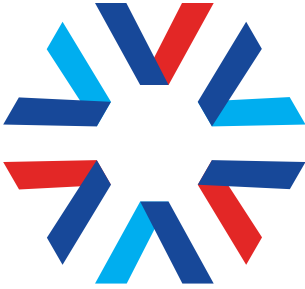




5 Reasons to Adopt Advanced Analytics & Technology in Mortgage QC





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Executive Summary

No one would argue that effective and efficient quality control is more critical than ever. Many lenders now aim to reduce their net critical defect rate to less than 1% of originated loans - substantially more aggressive than just a year ago. The GSEs have enhanced their requirements of all lenders, demanding that they lower their defect rates not by fixing the same old problems, but by accurately identifying the flaws that exist in their manufacturing process. Mortgage professionals are struggling with the delicate balance of making the needed operational improvements while controlling the costs required to make these improvements. A key factor enabling lenders to achieve this balance is the availability of advanced technology and analytics for managing the quality control process. Evaluating your manufacturing process through technology and analytics can take your mortgage

operations to a new level of efficiency, reducing overall audit workloads and driving uniformity and change that will be your guiding light for this next chapter in mortgage quality control.

Reasons to Adopt Advanced Analytics & Technology

1. Target loan reviews to better identify loans carrying higher risk.
2. Implement pre-funding strategies based on data obtained from your pre- and post-closing reviews.
3. Develop a standardized and documented workflow to achieve consistent results.
4. Support business change with data driven results and advanced reporting capabilities.
5. Improve efficiency, save costs, and prepare better for GSE and CFPB auditors.



01

Target reviews to better identify loans carrying higher risk.

Mortgage quality control has always been considered a cost center. However, by understanding results and trends, you can identify defect causes and fix the root issues with your key personnel, mitigating small mistakes that could turn into large company liabilities.

Many lenders struggle as they attempt to manage increasingly complex regulatory requirements with the same or, in some cases, even less resources. Random loan sampling is a good place to start; however it represents only one part of the picture. Random sampling does a fine job of identifying systemic problems that exist within your manufacturing process, but it does not allow for the fine-tuning required to capture a more “micro” view of your specific loan risk. When the overall cost and time associated with expanded loan reviews are at stake, targeted reviews based on analytics and an informed opinion can be more effective at identifying riskier loans. Quality control software and audit technology allow you to sample loans using targeted criteria and spot troublesome concerns before a negative trend emerges.

For example, technology and analytics could point you to specific areas of concern within a region. Perhaps your appraisal defects in the Midwest region have escalated, and more specifically, you tie this rise in defects to an exact office located in Ohio. Your technology should enable you to drill down to identify any possible patterns involving appraisal management companies, appraisers, underwriters, loan officers, or other participants that are associated with the loan files containing appraisal defects. The ability to get to the root of the problem is key for corrective action to properly take place.

A proper sampling tool will:

- Ensure comprehensive audits by allowing you to identify the higher risk loans in your book of business;
- Help you meet agency and investor requirements along with creating the long-term plan for success that will allow you to sleep at night;
- Reduce your overall risk with the confidence that your loan reviews are specific to your business – not everyone else’s; and
- Provide you critical flexibility to manage resources at the most efficient level.

Discretionary Sampling Criteria within Audit Technology

5 Discretionary Sampling Criteria found			
	<u>Percent A</u>	<u>Min. Loans</u>	<u>Max. Loans</u>
Detail	10.00		
[Loans] Total Debt Expense Ratio Percent	Greater than	39.99	
Detail	10.00		
[Loans] Occupancy	Not Equal to	Owner Occupied	
Detail	10.00		
[Loans] Employment Type	Equal to	Self-employed	
Detail	10.00		
[Loans] LTV	Greater than	90	
Detail	10.00		
[Loans] Property Type	Equal to	Condo	

Add New Discretionary Sampling Criteria

Quality vs. Quantity

Auditors can review a loan file in roughly the same amount of time... no matter if it is a random or a discretionary review. Are you making sure that your auditors are looking at the right loans? It is the technology you utilize in your selection process that provides the largest variable. Targeting your reviews by digging deeper into your data will allow you to streamline communication, drive consistency, and provide action plans that will allow for critical fine-tuning. Risk is constantly changing. Demand a system that will easily

adapt to not only the changing needs of the industry, but more importantly, allows for customization to adapt to the changing needs of your specific book of business.

Advanced technology & analytics will help you find root causes of issues, spot troublesome patterns, target reviews more effectively and fine-tune your QC processes.

02

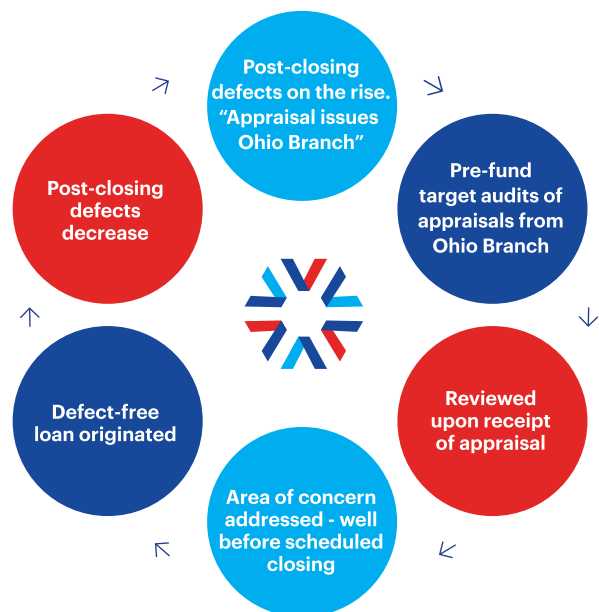
Implement pre-funding strategies based on data obtained from your pre-and post-closing reviews.

Are you taking advantage of the analytics that are made available from all of your previous reviews? There are huge nuggets of information scattered throughout this data, and the ability of your systems to extract this data can create enormous efficiencies with regard to how your pre-funding reviews are managed.


Performing pre-funding quality control is time sensitive. Selecting the most appropriate loans for review can be key to your successful implementation of a proactive pre-funding process. High-risk loans should be identified early on so validation work can be done prior to the final crunch of funding. Targeted re-underwrites can be managed effectively at pre-determined points of the manufacturing process, thereby leaving only the final tasks to be completed during the last days or hours to enable timely funding of a defect-free loan.

Take the proactive step of utilizing the results of your pre-funding audits immediately. As audits are completed on a daily basis, patterns can quickly develop. To find these patterns at the end of the month will only layer the pain of not using your analytics effectively to manage your risk.

For example, you could quickly discover an issue such as an underwriter improperly calculating self-employed income. Waiting until month-end for this to be brought to the underwriter's or manager's attention could allow additional loans to be underwritten using the same error in calculations, leaving an opportunity for loans to close that are ineligible for sale.



Bringing your information to life, in real time, and incorporating pre-funding strategies based on real-time results can not only reduce defects in your manufacturing process, but more importantly, save you from making loans that are ineligible for sale.



03

Develop a standardized and documented workflow to achieve consistent results.

The marketplace offers an almost unlimited array of vendor partners to support your quality control efforts. Vendors can provide you with systems, services, or both to fit your exact needs depending on your book of business. However, it is up to you to install a workflow that will create standardization. Choosing an audit technology partner that offers enough customization to meet your specific business needs – so that you can drive a standard workflow with consistent results – should be at the top of your list for a successful platform. Check points to help you manage through your technology research include:

- Does the technology allow your staff to audit each loan in a consistent manner?
- Does the technology allow you to customize your audits to meet your specific guidelines or needs? Are you limited to the “Industry Norms?”
- Does the system provide robust and dynamic test scripts?
- Is the software easily updated to internal, regulatory, and GSE changes?
- Does the system integrate with third-party providers to streamline audit requirements?
- Does the technology allow for seamless communication with internal and external partners?
- Have you investigated the use/benefit of “Action Plans” that result from your QC work to reduce defects?

Advanced technology & analytics, within QC software that meets your requirements, will help you drive a standard workflow and consistent results.



04

Support business change with data-driven results and advanced reporting capabilities.

Results are everything in quality control. It's critical that your technology allows results to be seen in a clear and visual way that will properly allow business executives to make the needed corrections. Clear findings and effective reporting lead to swift and proactive steps to correct or adjust deficiencies in your manufacturing process. By working smarter with your data and producing engaging and illuminating reporting, your audits will become more meaningful, prompting positive business change. You want to confirm that your technology platform can accurately tie all areas of responsibility together to form comprehensive trending results. Consistent findings and/or early findings will guide you in a logical, data-driven path towards appropriate opinion and action. Technology that allows you to powerfully visualize your results in real time will help you judge and understand the impact on your business while the actual work is being completed.

Bring your data to life with the right analytics tool and report effectively within your quality control group and to senior business executives. Don't limit yourself to flat

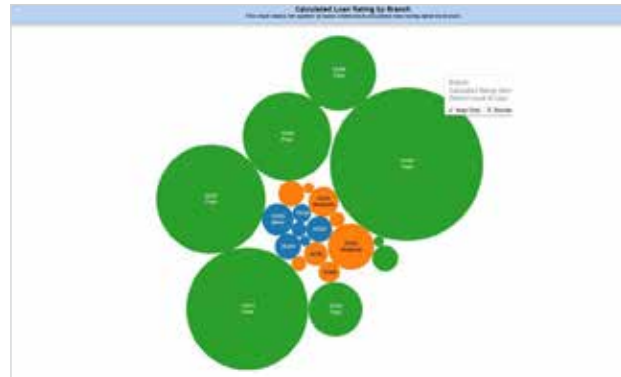
reports in PDF; seek tools that enable you to interact with your data and interchange the components so you can retrieve the answers you need.

Visual results are impactful and reactions are stronger when a graphical element is staring back at all stakeholders. The overall picture becomes clearer with self-serve analytics and high-powered visualization tools. You will achieve speed by performing higher quality reviews and not increasing loan review quantity.

Explore the use of:



Heat Maps: This heat map shows each loan's highest finding by zip code, which allows you to quickly identify geographic areas that indicate a higher risk.




Calculated Loan Rating by Branch: This report shows the number of loans within each calculated loan rating by branch. You will find that this is an easy way to visualize how each branch is sizing up to others within your organization.



Disbursement of Loan Ratings by FNMA

Category and Sub-Category: Add more than one report into one view. These two views work together, allowing you to dig deeper into the data provided. This example shows how you can determine which FNMA Categories and FNMA Sub-Categories occurred over a set period of time. Then, with one click on a FNMA Category, you can determine which FNMA Sub-Categories occurred to make up that specific FNMA Category.

Advanced technology & analytics can offer powerful, visual results and reporting that can prompt positive, data-driven business change.



05

Improve efficiency, save costs and prepare better for GSE and CFPB auditors.

It may be time to question the comfort of familiarity. Using tools such as Microsoft® Excel and Access databases to support QC reviews may appear to save money because they are easily accessible and familiar. Plus, you've previously created manual processes leveraging these common tools. Consider rethinking the reasoning, "This is how we've always done it", and explore the idea of reducing costs with improved workflow and audit preparedness by way of technology designed to support QC.

An automated quality control platform captures data that might normally get lost or that might not be formally tracked. For example, communication between Analysts and Areas of Responsibility (AORs) may be facilitated through your current email system, but how are you ensuring all communication is tracked properly or saved indefinitely? Think of process flow and standardization in general. The right quality control software can efficiently send the right loans to the right areas of expertise. The right software can automatically display the right set of questions to ask your analysts based on the exact characteristics of a particular loan. The

right software can help your organization discover critical exceptions and relay them immediately... and more. There are so many features in advanced audit technology that, when used properly, can significantly enhance the efficiency of your workflow and your ability to capture data about the workflow itself throughout the process.

Equally important, in today's environment, audits from the CFPB and the GSEs are a matter of "when" not "if". Electronic systems that capture all aspects of your loan manufacturing and servicing process, with readily available reports that demonstrate to auditors that you have control over your own quality control, save time and resources when the auditors show up at your doorstep.

Automating QC provides an environment that can accommodate your proprietary requirements and preferences, facilitate real-time and tracked communication, save cost and prepare you better for GSE and CFPB audits.

In Closing

To successfully achieve reduced loan defect rates, it's critical for QC professionals to leverage leading technology and analytics. Lenders cannot afford to work in the dark to improve quality control processes. Real-time analytics in a QC software system enable you to spot risky patterns early on, justifying corrective measures and organizational change. Audit technology should provide you the ability to hone in on what your issues are, where they are occurring, the potential root cause, and who is involved – with robust, clear visualization support and reporting. This is your business, and your book of business is specific to you. Don't accept anything less when you strive to obtain the most comprehensive results from your data.

Now the question is, "What's next in this process of adopting advanced technology & analytics?" The key to implementing a real-time analytics tool is good, valid, consistent data that fuels technology systems so you get the reporting and analytics you are looking for and the most out of your audit technology partner. Do not hesitate to ask your current or potential QC software vendor to help you through this process of getting robust data and powerful results out of your audit technology for the most effective risk mitigation.

About ARMCO

ARMCO – ACES Risk Management delivers web-based audit technology solutions, as well as powerful data and analytics, to the nation's top mortgage lenders, servicers, investors and outsourcing professionals. A trusted partner devoted to client relationships, ARMCO offers best-in-class quality control and compliance software that provides U.S. banks, mortgage companies and service providers the technology and data needed to support loan integrity, meet regulatory requirements, reduce risk and drive positive business decisions.

ARMCO's flagship product, ACES Web Audit Technology™, is available at any point in the mortgage loan lifecycle, to any size lender, and is user-definable. ACES Web standardizes audit requirements, ties pre-funding reviews to post-closing quality control audits, enables seamless trend analysis, identifies credit, compliance and process deficiencies and helps create manageable action plans.

For more information, visit www.armco.us or call 1-954- 590-0477.

