freddie Mac**

\_\_\_\_\_ Mortgage broker/correspondent has experience originating investment-quality mortgages and has demonstrated integrity

\_\_\_\_\_ Mortgage broker/correspondent (entity and principals) not on the Freddie Mac Exclusionary List

\_\_\_\_\_ Mortgage broker/correspondent is currently in compliance with all applicable laws related to licensing, qualification, or approval to originate home mortgages

**WHOLESALE ORIGINATIONS BEST PRACTICES**

**D. Overall comments**

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**E. Approval**

Applicant approved \_\_\_\_ yes \_\_\_\_ no      By \_\_\_\_\_ Date \_\_\_\_\_

Comments: \_\_\_\_\_

**F. Written agreement**

Agreement sent to applicant on \_\_\_\_\_

Fully executed agreement received on \_\_\_\_\_

## Exhibit WO5 - Sample Reference Letter

Date

ABC Mortgage Company  
123 Maple Street  
Hometown, USA

Attention: John Jones

RE: Reference for XYZ Broker, Inc.

Dear Mr. Jones:

The above referenced company has applied with XLM Bank for approval as a wholesale originator. Your firm was given as a reference.

We would appreciate your assistance by completing the brief questionnaire below and returning it in the enclosed self-addressed envelope as soon as possible. Your answers and comments are important to us.

Thank you for your time and assistance in this matter.

Sincerely,

Jane Smith, Manager

1. How long has your company been doing business with XYZ Broker, Inc.?
2. What services did they provide to your firm?
3. Approximately how many mortgage files did they submit to you last year?
4. How would you rate the overall quality of the mortgage packages submitted to you?  
\_\_\_ Excellent    \_\_\_ Very Good    \_\_\_ Good    \_\_\_ Fair    \_\_\_ Poor
5. Have you had any problems and/or material discrepancies?    \_\_\_ Yes    \_\_\_ No  
If yes, please explain: \_\_\_\_\_

**WHOLESALE ORIGINATIONS BEST PRACTICES**

6. Are they currently approved to provide services to your firm? \_\_\_\_ Yes \_\_\_\_ No  
If no, please explain why: \_\_\_\_\_

7. How do they respond to requests for clarifications, additional conditions and/or resolution of discrepancies?

\_\_\_\_\_ Thorough, prompt response \_\_\_\_\_ Provide information in required time frame  
Slow/need repeated requests \_\_\_\_\_ Often withdraw case

8. Approximately what percentage of mortgage files they submitted to you:

- Were approved and settled without major problems \_\_\_\_\_%.
- Were denied in underwriting \_\_\_\_\_%.
- Had major problems or discrepancies found in a quality control review \_\_\_\_\_%.
- Performed well after settlement \_\_\_\_\_%.
- Had performance problems (such as early payment default, delinquencies in the first 12 months, entered foreclosure, etc.) \_\_\_\_\_%.

9. Generally, would you recommend the use of their services? \_\_\_\_ Yes \_\_\_\_ No  
If no, please explain why: \_\_\_\_\_

Other comments that you feel would be helpful:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Signature: \_\_\_\_\_ Date: \_\_\_\_\_  
Name/Title: \_\_\_\_\_

## Exhibit WO6 - Sample Telephone Reference Call Record

Applicant: \_\_\_\_\_

Reference called: \_\_\_\_\_ (Name of Firm)

Name and title of individual called: \_\_\_\_\_

1. How long has your company been doing business with the mortgage broker or correspondent?  
\_\_\_\_\_

2. What services did the mortgage broker or correspondent provide to your firm?  
\_\_\_\_\_  
\_\_\_\_\_

3. Approximately how many mortgage files did the mortgage broker or correspondent submit to you last year?  
\_\_\_\_\_

4. How would you rate the overall quality of the mortgage packages submitted to you?  
\_\_\_\_ Excellent    \_\_\_\_ Very Good    \_\_\_\_ Good    \_\_\_\_ Fair    \_\_\_\_ Poor

5. Have you had any problems with the mortgage broker/correspondent?  
\_\_\_\_ Yes    \_\_\_\_ No

If yes, please explain:  
\_\_\_\_\_

6. Is the mortgage broker/correspondent currently approved to provide services to your firm?  
\_\_\_\_ Yes    \_\_\_\_ No

If no, please explain why:  
\_\_\_\_\_  
\_\_\_\_\_

**WHOLESALE ORIGINATIONS BEST PRACTICES**

7. How do they respond to requests for clarifications, additional conditions and/or resolution of discrepancies?

\_\_\_\_\_ Thorough, prompt response \_\_\_\_\_ Provide information in required time frame  
Slow/need repeated requests \_\_\_\_\_ Often withdraw case

8. Approximately what percentage of mortgage files has the mortgage broker/correspondent submitted to you:

- Were approved and settled without major problems \_\_\_\_\_%.
- Were denied in underwriting \_\_\_\_\_%.
- Had major problems or discrepancies found in the quality control review \_\_\_\_\_%.
- Performed well after settlement \_\_\_\_\_%.
- Had performance problems (such as early payment default, delinquencies in the first 12 months, entered foreclosure, etc.) \_\_\_\_\_%.

9. Would you recommend the use of the mortgage broker/correspondent services?

\_\_\_\_\_ Yes \_\_\_\_\_ No

If no, please explain:

\_\_\_\_\_  
\_\_\_\_\_

Other comments that you feel would be helpful:

\_\_\_\_\_  
\_\_\_\_\_

Reference verified by: \_\_\_\_\_

Date: \_\_\_\_\_

This document is not a replacement or substitute for the information found in the Freddie Mac *Single-Family Seller/Service Guide* and/or terms of your Master Agreement and/or other Pricing Identifier Terms.

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