

Vendor Oversight on a Contract Mortgage Underwriter

What You Need to Know

Definition of a Contract Mortgage Underwriter:

A mortgage underwriter who is under contract with the lender via a third party.

Many non-bank and fintech lenders enjoyed record growth in 2016. To keep pace with the mortgage application volume and turn time requirements, many lenders chose one of two paths to support their capacity concerns. The choices were easy - go on a hiring frenzy or outsource certain functions to assist in managing mortgage pipelines. Many chose the outsourcing solution as it allows additional capacity to operations without adding permanent headcount.

Considerations When You Outsource to a Contract Underwriter

Outsourcing contract underwriting comes with several concerns. These include but are not limited to the vendor's:

- **Access to sensitive NPPI data** e.g. How will the Contract Underwriter access the borrower's NPPI data?
- **System access** e.g. Will the Contract Underwriter work within the lender's LOS? How will access be securely monitored?
- **Qualifications of their staff performing the underwriting function** e.g. Does the contract underwriter firm have minimum qualification threshold and underwriting experience requirements?
- **License** e.g. Is the contract underwriting firm licensed to underwrite loans in the states it is making the underwriting decision on?
- **Training** e.g. This applies to both the vendor's training policy of its staff as well as if the Contract Underwriter will have access to the lender's in-house training and policy guidelines.
- **Consumer federal regulatory compliance violations** e.g. Has there been any record of consumer federal regulatory compliance violations which may have an impact to your consumer?

3 Tips In Vendor Oversight of a Contract Underwriter

1

A Contract Underwriting service may be leveraged during high volume periods in the lending lifecycle, therefore, vendor oversight should **be proactive during the pre-contract stage** to ensure that the vendor service can diligently meet the business need.

2

Since the engagement may be turned on and off during a year based on volume, **don't wait to document and assess** the vendor services and their performance on an annual basis. The best practice is to treat a Contract Underwriter as you would a regular FTE with **regular monthly interaction**. This is a vendor type which requires ongoing and annual monitoring.

3

Contract Underwriting services may be offered by firms which specialize in managing underwriters for assignments or from Private Mortgage Insurance (PMI) vendors. The PMI companies may offer Contracting Underwriting services as an additional standalone service for lenders requiring additional capacity.

Questions to Consider When Assessing Contract Underwriter Risk

From an oversight perspective, there are a number of risks and concerns which should be addressed both at the pre-contract due diligence stage and the ongoing and annual audit process.

Concerns, such as documenting the location of the contract underwriting staff, are legitimate if you consider that a third or fourth party will have access to your client's data.

- **Will they be remote in the vendor's offices or even working remotely from their home office?**
This raises both physical and IT security concerns surrounding a borrowers NPPI data.
- **Will the vendor (contractor) be on-site?**
Having a Vendor On-Site (VOS) could be a valid concern given the fact that there are additional access permissions of building access with a contractor now roaming your physical office with relatively easy access to other proprietary systems and intellectual property.
- **How does the vendor conduct their employee or contractor vetting?**
Best practices should detail the level of background check on the contractor or employee. This should include OFAC, criminal, credit, employment history, etc.
- **How robust is the vendor's training program for its staff? What is the onboarding process? Is there initial and ongoing training / testing? What are the vendor's standard pass fail rates?**
All of this is aimed at assessing if the vendor actively manages compliance and guideline education standards to ensure that the Contract Underwriter is current on the changing lending guidelines.
- **Quality assurance - is a Contract Underwriter's work regularly reviewed to ensure that it meets all federal and state consumer lending regulations?**
It's important when considering outsourcing this function that you view the prospective Vendor and Contract Underwriter as an extension of your operations. While the CFPB recognizes that there may be strategic advantages in outsourcing some of the mortgage lending process, the risk of doing so remains strictly with you, the lender.

The standard audit scope of a tech heavy vendor service may not always dig deep enough into the human factor of outsourcing these functions. As you would train and implement workflow procedures for your own internal employees, **it is vital that you validate the vendor has an equally robust commitment to an operational and regulatory compliance framework.**

Since a contractor is working on a flow basis of loan files as capacity demands, it's important to perform **regular monthly reviews of the work product** both from a quality and quantity standpoint. By measuring this performance with your contractual agreement and service levels, you can demonstrate that you are managing the vendor **both in terms of ongoing and annual assessments.**

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