

Broker to Banker Workshop: Part 1

Thursday May 5, 2022



calyx



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Presenter

Sean A. Stephens, Esq., CMB®

Broker to Banker Consulting, LLC

Sean Stephens is the President and Chief Legal officer of Metroplex Mortgage Services, Inc. Since starting the firm in 2001, the company has grown into a top ranked USDA lender licensed in four states. Through this experience, he has been directly involved with origination systems, warehouse line management and quality control. He has been instrumental in developing policy and procedures, non-delegated and delegated approval processes, agency approvals and recertifications, multi-state licensing, loan officer compensation, employee agreements, and various state and agency regulatory audits.

Mr. Stephens founded the Broker to Banker Consulting LLC practice to assist entrepreneurial mortgage professionals who want to climb the mortgage ladder by transitioning from broker to banker, explain the risks and benefits associated, help avoid common pitfalls, and provide top-producing origination strategies necessary to create a repeatable, referrable, and scalable business model.

Mr. Stephens holds the Certified Mortgage Banker designation and is an attorney licensed under the State Bar of California #332960.



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Presenter

Janice Smith | National Sales Consultant

Calyx Software

Janice Smith is a National Sales Consultant with Calyx whose primary focus is on the company's enterprise-level loan origination software, Path. Janice has been with Calyx for more than 10 years and has managed more than 4,000 customer accounts.

Janice is a mortgage industry veteran with more than 20 years of experience. Prior to joining Calyx in 2012, Janice was the Compliance Manager for a multi-state lender where she helped establish the lender's compliance operations including hiring, training and managing auditors to generate disclosures for correspondent loans and approval review for TPO, companywide. Earlier in her career, Janice was consistently a top producing loan originator for 12 years during which time she was promoted to a Branch Manager. She decided to transition to the loan operations as a conventional underwriter while earning her DE certification to underwrite government loans for a subsidiary company.

Having spent a significant portion of her career on the origination side, Janice is keenly aware of the role technology plays in originators' business development with additional experience of the operations and compliance for long-term companywide success.

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Calyx products



1. Evolving Market Conditions

2. Broker to Banker Benefits

Profitability

- Broker vs. Non-Delegated and Delegated Channels
- Improved Pricing and Margins
- Purchase Money Market / Niche Products
- MLO Retention, Recruitment, and Growth

Operational Advantages - Control Over the Process

- Myth vs. Fact: Brokering is Easier
- Disclosure Process, COC, Appraisal Ordering, Underwriting, Locking, Lender Credits, etc.
- Closing Independence
- Vertical Integration and Loan Cycle Efficiency

Production Flexibility

- Myth vs. Fact: I don't have the infrastructure
- Various Production Models:
 - Team Approach (Rainmaker), MLO Model Branch Expansion

Agenda

3. **Risks Associated with Mortgage Banking**

- Underwriting, Operational, and Product Availability Risk
- Post-Closing
- Regulatory and Compliance Risk
- Enhanced Quality Control Procedures
- Increased Net Worth requirements
- Mini-Correspondent Model

4. **Mortgage Banker Risk Mitigation Techniques**

- MLPA
- MLO Comp Plans and Employer Agreements
- E&O vs. Cyber - Are you covered?
- Are you Audit Ready?

Who Should Be Attending Today's Webinar?

- Mortgage Brokers, Top Producing MLOs, and Business Owners.
- Those who are considering the transition to Non-Delegated delivery.
- Non-Delegated Correspondents who are looking to expand into delegated underwriting and open other product channels.
- Lenders seeking agency approval through either FHA, VA, USDA, or the GSEs.
- FHA Approved Mortgagees looking to utilize the Principal-Authorized Agent Relationship for non-delegated loans.
- Mortgage bankers who are seeking risk mitigation techniques, because as the industry enters an era of increased regulatory enforcement, the need for understanding your current risk exposure is critical.

Evolving Market Conditions

Evolving Market Conditions

- **2020:** Independent mortgage banks (“IMBs”) experienced record levels of profitability.
- MBA’s Annual Performance Report: “Independent mortgage banks and mortgage subsidiaries of chartered banks made an **average profit of \$4,202 on each loan they originated in 2020**, up from **\$1,470 per loan in 2019**.”
- **2021:** MBA Annual Mortgage Bankers Performance Report said independent mortgage banks and mortgage subsidiaries of chartered banks made an average profit of **\$2,339 on each loan they originated in 2021**.
- **2021 - 4th Quarter:** IMBs and mortgage subsidiaries of chartered banks reported a **net gain of \$1,099** on each loan they originated in the **fourth quarter of 2021** - MBA
- **2022:** Significant Margin Compression, Rising Rate Environment, Lower Refi Volume, Increased Personnel Costs, and Loan Officer Compensation, and Limited Housing Inventory.
- Thus, many mortgage brokers are looking for ways to maximize current market conditions by making the transition from **broker to banker** and begin delivering loans as a mortgage banker through the business channels of **non-delegated** and **delegated** delivery.

Growth Through Profitability

Broker vs. Lender

- **Mortgage Broker** means a person (other than an employee of a lender) that renders origination services and serves as an intermediary between a borrower and a lender in a transaction involving a federally related mortgage loan, including such a person that closes the loan in its own name in a table-funded transaction. (CFPB)
 - This type of transaction will include maximum broker compensation amounts.
- **Mortgage Lender** is the creditor in the transaction and provides the source of funding at time of settlement. Money earned on the sale of the loan is treated as a **secondary market transaction** and not subject to broker/lender compensation agreements.
- **MLO Compensation** rules still apply whether you are a broker or lender.
 - However, *“The rule does not apply to payments received by a creditor when selling the loan to a secondary market investor. When a mortgage brokerage firm originates a loan, it is not exempt under the final rule unless it is also a creditor that funds the loan from its own resources, such as its own line of credit.”*
 - *Federal Reserve Regulation Z Compliance Guide to Small Entities*
- **Non-Delegated Correspondents** are responsible for funding and delivering the loan to the approving lender, but that lender is responsible for underwriting and approving the loan.
- **Delegated Correspondents** assume the risk of underwriting and delivery of the entire loan package to the end investor. Provides for increased margins and control, but higher risk.

Improved Pricing Considerations

- Broker to Non-Delegated **pricing improvements** can make a difference in today's market!
- **Non-Delegated vs. Broker Pricing Improvements**
- Depending on the investor, you could reasonably receive up to 12.5 bps pricing improvement when transitioning from broker to non-delegated.
- Example: \$400,000 loan:
 - $12.5\text{bps} \times 400,000 = \500 per loan
 - Assuming 10 monthly closings = \$5,000 per month
 - Annual = \$120,000 per year
- **Every Basis Point Counts!**
- **Optimize Investor Set:** Loan level pricing varies. It is important to refine your investor set to align with the key loan products produced.

Loan Product Pricing Engine Benefits

- **Loan Product Pricing Engine (“PPE”)** is an automated software program that is utilized for best execution pricing and takes into account various loan level pricing adjustments. Can be stand alone, but typically integrates within your LOS for maximum efficiency.
 - Additionally, a PPE can act as a **product eligibility** engine for your investors factoring in their individual overlays.
 - Don’t be held captive by one investor’s price quoting system!
- **Delegated Correspondents** may elect to deliver under either a best efforts or mandatory delivery. If utilizing mandatory delivery, a hedge advisor is often utilized to offset interest rate risk and protect margins.
- **Non-Delegated Correspondents** typically will utilize locks directly with the investor and deliver under best efforts
- **LOS integration** is critical to maximize efficiencies...

Product Pricing Engine & LOS Compatibility

Search

Mortgage Information

Loan Type	Conventional
Loan Purpose	Purchase
Type of Refinance	
Loan Term	360
Lien Position	First
Property Occupancy	Primary Residence
Documentation Program Type	Full
Expanded Approval Level	
Underwriting Method	
AUS Engine	
AUS Recommendation	

Product Features

Amortization Type	Fixed
Product Type	
Escrow	<input type="checkbox"/> Balloon <input type="checkbox"/>
Additional Information	<input type="checkbox"/> HELOC <input type="checkbox"/>
Custom Parameter for Pricing	<input type="checkbox"/>
MI Provider	
MI Premium Plan	
MI Paid By	
MI Coverage	
ARM First Adjustment	

Borrower Information

Credit Score	710
Total Obligations	7.666%
Citizenship	US Citizen
First Time Homebuyer	<input type="checkbox"/> Employee Loan <input type="checkbox"/>
Self-Employed	<input type="checkbox"/> Relocation Loan <input type="checkbox"/>
Community Seconds	<input type="checkbox"/>

Loan Information

Base Loan Amount	\$ 100,000.00
Total Loan Amount (including MIP/VAFF)	\$ 100,000.00
Purchase Price	\$ 500,000.00
Appraised Value	\$ 500,000.00
Subordinate Financing	\$ 0.00
Cash-Out Amount	\$ 0.00
Undrawn HELOC Amount	\$ 0.00

Property Information

Property City	Dallas
Property State	TX
ZIP	75219
Property County	DALLAS
Property Location	
Property Type	Detached
Manufactured Home Width	
Manufactured Attachment Type	
Number of Stories	
Number of Units	1
Non-Warrantable Condo	<input type="checkbox"/>

Search Information

Lock Type	
Desired Lock Period	30
Search by Type	Rate
Note Rate	6.000%
Desired Price	100.00000000

Submit

Pricing Parameters



Search

Results

* updated 05/03/2022 8:15:53 AM

30 Yr Fixed		Rate	Price	Lock Period	Price Status
<input type="radio"/> Custom Product Testing	Conforming 30 Year Fixed Rate Adjustment	5.375 %	0.1160	30	Available
<input type="radio"/> Citibank, N.A.	Agency 30 Yr Fixed	5.500 %	(6.4000)	30	Expired
<input type="radio"/> Citibank, N.A.	Agency 30 Yr Fixed Loan Balance Specified	5.500 %	(6.4000)	30	Expired
<input type="radio"/> Aloha Demo Bank	Portfolio 30yr Fixed	5.500 %	(1.5000)	30	Available
<input type="radio"/> Wells Fargo Mandatory	Conforming 30 Yr Fixed	5.625 %	0.3360	30	Available
<input checked="" type="radio"/> Fifth Third Bank, N.A. Correspondent	Conforming 30 Year Fixed - DU	5.875 %	(3.8650)	30	Available
<input type="radio"/> Fifth Third Bank, N.A. Correspondent	Conforming 30 Year Fixed - LP	5.875 %	(3.8650)	30	Available
<input type="radio"/> Aloha Demo Bank	FNMA DU 30yr Fixed	6.000 %	(2.1250)	30	Available
<input type="radio"/> Aloha Demo Bank	FHLMC LP 30yr Fixed	6.000 %	(2.0000)	30	Available
<input type="radio"/> Wells Fargo	Conforming 30 Yr Fixed	6.000 %	0.0870	30	Available

Ineligible Products	Findings
Aloha Demo Bank FHLMC LP HB 30yr Fixed	• MinLoanAmt = \$647,201.00
Aloha Demo Bank FNMA DU HB 30yr Fixed	• MinLoanAmt = \$647,201.00
Citibank, N.A. Agency 30 Yr Fixed New York Specified	• State is not New York (NY)
Citibank, N.A. Agency Jumbo 30 Yr Fixed	• State is Continental U.S., And Number of Units is 1 Unit, And 1st Mtg Loan Amt (Total) < 647201
Fifth Third Bank, N.A. Correspondent Agency Super Conf 30 Year ...	• Number of Units is 1 Unit, And 1st Mtg Loan Amt (Total) < 647201
Fifth Third Bank, N.A. Correspondent Agency Super Conf 30 Year ...	• Number of Units is 1 Unit, And 1st Mtg Loan Amt (Total) < 647201
Fifth Third Bank, N.A. Correspondent Standard Jumbo 30 YR Fixed	• State is Continental U.S., And Number of Units is 1 Unit, And 1st Mtg Loan Amt (Total) < 647201
Sprout Mortgage Correspondent SP C3 - AUS Investor Advantage ...	• 1st Mtg Loan Amt (Total) < 150000 • Occupancy is not Investment Property
Sprout Mortgage Correspondent SP C3 - AUS Investor Advantage ...	• State is Continental U.S., And Number of Units is 1 Unit, And 1st Mtg Loan Amt (Total) < 647201 • 1st Mtg Loan Amt (Total) < 150000 • Occupancy is not Investment Property
Sprout Mortgage Correspondent SP C4 - AUS High Balance Advan...	• State is Continental U.S., And Number of Units is 1 Unit, And 1st Mtg Loan Amt (Total) < 647201 • Occupancy is Primary Residence

Select

Available Pricing

Fifth Third Bank, N.A. Correspondent 30 Yr Fixed

Conforming 30 Year Fixed - DU

Rate	15 Day	30 Day	45 Day	60 Day
Expiration Date	05/18/2022	06/02/2022	06/17/2022	07/02/2022
4.125 %	<input type="radio"/> <u>3.0100</u>	<input type="radio"/> <u>3.1350</u>	<input type="radio"/> <u>3.2600</u>	<input type="radio"/> <u>3.6350</u>
4.250 %	<input type="radio"/> <u>2.3850</u>	<input type="radio"/> <u>2.5100</u>	<input type="radio"/> <u>2.6350</u>	<input type="radio"/> <u>3.0100</u>
4.375 %	<input type="radio"/> <u>1.5100</u>	<input type="radio"/> <u>1.6350</u>	<input type="radio"/> <u>1.7600</u>	<input type="radio"/> <u>2.1350</u>
4.500 %	<input type="radio"/> <u>1.0100</u>	<input type="radio"/> <u>1.1350</u>	<input type="radio"/> <u>1.2600</u>	<input type="radio"/> <u>1.6350</u>
4.625 %	<input type="radio"/> <u>0.6350</u>	<input type="radio"/> <u>0.7600</u>	<input type="radio"/> <u>0.8850</u>	<input type="radio"/> <u>1.2600</u>
4.750 %	<input type="radio"/> <u>(0.1150)</u>	<input type="radio"/> <u>0.0100</u>	<input type="radio"/> <u>0.1350</u>	<input type="radio"/> <u>0.6350</u>
4.875 %	<input type="radio"/> <u>(0.7400)</u>	<input checked="" type="radio"/> <u>(0.6150)</u>	<input type="radio"/> <u>(0.4900)</u>	<input type="radio"/> <u>(0.1150)</u>
5.000 %	<input type="radio"/> <u>(0.9900)</u>	<input type="radio"/> <u>(0.8650)</u>	<input type="radio"/> <u>(0.7400)</u>	<input type="radio"/> <u>(0.2400)</u>
5.125 %	<input type="radio"/> <u>(1.3650)</u>	<input type="radio"/> <u>(1.2400)</u>	<input type="radio"/> <u>(1.1150)</u>	<input type="radio"/> <u>(0.6150)</u>
5.250 %	<input type="radio"/> <u>(2.1150)</u>	<input type="radio"/> <u>(1.9900)</u>	<input type="radio"/> <u>(1.8650)</u>	<input type="radio"/> <u>(1.2400)</u>
5.375 %	<input type="radio"/> <u>(2.7400)</u>	<input type="radio"/> <u>(2.6150)</u>	<input type="radio"/> <u>(2.4900)</u>	<input type="radio"/> <u>(1.9900)</u>
5.500 %	<input type="radio"/> <u>(2.8650)</u>	<input type="radio"/> <u>(2.7400)</u>	<input type="radio"/> <u>(2.6150)</u>	<input type="radio"/> <u>(2.2400)</u>
5.625 %	<input type="radio"/> <u>(3.1150)</u>	<input type="radio"/> <u>(2.9900)</u>	<input type="radio"/> <u>(2.8650)</u>	<input type="radio"/> <u>(2.3650)</u>
5.750 %	<input type="radio"/> <u>(3.4900)</u>	<input type="radio"/> <u>(3.3650)</u>	<input type="radio"/> <u>(3.2400)</u>	<input type="radio"/> <u>(2.6150)</u>
5.875 %	<input type="radio"/> <u>(3.9900)</u>	<input type="radio"/> <u>(3.8650)</u>	<input type="radio"/> <u>(3.7400)</u>	<input type="radio"/> <u>(2.9900)</u>



Select



*updated 05/03/2022 8:07:28 AM

Fifth Third Bank, N.A. Correspondent 30 Yr Fixed

Conforming 30 Year Fixed - DU

Rate	15 D
Expiration Date	05/18/2
4.125 %	<input type="radio"/> 3.010
4.250 %	<input type="radio"/> 2.385
4.375 %	<input type="radio"/> 1.510
4.500 %	<input type="radio"/> 1.010
4.625 %	<input type="radio"/> 0.635
4.750 %	<input type="radio"/> (0.115)
4.875 %	<input type="radio"/> (0.740)
5.000 %	<input type="radio"/> (0.990)
5.125 %	<input type="radio"/> (1.365)
5.250 %	<input type="radio"/> (2.115)
5.375 %	<input type="radio"/> (2.740)
5.500 %	<input type="radio"/> (2.865)
5.625 %	<input type="radio"/> (3.115)
5.750 %	<input type="radio"/> (3.490)
5.875 %	<input type="radio"/> (3.990)

Rate Calculation Detail



Program: Fifth Third Bank, N.A. Correspondent 30 Yr Fixed

Conforming 30 Year Fixed - DU - 30 Day

* updated 05/03/2022 8:07:28 AM

Rate Adjustments:

Base Rate 4.875 %

(No adjustments)

Adjusted Rate 4.875 %

Price Adjustments:

Base Price (0.7400)

State is not NY/CA, And Waive Escrows is Yes

0.2500

State is TX

(0.1250)

Adjusted Price (0.6150)

Net Price (0.6150)

OK

Select

Loans 51928—John Smith X

Production	Lock	Compliance	Conditions	Documents	Checklist	Interfaces	Messages				
Send/Status	Summary	Quote	Borrower	Property	Product & Pricing	Transactions	Closing Costs	Loan Transmittal	USDA	FHA	VA

Loan Information

Occupancy	Primary Residence	Sales Price	\$ 500,000.00	Monthly P&I	\$ 591.54
Lien Position	First	Appraised Value	\$ 500,000.00	Down Payment %	80.000%
Loan Purpose	Purchase	Base Loan Amount	\$ 100,000.00	Down Payment	\$ 400,000.00
Other Purpose		Total Loan Amount	\$ 100,000.00	Base LTV/CLTV	20.000% 20.000%
Refinance Type		Note Rate	5.875%	Total LTV/CLTV	20.000% 20.000%
Refinance Program		Loan Term/Due In (months)	360 360	HCLTV	20.000%
Other		UPMIP/FF Financed	\$ 0.00	Qualifying Rate	5.875%
Simultaneous Sub-Lien Loan	<input type="checkbox"/>	Borrower Financed Fees	\$	Qualifying Amount	\$ 591.54
Link Loan				Primary Housing/ Total Obligations	5.915% 7.585%

Product Information

Loan Type	Conventional	Loan Program	Fifth Third Bank, N.A. Correspondent Conforming 30 Year Fixed - DU		
Other		Program Group	30 Yr Fixed		
Amortization Type	Fixed	Program Number		Product Code	FTC30DU
Other		Program Name		Product Type	
				Documentation Program Type	Full

Mortgage Insurance

Mortgage Insurance	<input type="checkbox"/>	MI Coverage		MI Certificate ID	
MI Provider		MI Paid By		MI Activated Date	
MI Premium Plan					

Up-Front Mortgage Insurance Premium/ Funding Fee

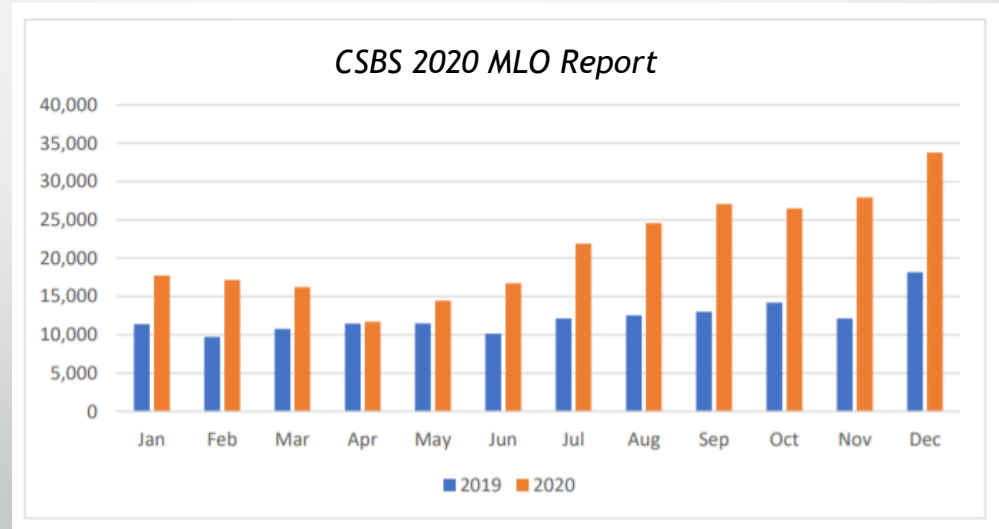
Premium %	0.000000%	Premium Paid in Cash	\$ 0.00
Premium Amount	\$ 0.00	USDA Paid in Cash	<input type="checkbox"/>
Premium Financed	\$ 0.00		

Purchase Money Market & Niche Products

- Improved pricing and more control over the loan process provides an advantage to gain purchase money market share and brand yourself as an expert in one of the following:
 - FHA 203K
 - USDA Loans
 - Condominiums
 - Jumbo Loans
 - Non-QM Products
 - Construction Loans
 - Manufactured Homes
 - First Time Home Buyer Programs
- Control is critical for converting purchase money business, time can kill both deals and relationships. As the mortgage banker, you have more control over the process and are not subject to the same turn times as you would be in the broker channel.
- Being able to cater to this segment is critical for both long-term growth and protecting margins, because increased loan officer competition is already here...

MLO Statistics

- Year-end 2020: 688,327 active state MLO licenses - “record MLO population”
- This marked an increase by over 21% from 2019
- Additional 399,876 active Fed MLO registrations by year-end 2020
- Increased Competition!!!!



MLO Retention and Recruitment

With the benefits of improved pricing, more control, and opportunity for increased purchase business, transitioning to a mortgage banker can also provide:

- Increased ability to compete for new and retain existing producing MLOs
- Provide the mortgage banking platform needed for their success.
- Improved efficiencies will also help reduce staff turn-over and create a culture of stability.
- Offer competitive and compliant MLO compensation plans

MLO Profitability Reminders:

- MLO Scorecards for the purpose of tracking profitability and production statistics:
- Profitability per MLO
- Units per product type (Conv, FHA, VA, USDA, Jumbo, Non-QM)
- Pre-Approvals, Applications, Closed, and Denied files percentages.
- Underwriting touches per loan file submitted
- Does your compensation plan need to be more aggressive or more conservative?
- Is the loan officer a good fit?

Operational Advantages - Control

Is brokering a loan really easier?

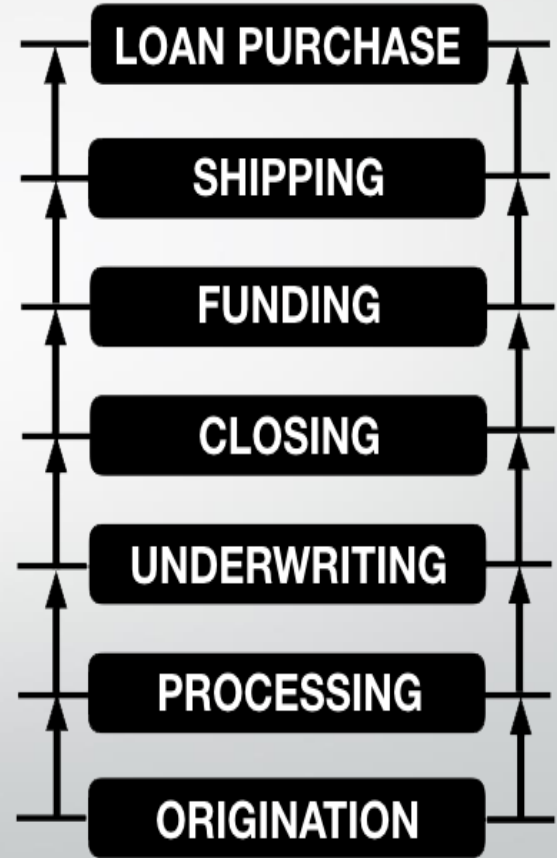
- Disclosure Process
 - Initial Disclosures, LE, COC, Pre-CD
 - No more dual disclosures
- Appraisal Ordering - Mortgage Banker controls the timing!
- Underwriting and Locking:
 - Non-Del: UW and Locking stays with the investor
 - Delegated: UW becomes the mortgage banker's responsibility. (Best Efforts or Mandatory)
 - Lock Extensions
- Lender Credits
 - Can be critical to saving relationships and valuable time

Operational Advantages - Loan Closing

- **Closing Autonomy**
 - Ability to draw your own closing documents can be a game changer
 - Liability concerns can be mitigated so don't get overwhelmed!
- **Document Preparation Options**
 - Many Non-Del investors offer various doc set options to work with
 - Draw your own docs with a dedicated closer on your team
 - Outsourcing to a **Third-Party Fulfillment** provider can be a great alternative....
 - Order and deliver closing documents and request wire from warehouse bank
 - Loan funding and submission to warehouse bank
 - Assists in Post-Closing and Final Docs Request (final title policy, deed of trust, etc.)
- **LOS Integration is Critical!**
 - Efficiency at time of input save time, money, and helps maintain accuracy
 - Having an LOS that is capable of building integrations is equally as important

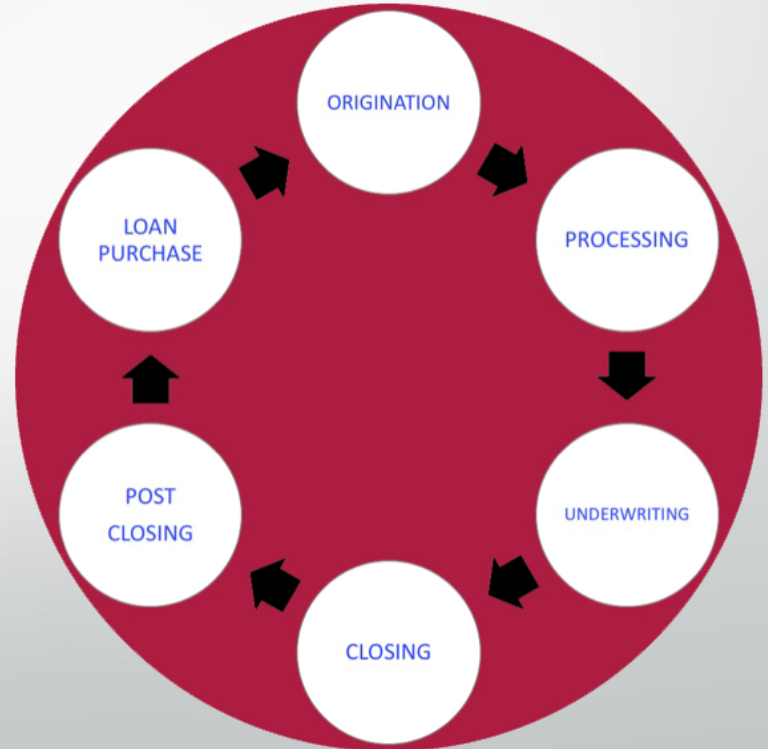
Vertical Integration

- **Vertical integration:** The combination in one company of two or more stages of production normally operated by separate companies. - *Oxford Languages*.
- Although a common term within other industries, it is also applicable to the mortgage industry.
- By combining the critical stages of the loan manufacturing process, it provides the mortgage banker with more control and efficiency.
- This results in increased margins.



Loan Cycle Efficiency

- Vertical integration of the loan process can provide for a faster loan cycle and result in the following benefits:
 - Improved Service Levels
 - Reduced Processing and Underwriting Times
 - Reduced Dwell Time
 - Reduced interest rate risk
 - Increase margins
- What are your loan cycle metrics and benchmarks?
 - Volume by Product Type?
 - Profitability per loan?
 - Cost to originate each loan?
 - Dwell Time per Investor?
 - Contract to close timing?



Production Flexibility

- **Common Concern: How much additional infrastructure do I need?**
 - Warehouse Bank approval (Ideally have at least two independent warehouse lines)
 - Does your state require a separate lender license to become a banker?
 - Are there any state specific net-worth requirements to be aware of?
 - Does your state require any surety bonds?
- **Production Model Flexibility**
 - Increased profitability provide ability to scale
 - Team Approach (Rainmaker) / Loan Officer Model / Multiple Branches
- **Will your LOS allow your business model to grow?**
 - Security features which restrict information on an as needed basis
 - Reporting and integration ability with a variety of vendors in your tech stack

Service Type Integration examples include...

\$



Appraisal

Disclosure Fees

Compliance



Fraud

Mortgage Insurance



Doc Recognition



Doc Prep



Flood

Credit



PPE



Title

Verification



CRM

Mortgage Banking Risks

Operational Risk

- **Mortgage Loan Purchase Agreements (“MLPA”):**
 - Increased reps and warrants
 - Repurchase and Indemnification clauses
 - Negotiate MLPA contracts with your investors
 - Read and understand these agreements and the investor seller guide!
- **Appropriate Staffing & Communication:**
 - Closing, Funding, Post-Close, and for those delegated lenders Underwriting & Secondary
 - Policy and Procedures
 - Organizational Chart may be required by investors, compliance audits, warehouse banks, and states
 - Workflows through your LOS can help streamline the communication process
- **Proper coverage for:** E&O, Fidelity Bond, Surety Bond (where applicable)
- **Interim Servicing:** The correspondent must have systems and controls in place for the proper handling of interim servicing payments from the borrower until loan is purchased.
 - 1098 reporting
 - Uncollected first payment may create repurchase risk!
 - Post-Closing and Shipping efficiency is critical!

Product Availability Risk

- Risk that a specific product is no longer available post-closing due to market conditions.
- COVID-19 caused tightening of Non-QM markets.
- Difficult, if not impossible, to sell these type of loans in the secondary market during this time.
- Resulted in many **non-delegated** and **delegated bankers** holding unsaleable loans on their warehouse lines.
- Unfortunate solution would be to sell on the scratch and dent market for a substantial discount.
- Good practice to have **multiple outlets** to help in the case of unforeseeable events.
- Refine your investor stack to be compatible with the loan programs produced.

Regulatory and Compliance Risk

- Good practice for both mortgage brokers and bankers!
- CFPB regulation through enforcement
- State banking departments, attorney generals, and prudent regulators
- In addition to RESPA, be prepared for:
 - Regulation Z: Truth in Lending.
 - Regulation N: Mortgage Acts and Practices in Advertising
 - Regulation B: Equal Credit Opportunity Act
 - Unfair, Deceptive, or Abusive Acts or Practices Act (UDAAP)
 - Secure and Fair Enforcement for Mortgage Licensing Act (SAFE)
 - Fair Lending and Redlining
- Make Compliance a Top Priority on a Company-wide Basis at Every Level

Quality Control Procedures

- Implement internal procedures to ensure quality lending. This includes, but is no way limited to, the following:
 - Full compliance with underwriting guidelines
 - Understand any applicable investor overlays
 - Employment, Income, and Asset verifications
 - Appraisal validation tools
 - Undisclosed debt monitoring
 - TRID compliance
 - Post-Closing Audits / Internal or via Third Party
 - Cyber Security training

Financials

- **State:** Net worth requirements can vary by state and license type.
- **Agency/GSE:** FHA, VA, USDA, FNMA, FHLMC
- **Investor:**
 - **Non-Delegated:** Lower Threshold and varies by investor. (Sometimes unaudited financials)
 - **Delegated:** Higher net worth requirements with many requiring a minimum of \$1mm and greater, but depending on your relationship, experience, and product type, exceptions can be possible.
- **Warehouse Bank:**
 - Meet minimum net worth requirements. (% of Cash to Overall net Worth)
 - Personal Financial Statements may be required.
 - E&O and Fidelity Bond coverage requirements.
- **Be prepared for:**
 - Annual Audited Financials (GAAP), and/or
 - Unaudited Financials, and/or
 - Quarterly Financials and/or
 - Asset statements to verify net worth claimed.

Mini-Correspondent Risks

CFPB issued guidance July 9, 2014:

- Does the mini-correspondent still act as a mortgage broker in some transactions, either brokering to the same wholesale lender that supplies the warehouse line of credit or otherwise?
- How many “investors” does the mini-correspondent have available to it to purchase loans?
- Is the mini-correspondent using a bona fide warehouse line of credit as the source to fund the loans that it originates?
- What changes has the mini-correspondent made to staff, procedures, and infrastructure to support the transition from mortgage broker to mini-correspondent?
- What training or guidance has the mini-correspondent received to understand the additional compliance risk associated with being the lender or creditor on a residential mortgage transaction?
- Which entity (mini-correspondent, warehouse lender, investor) is performing the majority of the principal mortgage origination activities?
- *“The above list of questions is not an exhaustive list of the Bureau’s considerations relevant to the exercise of its supervisory and enforcement authorities.”*



Mortgage Banker Risk Mitigation Techniques

Risk Mitigation Considerations

Negotiating terms of the MLPA can help reduce a mortgage banker's risk especially due to the margin compression the industry is experiencing! Key points to remember include:

- Ideal time for negotiation is during initial approval or recertification
- Volume of business dictates leverage
- Does the MLPA control over the seller guide?
- Materiality qualifiers and Notice periods
- Unilateral vs. Mutual Attorneys' Fees Provisions
- Indemnification and Repurchase sections

LO Compensation and Employee Agreements:

- LO Comp plan must be compliant!
- Helps to avoid future problems that occur down the road
- Employment agreements - Detail key terms of employment such as job descriptions and duties
- Non-Solicitation Clauses
- Are you paying your loan officers by 1099 or W2?

Establish Loan Level Loss Reserves: Early Payoffs (“EPO”), Early Payment Defaults (“EPD”), Litigation, & Other Expenses

Are You Covered?

- Two types of E&O coverages for mortgage bankers
 - Mortgage E&O
 - Professional Services Liability
- **Fidelity Bond:** Employee dishonesty, theft, and fraud. Improper personal financial gain by an employee with intent to defraud employer.
- **Discounted Loan Loss:** Provides coverage for where the loan has been sold and the seller is legally liable to purchase it back provided the borrower is current.
- **Director and Officer's Liability (D&O):** Protects individual directors and officers who are performing corporate duties for a mortgage banking firm against third-party lawsuits that arise from their role.
- **Cyber Liability:** Protects lender against theft, loss, or unauthorized disclosure of customers' personally identifiable non-public information along with other areas of protection. ****INCREASING AREA OF LIABILITY****
- At the very least you should consult with your current carrier regarding any coverage questions to determine extents of your coverage and where you may be at risk.

Declarations Page Example:

LIMITS OF INSURANCE	
Policy Limit of Insurance	\$1,000,000
Claims-Made Liability Coverages Limits of Insurance	
Aggregate Claims-Made Liability Coverages Limit of Insurance	\$1,000,000
Each Enterprise Security Event Claim Limit of Insurance	\$1,000,000
Each Privacy Regulation Claim Limit of Insurance	\$1,000,000
First Party Coverages Limits of Insurance	
Aggregate First Party Coverages Limit of Insurance	\$1,000,000

Policy Sublimit Example:

SCHEDULE OF SOCIAL ENGINEERING FRAUD LOSS COVERAGE	
Social Engineering Fraud Loss Limit of Insurance	\$100,000
Social Engineering Fraud Loss Retention	\$2,500

Are you “Audit Ready”?

- A review of vendors, internal policy and procedures, origination and general operational activities.
- Advertising and Marketing (e.g., Websites, Blogs, Social Media, Office Signage)
- MLO Comp plans and Employment Agreements.
- Marketing Service Agreements
- NMLS Reports and any applicable Transaction Logs
- Cyber Security
- State audits
- Quality Control. AML, Policy and Procedures, and more
- Now is the time to get “audit ready”!

Broker to Banker Consulting Services

- Broker to Banker Consulting
- Non-Delegated Approval Process
- Transitioning to Delegated Delivery
- Origination Training Strategies
- Executive Mortgage Coaching Programs
- Loan Profitability Benchmarking
- Specialty Products / Niche Markets
- Warehouse Line Management
- Investor Analysis
- Insurance Coverage Review (E&O, Fidelity Bond, Cybersecurity, etc.)

Complimentary 30-minute strategy call to analyze your situation and discuss a banker transition process step-by-step!

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Questions?

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