

MORTGAGE BANKING - CORE**Core Analysis Decision Factors**

Examiners should evaluate the Core Analysis in this section to determine if an Expanded Analysis is necessary. Click on the hyperlinks found within each of the Core Analysis Decision Factors to reference the applicable Core Analysis Procedures.

Do Core Analysis and Decision Factors indicate that risks are appropriately identified, measured, monitored, and controlled?

- C.1.** Are policies, procedures, and risk limits for the mortgage banking operations adequate? *Refer to Core Analysis [Procedures #3-4](#); [Procedure #17](#); [Procedure #30](#); [Procedure #40](#); [Procedure #48](#); [Procedure #53](#); [Procedures #57-59](#); [Procedures #63-64](#); & [Procedure #67](#).*
- C.2.** Are internal controls adequate? *Refer to Core Analysis [Procedures #4-8](#); [Procedure #16](#); [Procedure #18](#); [Procedures #20-23](#); [Procedures #25-26](#); [Procedure #31](#); [Procedure #42](#); [Procedure #49](#); [Procedures #51-52](#); [Procedure #60](#); [Procedures #65-70](#); & [Procedure #72](#).*
- C.3.** Are the quality control (QC) and audit/independent review functions adequate? *Refer to Core Analysis [Procedures #5-7](#); [Procedures #9-12](#); & [Procedure #56](#).*
- C.4.** Are information and communication systems adequate and accurate? *Refer to Core Analysis [Procedures #13-15](#); [Procedure #24](#); [Procedures #27-33](#); [Procedures #35-36](#); [Procedures #43-47](#); [Procedure #50](#); [Procedures #54-55](#); & [Procedures #61-62](#).*
- C.5.** Does management use appropriate strategies to manage liquidity and limit interest rate risk exposure? *Refer to Core Analysis [Procedure #19](#); [Procedure #30](#); [Procedure #34](#); & [Procedures #37-41](#).*
- C.6.** Are warehouse loans sold in a timely manner? *Refer to Core Analysis [Procedure #32](#) & [Procedure #36](#).*
- C.7.** Is the mortgage banking department's financial performance acceptable? *Refer to Core Analysis [Procedure #39](#); [Procedure #46](#); [Procedure #54](#); [Procedure #71](#); & [Procedures #73-75](#).*
- C.8.** Are foreclosures handled properly to limit business and legal risk? *Refer to Core Analysis [Procedures #63-70](#).*
- C.9.** Do the board and senior management effectively supervise the mortgage banking area? *Refer to Core Analysis [Procedure #19](#); [Procedure #21](#); [Procedures #46-47](#); [Procedure #51](#); [Procedure #53](#); [Procedure #60](#); & [Procedures #76-81](#).*

MORTGAGE BANKING - CORE

Core Analysis Procedures

Examiners are to consider these procedures but are not expected to perform every procedure at every bank. Examiners should complete only the procedures relevant for the bank's activities, business model, risk profile, and complexity. If needed, based on other identified risks, examiners can complete additional procedures. References to laws, regulations, supervisory guidance, and other resources are not all-inclusive.

This core module is for use with more complex mortgage banking operations, including programs that service sold loans and retain mortgage servicing assets. Examiner judgment will determine whether to use the Abbreviated or Core Mortgage Banking module. Examiners should use the core module in more complex situations when the bank:

- ***Has a formal mortgage banking department or a mortgage banking subsidiary;***
- ***Has purchased and integrated a mortgage banking operation or company;***
- ***Engages in wholesale activities, including loans originated through third-parties;***
- ***Has warehouse line(s) of credit to fund the mortgage banking pipeline;***
- ***Is experiencing delinquencies, foreclosures, or extended agings within the warehouse;***
- ***Speculates on interest rate movements through unhedged positions;***
- ***Originates and sells nontraditional or subprime mortgage products; or***
- ***Retains mortgage servicing assets or services sold loans in excess of the Small Servicer exemption (12 CFR 1026.41(e)(4)).***

References

- ***Interagency Advisory on Mortgage Banking, [FIL-15-2003](#) (FDIC) or [SR 03-4](#) (FRB)***
- ***Interagency Advisory on Accounting and Reporting for Commitments to Originate and Sell Mortgage Loans, [FIL-39-2005](#) (FDIC) or [SR 05-10](#) (FRB)***
- ***Interagency Guidance on Nontraditional Mortgage Product Risks, [FIL-89-2006](#) (FDIC) or [SR 06-15](#) (FRB)***
- ***Statement on Subprime Mortgage Lending, [FIL-62-2007](#) (FDIC) or [SR 07-12](#) (FRB)***
- ***Statement on Working with Mortgage Borrowers, [FIL-35-2007](#) (FDIC) or [SR 07-6](#) (FRB)***
- ***Statement on Loss Mitigation Strategies for Servicers of Residential Mortgages, [FIL-76-2007](#) (FDIC) or [SR 07-16](#) (FRB)***
- ***Servicing for Mortgage Loans: Supplemental Information for Loss Mitigation Strategies, [FIL-77-2007](#) (FDIC) or [SR-07-16](#) (FRB)***
- ***Discontinuation of Foreclosure Proceedings, [FIL-14-2016](#) (FDIC) or [SR-12-11](#) (FRB)***
- ***Mortgage Servicing Rules Under the Real Estate Settlement Procedures Act (Regulation X), 12 CFR Part 1024***
- ***Ability to Repay and Qualified Mortgage Standards Under Truth in Lending Act (Regulation Z), 12 CFR Part 1026***
- ***Amendments to the 2013 Mortgage Rules Under the Equal Credit Opportunity Act (Regulation B), Real Estate Settlement Procedures Act (Regulation X), and the Truth in Lending Act (Regulation Z), 12 CFR Parts 1002, 1024, 1026***

Preliminary Review

- 1. Review the following documents:**

<ul style="list-style-type: none"> • Previous examination reports and workpapers, including consumer compliance examinations; • Recent internal and external audit reports, management letters, and management's response to criticisms or recommendations; • Reports,¹ audits, or correspondence, if available, from government-sponsored enterprises (GSEs),² Federal Housing Administration (FHA), and significant private investors; • QC reports; • Internal memoranda, board minutes, and management reports on mortgage banking operations; • Financial performance reports to gain a basic understanding of assets, liabilities, and profitability; • If the bank is a loan servicer, review GSE or rating agency reports on servicing performance; and • Organizational charts pertinent to mortgage banking activities.
2. Review the types of products offered and sold, originator channels, sales volumes, and target markets.
Policies and Procedures
3. Review policies and procedures regarding mortgage banking activities. Consider the following: <ul style="list-style-type: none"> • Permissible mortgage banking activities, including production channels and hedging; • Loan production, origination, and underwriting guidelines; • Individual officer and employee responsibilities; • Lending limits and segregation of duties; • Position and earnings-at-risk limits; and • Accounting procedures for loan sales, loans held for sale, and derivatives.
4. Evaluate the process for granting exceptions to policies and procedures. Consider whether prompt exception reporting is made to senior management and the board of directors and whether compensating factors that support exceptions are documented.
Internal Controls
5. Determine whether management established an effective QC program that is independent from the loan production process and ensures that loans, whether originated or purchased, are processed, underwritten, closed, and serviced according to lender and investor standards.

¹ Scorecards or other reports that provide information on production levels and quality.

² References to GSEs include the Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC).

<p>6. Determine whether the QC program addresses the following items, as applicable, as discussed in GSE, FHA, or private investor guidelines:</p> <ul style="list-style-type: none"> • Pre-funding and post-closing reviews; • Each applicable production channel (e.g. retail, wholesale) and mortgage product; • Re-verification of pertinent underwriting criteria; • Fraud prevention; • QC vendor reviews (review the reviewer); • Timely reporting of findings to senior management; • On-site branch audits if the lender is FHA or GSE approved; and • Compliance with applicable laws and regulations related to mortgage foreclosures, including the Servicemembers Civil Relief Act.
<p>7. Determine whether QC findings (and management's response) are clearly documented and presented to the board and senior management at least quarterly.</p>
<p>8. Determine whether procedures exist to detect fraudulent activity, investigate suspected fraud, issue appropriate management reports, and, when warranted, file Suspicious Activity Reports.</p>
<p>Audit or Independent Review</p>
<p>9. Determine whether the scope of internal audits or other independent reviews is sufficient to identify policy, reporting, and internal control deficiencies and whether results are fully and promptly reported to the board.</p>
<p>10. If external audits, internal audits, or other independent reviews disclosed deficiencies, determine whether management responses are appropriate and timely.</p>
<p>11. Determine whether the internal audit program covers compliance with state and federal laws, applicable auditing standards, and investor requirements.</p>
<p>12. If applicable, verify that there is an independent review or internal audit of monthly servicer reports.</p>

Information and Communication Systems
13. Determine whether management information systems (MIS) have the capacity to handle existing volumes and activities, as well as projected levels, strategies, and objectives.
14. Determine whether MIS reports generate sufficient information for management to identify and monitor: <ul style="list-style-type: none"> • Closed held-for-investment and held-for-sale loans; • Loans segregated by product type and investor; • The dollar amount and percentage of total loans for each type and investor; • Loan application volumes throughout the origination process, including: <ul style="list-style-type: none"> ○ Applications received, including locked applications, ○ Commitments outstanding and related delivery status, and ○ Historical fall-out rates for specific loan categories; • The status of delivery commitments to investors and the effectiveness of hedges; • Daily positions, including pipeline commitments, fallout estimates, warehouse inventories, and forward sales contracts; • The status of warehouse lines of credit, if applicable; and • The status of loans serviced for investors, including payments, delinquencies, foreclosures, modifications, and servicer advances.
15. Assess the quality of board reports and determine whether the following information is conveyed in sufficient detail given the size and complexity of the mortgage banking program. Consider: <ul style="list-style-type: none"> • Operating results, including profitability, efficiency, and cost information; • Asset quality trends, including delinquencies, charge-offs, foreclosures, and collection accounts; • Production volumes and processing backlogs; • Warehouse inventory agings and turnover rates; • Servicer advances, including recoverable and non-recoverable advances; • Valuations of servicing rights, held-for-sale loans, and derivatives, including significant valuation assumptions and adjustments; and • Hedging activities, including products, results, and strategies.
Internal Loan Production (Origination, Underwriting, and Closing)
16. Review organization charts to assess the structure and independence of the production function.
17. Review loan production guidelines, which generally may address:

<ul style="list-style-type: none"> • Types of loans to originate or purchase; • Acquisition channels, such as retail, wholesale, and the Internet; and • Underwriting and appraisal standards (typically set by the investors).
18. Assess the qualifications, experience, and compensation levels of originators, ³ processors, and underwriters.
19. Evaluate how management plans for funding during peak origination periods. If funding from an external warehouse line, consider how many times the line turns on a monthly basis.
20. Determine how management monitors adherence to underwriting guidelines.
21. Determine whether management established an underwriting authority matrix and whether underwriting functions are outsourced. Determine how management tracks loan quality for each underwriter, including ensuring underwriting standards address investor requirements regarding the assessment and documentation of borrowers' ability to repay.
22. Evaluate procedures for underwriting, closing, and funding loans. Determine whether management ensures all necessary documents are obtained before funds are released.
Wholesale Activities
<i>Wholesale loan sources include third-party originators (TPO), such as brokers and correspondents.</i>
23. Determine the types and dollar volume of loans submitted from each approved TPO. Determine whether controls exist to prevent loans closing from non-approved sources. Investigate any closings or purchases from sources not on the approved TPO list.

³ Examiners should remain aware of the loan originator compensation requirement (Regulation Z) and contact compliance examiners with questions or potential concerns, as appropriate. The *Interagency Guidelines Establishing Safety and Soundness Standards* address excessive compensation in *section III. Prohibition on Compensation That Constitutes an Unsafe and Unsound Practice* (FDIC: 12 CFR Part 364, Appendix A; FRB: 12 CFR Part 208, Appendix D-1). Refer to the Management and Internal Control Evaluation ED Module for additional procedures on compensation.

<p>24. Review management’s process for evaluating and monitoring the quality of loans submitted by TPOs. The QC process generally considers:</p> <ul style="list-style-type: none"> • Historical default and foreclosure levels, • Non-delivery history (pull-through rates), • Documentation deficiencies, and • Repurchase demands and other investor concerns.
<p>25. Determine how frequently the bank is required to repurchase loans (putbacks) that originated from TPOs. Assess the reasons for putbacks, and determine whether the bank tracks putbacks by source to identify TPOs that should be considered for removal from the approved TPO list.</p>
Pipeline Management
<i>Pipelines include loan applications approved but unfunded.</i>
<p>26. Review the appropriateness and timeliness of pipeline reconciliation reports. Satisfactory reporting is generally performed at least monthly.</p>
<p>27. Review the timeliness, accuracy, and composition of pipeline reporting.</p> <ul style="list-style-type: none"> • Determine whether unfunded commitments are identified by product type and stratified between fixed-rate, adjustable-rate, and floating-rate derivative loan commitments. • Review management’s process for monitoring, reporting, and managing expired rate-lock commitments.
<p>28. Determine whether management reports all rate-lock commitments on loans designated as held for sale as derivatives (written options).⁴</p>
<p>29. Determine whether pipeline commitments are accurately reported in financial and regulatory reports.</p>

⁴ Refer to the May 2005 Interagency Advisory on Accounting and Reporting for Commitments to Originate and Sell Mortgage Loans.

<p>30. Review procedures for monitoring and projecting fallout rates (withdrawn from the pipeline or unapproved commitments), which can depend on historical behavior, loan type, current and anticipated interest rates, or other factors. Assess how fallout rates correlate to hedging practices.</p>
Warehouse Management
<i>Warehouse loans are funded and closed loans waiting to be delivered to the secondary market.</i>
<p>31. Review internal warehouse reconciliation reports and determine whether warehouse loans are accurately reported as held-for-sale at the lower of cost or fair value within financial and regulatory reports. Satisfactory processes generally include at least monthly reconciliations.</p>
<p>32. Review warehouse turnover and aging reports.</p> <ul style="list-style-type: none"> • Research unusual characteristics that may indicate impaired marketability, such as delinquent loans or loans in the warehouse beyond normal periods. • Consider the level of, and reasons for, nonconforming or unsaleable loans. • Review management's methods for handling warehouse loans that are ineligible for sale. Advise examiners conducting the loan review if a significant volume of ineligible loans are being transferred to the bank's held-for-investment loan portfolio. • Determine whether part of the warehouse line is designated for loan repurchases and the number of loans within that category of the warehouse line.
<p>33. Determine whether the management's estimates of fair value of mortgages held for sale appropriately include the framework and fair value inputs described in ASC Topic 820, Fair Value Measurement.</p>
Hedging Practices
<i>Many mortgage banking programs use derivative instruments, such as forward loan sales commitments, to hedge the rate-lock pipeline and warehouse loans against changing market interest rates.</i>
<p>34. Assess hedging strategies used to offset risks in unfunded (rate-locked) commitments and funded but unsold (warehouse) loans. Review assumptions used in simulation models, if applicable.</p>
<p>35. Verify that management reports forward loan sales commitments and options (if they meet the ASC Topic 815 definition of a derivative) as derivatives in financial and regulatory reports.</p>

36. Determine whether management failed to fill any forward loan sales commitments⁵ or paid any pair-off fees. Determine the exposures and causes, if applicable.
37. Determine whether hedging policies are interest rate neutral or speculative. Review the effectiveness of such hedging strategies.
38. Determine whether management adequately assesses counterparty risks and establishes appropriate limits.
39. Review recent profit or loss reports for the mortgage banking operation to evaluate the effectiveness of hedging strategies.
40. Discuss with management the degree of interest rate risk it is willing to accept and strategies for achieving and maintaining desired goals.
Secondary Marketing
<i>Secondary marketing encompasses the process of selling and delivering mortgage loans to investors, which includes repurchase risk.</i>
41. Review a sample of loan purchase and sale agreements with investors (correspondent agreements) and determine the amount, maturity, commitment terms, representations and warranties, and other recourse provisions (e.g., credit default provisions).
42. Determine the number of pools sold that lack final pool certification (issued by investors when documentation verification is complete), the reasons why, and whether the mortgage banking group is required to post a letter of credit.

⁵ If management is unable to meet commitments, refer to the hedging activities section in the Expanded and Impact Analysis Module.

<p>43. Determine whether appropriate controls exist over recourse provisions, which may include the following:</p> <ul style="list-style-type: none"> • MIS reports track all recourse obligations; • Recourse liability reserves are at an appropriate level for loans sold with recourse; and • Management properly accounts for all loans sold with recourse in the regulatory reports.
<p>44. Determine the number of loan repurchase demands the bank received from external investors over the past 12 months and the status of each (outstanding, repurchased, indemnification agreement, withdrawn by investor) as well as any associated losses.</p>
<p>45. Determine whether correspondent agreements contain pass-through recourse provisions, which require the bank to be responsible for recourse that is contained in subsequent sales agreements between the investor and other third parties.</p>
<p>46. In regards to the Credit Risk Retention Rule, determine whether the bank sells, or intends to sell, mortgages that it originates that represent 20 percent or more of a securitization that is sponsored by another entity (FDIC: Refer to 12 CFR Part 373, FRB: Refer to 12 CFR Part 244).⁶ If so, determine whether:</p> <ul style="list-style-type: none"> • Management is aware of the allocation-to-originator option and has factored the potential effects into the secondary marketing program; • Requests have been made to, or granted by, the bank to acquire an eligible interest of the risk retention obligation from the securitization sponsor; • The allocation-to-originator option is addressed in the sales agreements; • Management considered the impact of any risk retained under this option on the bank's financial condition; and • The bank complies with the hedging, transferring, and pledging restrictions of the Credit Risk Retention Rule for any interests retained for purposes of accepting an allocation to originator option.
Mortgage Servicing
PORTFOLIO SUPERVISION
<p>47. Review servicing agreements with investors and ascertain the bank's main responsibilities as servicer.</p>

⁶ The option to allocate risk to the originator permits the sponsor (i.e., the securitizer) to allocate its risk retention obligation to the originator (i.e., the bank) of securitized assets if the originator contributed at least 20 percent of the total assets in the securitization and the originator agrees to retain the risk. The originator's allocation cannot exceed the originator's share of the securitized assets.

48. Determine whether written policies and procedures for mortgage loan servicing adequately cover all facets of the servicing operations (i.e., loan set-up, adjustable rate mortgage adjustments, investor accounting, escrow administration, insurance, collections, foreclosure, bankruptcy, other real estate owned, customer service).
49. Review a sample of investor account reconcilements and consider the following controls: <ul style="list-style-type: none"> • Each investor account is reconciled at least monthly, • A supervisor reviews and approves reconcilements, • Outstanding items are resolved in a timely manner, and • Stale and un-reconciled items are promptly charged off.
50. Assess current and projected operating results for the servicing function. Determine whether management: <ul style="list-style-type: none"> • Completes cost estimates on an average or incremental basis, • Analyzes profitability for each product type, and • Includes all direct and indirect servicing expenses in cost analyses.
51. Review the list of external vendors and sub-servicers engaged by management, and determine how management assesses the quality of work performed by these third parties.
52. Review significant consumer complaints and pending litigation to identify possible internal control deficiencies and assess resolution practices.
53. Determine whether the bank has purchased any loans from the servicing portfolio. <ul style="list-style-type: none"> • Determine the reasons for purchases. • Analyze the volume and trend of purchases. • Assess policies and procedures that govern purchases.
54. Evaluate the asset quality of the servicing portfolio. Review delinquency reports, and assess the potential impact on the bank's financial performance, profitability, and business operations.

<p>55. Determine whether the bank, as servicer, is required to make servicer advances on delinquent principal or interest payments, escrow costs, or foreclosure expenses. If so, consider the:</p> <ul style="list-style-type: none"> • Book balance and credit quality of the advances, • Controls surrounding the advances, • Designation between recoverable and non-recoverable advances, • Potential recourse if the bank is not in first position, and • Ability to collect advances.
MORTGAGE SERVICING ASSETS (MSAs)
<p>56. Determine the extent to which MSAs are reviewed by internal and external auditors.</p>
<p>57. Review management's procedures for recording and periodically re-evaluating MSAs. Procedures typically address the:</p> <ul style="list-style-type: none"> • Valuation method (fair value required) and assumptions used for initially measuring each MSA, and • Subsequent method (either fair value or amortization) for measuring and recording each MSA.
<p>58. For MSAs accounted for under the amortization method, determine whether impairment policies and procedures are sufficient and reasonable, and consider whether management's:</p> <ul style="list-style-type: none"> • Stratum (basis point range) used for analyzing and tracking impairment is acceptable; • Analysis for impairment includes assessments based on product type, terms, rates, and other risk-layering characteristics; • Assessment of MSAs for impairment or increased obligation based on fair value is done at least quarterly; and • Procedures to ensure market price or valuation assumptions used for the impairment analysis are current and reflect expected levels of mortgage prepayments and discount rates.
<p>59. Evaluate management's fair value measurements for mortgage servicing rights. Evaluate whether:</p> <ul style="list-style-type: none"> • Sources of value are reliable; • Prices used for valuations are appropriate for the bank's MSAs; • Servicing assets (pertaining to all loan types and securitizations) are consistently valued; • Valuation processes include adjustments for impairment; • Modeling assumptions for MSAs are appropriate; and

<ul style="list-style-type: none"> Assumption factors, such as interest rate scenarios and prepayments, made in modeling MSAs are consistent with other assumptions used by the bank.
<p>60. Evaluate the due diligence process for bulk acquisitions of MSAs, if applicable.</p> <ul style="list-style-type: none"> Determine whether management performs a comprehensive due diligence review prior to purchasing a servicing portfolio. Determine whether management applies reasonable valuation assumptions, which may include data on underlying mortgages, servicing revenues and costs, prepayment speeds, and discount rates.
<p>61. Verify that management is properly reporting MSAs in financial and regulatory reports. Determine whether management is treating MSAs properly for regulatory capital purposes (FDIC: 12 CFR Part 324, FRB: 12 CFR Part 217).</p>
<p>62. Determine whether the bank adheres to FASB ASC Topic 860, which requires the disclosure of accounting policies, volumes, cash flows, and key assumptions made in determining fair values of servicing assets and liabilities. Items to consider include the:</p> <ul style="list-style-type: none"> Amount of MSAs capitalized or purchased during the reporting period; Method and amount of amortization for the reporting period; Fair value of MSAs, including valuations methods and sensitivity of those fair values to changes in key assumptions; Reasons for not estimating fair value of MSAs and mortgage loans without MSAs (for banks that do not to capitalize MSAs); Risk characteristics of underlying loans for the purpose of measuring MSAs, and Activity in valuation allowances.
<p>Collections and Foreclosures</p>
<p>63. Review policies and procedures associated with collecting delinquent loans.</p> <ul style="list-style-type: none"> Determine whether collection efforts follow serviced loan investor guidelines. If governing documents allow loss mitigation strategies, determine whether servicers: <ul style="list-style-type: none"> Proactively identify borrowers at heightened risk of delinquency or default, such as those with impending interest rate resets; Contact borrowers to assess their ability to repay; Assess whether there is a reasonable basis to conclude that default is “reasonably foreseeable”; and Explore, when appropriate, a loss mitigation strategy that avoids foreclosure or other actions that result in a loss of homeownership.

<ul style="list-style-type: none"> • Determine whether management documents all attempts to collect past due payments. • Determine whether uncollectible balances are promptly charged off.
64. Determine whether management avoids unnecessary foreclosures and considers mortgage loan modifications or other workout strategies that are affordable and sustainable.
65. Determine whether management thoroughly assesses the abilities of sub-servicers to fulfill their contractual obligations for collections and foreclosures.
66. Evaluate whether foreclosures are conducted properly and consistent with applicable laws, and that: <ul style="list-style-type: none"> • Foreclosures are in the name of the note holder or the party entitled to enforce the note, • The foreclosing entity has possession of the original note and either a recorded mortgage or a recorded valid assignment of the mortgage before initiating the foreclosure, and • Lost note affidavits are only used after a good faith effort to locate the original note.
67. Determine whether management has appropriate policies and practices relating to decisions to discontinue the foreclosure process that address: <ul style="list-style-type: none"> • Obtaining and assessing current valuation and other relevant information, • Releasing liens, • Notifying local authorities, and • Notifying and contacting the borrower(s).
68. Determine whether attestations in a foreclosure affidavit comply with local laws and contain: <ul style="list-style-type: none"> • Facts explaining the basis for the personal knowledge of the affiant (e.g., job title, job position, job duties); and • Assurances that the affiant reviewed supporting records to ensure the inclusion of all necessary documents for foreclosure in the particular jurisdiction.
69. Verify that complaint documents and foreclosure affidavits address the: <ul style="list-style-type: none"> • Specific amount due under the note, • Payment history (to sufficiently demonstrate servicing of the loan), • Description of the QC procedures governing the foreclosure process, and • Authorization under which the mortgage is validly assigned to the foreclosing note holder.

70. Review the compensation program and determine whether the institution pays bonuses to law firms, servicers, or employees for processing high volumes of foreclosures.
Financial Analysis
GENERAL
71. Review the mortgage banking department's balance sheet and income statement and research items that are large relative to operations or that pose undue financial risk for other reasons.
72. Evaluate loan officer compensation arrangements and determine whether any compensation or incentive programs encourage unsafe or unsound practices.⁷
EARNINGS PERFORMANCE
73. Assess the profitability of mortgage banking activities in terms of the level, trend, volatility, and composition of earnings. Consider historic and projected gains on sales, growth plans, interest rates, economic environment, and industry comparisons when evaluating earnings.
LIQUIDITY AND FUNDING
74. Evaluate management's process for meeting the mortgage banking department's liquidity needs, considering loans in the pipeline and warehouse.
75. Determine whether liquidity sources are adequate for current conditions and projected funding needs. <ul style="list-style-type: none"> Evaluate the methods used to fund mortgage operations. The methods may include repurchase agreements, commercial paper, revolving warehouse lines of credit, and long-term debt.

⁷ Examiners should remain aware of loan originator compensation requirements (Regulation Z) and contact compliance examiners with questions or potential concerns, as appropriate. The *Interagency Guidelines Establishing Safety and Soundness Standards* address excessive compensation in *section III. Prohibition on Compensation That Constitutes an Unsafe and Unsound Practice* (FDIC: 12 CFR Part 364, Appendix A; FRB: 12 CFR Part 208, Appendix D-1). Refer to the Management and Internal Control Evaluation Module for additional procedures on compensation.

<ul style="list-style-type: none"> Review asset/liability management practices to determine whether funding maturities approximate maturities of underlying assets.
CAPITAL ADEQUACY
76. Assess the effect of mortgage banking activities on capital, and determine whether capital levels support the demands and risks of the operation.
Board and Senior Management Oversight
77. Determine whether a separate board committee for mortgage banking activities exists, and review committee minutes, if applicable, for significant information.
78. Determine what management committees have oversight and control over mortgage banking operations and evaluate the effectiveness of the committee structures. Determine whether there are deficiencies or conflicts resulting from the structures.
79. Determine whether the experience, technical knowledge, and administrative capabilities of management are sufficient for mortgage banking operations.
80. Review the strategic planning process and determine whether mortgage banking goals are reasonable, attainable, complement the bank's overall business plan, and reflect the board's risk appetite. Determine whether planning addresses contingencies such as departmental scaling (i.e., flexibility to quickly increase or decrease department resources due to changes in production volumes to maintain profitability) or exiting the mortgage banking program, if and when conditions warrant.
81. Determine whether management depth and succession plans are adequate.
End of Core Analysis. If needed, Continue to the Expanded and Impact Analyses.