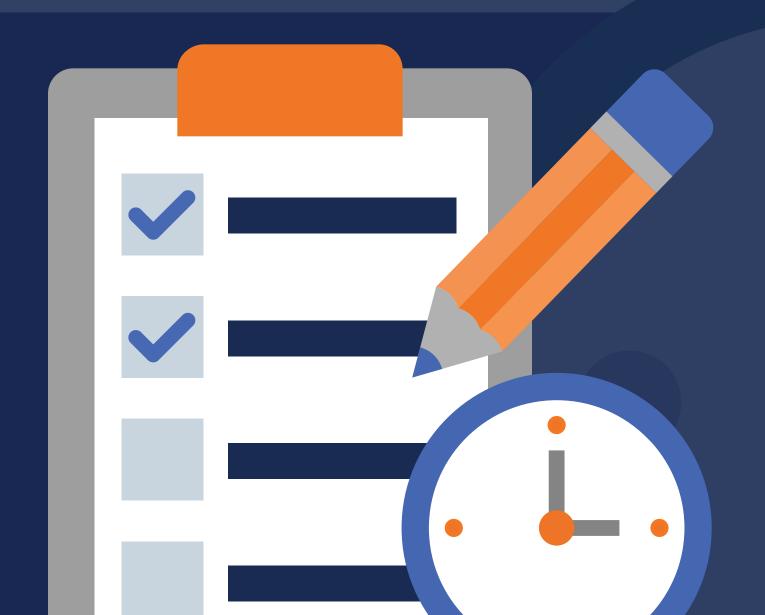# Comergence
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ANNUAL RENEWALS:

Third-Party Best Practices & Checklist

THIRD-PARTY BEST PRACTICES & CHECKLIST
How to Maximize TPO Relationships & Minimize Oversight Risk

Conducting annual reviews on third-party originators has always been a time consuming aspect of managing third-party originators. Even with automation and technical efficiencies in the quality control arena, resources are often allocated to areas that demand more constant oversight efforts than renewals. This has led a significant percentage of third-party investors to fall back on manual processes for their annual renewals. Yet vetting TPOs, whether reviewing credentials for new relationships or conducting annual renewals, is critical to successfully managing investor exposure to repurchase risk, costly fines and enforcement action, as well as production flow.

Today, most renewal processes are performed on an annual basis, giving the investor several challenges based on timing. If all TPO partners are required to renew in a given month, for example December, then how is that effectively managed? Even when reviews are queued for the anniversary month or quarter of engagement, due diligence efforts frequently wane due to competing priorities. This means that many renewal dates creep toward yearend when investors want to make certain they're properly managing their TPO production volume in addition to meeting compliance requirements.

Renewal time should factor in considerations of a third-party originators performance and profitability.

Some notable thoughts include, *how do you keep track of renewal due diligence, especially as your partner database grows? How do you track which TPOs are adhering to your guidelines on renewal documentation requests, and which are not?* Another important element that typically comes up at renewal time, is the consideration of TPO performance and profitability. As you can imagine, delaying the annual review process or setting a yearend review schedule, can easily turn this process into an overwhelming and daunting task that may or may not get completed.

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As the industry prepares for an expanding purchase market, TPO investors need to rethink and reprioritize approval and renewal due diligence. There is little room to doubt the benefits of partnering with third-party originators, albeit with thinner margins, broker and correspondent lending channels expand brand reach and increase production volume; however, the risks associated with these origination channels must be carefully managed. The secret to success is learning to minimize these risks, while maximizing the value of your TPO client base.

Best Practices

Investors historically migrate in and out of third-party originations based on current production and profitability, with consideration relevant to credit and regulatory constraints. Mastering the benefits of TPO lending requires best practices that are strategically executed and managed concurrently. Although best practices must be considered throughout the year, the annual renewal process presents the opportunity to evaluate your overall TPO client database for key success factors that are naturally a component of your best practices, such as:

1. Eliminating relationships that fall short of production benchmarks.
2. Identifying opportunities to increase production from existing relationships.
3. Building loyalty and longevity by forging stronger relationships.
4. Improving loan quality and reducing carrying costs.
5. Assessing internal TPO organizational performance.
6. Soliciting and incorporating TPO feedback for process improvement.
7. Providing strategic thought leadership specific to TPO needs.

There are a number of compliance elements that need to be factored in when creating a strong foundation from which to grow your client base and ensure scalable business processes, At a minimum, your best practices should encompass the following fundamentals.

Effective Policy

Develop and implement a policy that incorporates corporate governance and audits that meets or exceeds regulatory requirements. Effective policy should include:

- Third-party originator performance requirements, referencing qualitative and quantitative variables.
- Documentation guidelines for TPO approval, renewal and change of status.
- Renewal time frames and objectives.
- Regulatory compliance responsibilities, requirements and reviews.
- Internal TPO guidelines and expectations.

The secret to success is learning to minimize risks while maximizing value of your client base.

Identification

Identification of TPO partners that are due for annual renewal must be a proactive versus reactive process. Begin your review analysis process early and identify the upcoming review queue well in advance of the set renewal date.

- Review annual production quantity and quality and determine forthcoming production expectations.
- Assess overall relationship with TPO; are they responsible, responsive, involved in industry events and knowledgeable of the industry?
- Determine the financial strength of each TPO in today's market, in addition to their stress tested longevity.
- Define your process timelines for annual renewals. A lean six sigma approach is recommended, with renewals performed during the engagement anniversary month. This ensures a smooth timeline for your renewal process as opposed to a once a year all hands-on deck escapade by providing a true annual evaluation of the TPO relationship.

It is important to be forward looking and identify TPO partners that are candidates for renewal at least 45 days ahead of schedule. This gives you the opportunity to evaluate client suitability for renewal, that includes feedback from internal stakeholders, as well as develop a strategic plan for evolving the relationship in the forthcoming year.

Termination

One of the best things you can do for your business is terminate non-performing or at risk TPO partners. Once you have identified third-party origination partners that have not met benchmarks for loan quantity, quality, or other criteria defined in your policy, you should terminate these relationships instead of requesting renewal documents. This eliminates the expense of conducting the renewal process and eliminates costs associated with carrying a non-producing partner in your client base.

Maintaining a strategic approach to termination also allows your team to focus energies on the 20% of your partners that produce 80% of your volume . Developing loyalty by serving core TPO partners builds a stronger overall foundation of quality, performance and compliance.

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Communication

Once you have identified the TPO partners selected for renewal, you will need a detailed communication plan that should include the components listed under Effective Policy. In addition to communication with the TPO, key stakeholders such as sales, operations and compliance should be contributors, as well as recipients of renewal evaluation and communication. Obviously, early communication with the TPO is a necessity, including an explanation of renewal purpose, the corresponding process and requirements to follow. This is also the perfect opportunity to market the benefits of working with your institution, highlight forthcoming product innovation and discuss projected regulatory impacts for the upcoming year.

Follow Up

Nearly all third-party originators submit their loans to as many as a half-dozen investor/aggregators for approval, funding and settlement. This means your client is providing licensing and financial documentation to multiple parties. Depending on the size and how organized your TPO partner is, can determine how quickly and thoroughly they respond to your specific renewal guidelines. To avoid having your paperwork lost in the shuffle, monitoring and follow up on the status of renewals is strongly recommended.

- Keep track of which TPOs have outstanding or pending items that are needed to complete renewal within set timeframes.
- Develop a remediation plan that is tied to key events, such as second renewal requests, suspensions and/or termination.
- Implement processes that prevent receipt of new originations until the renewal process is complete, especially if termination may occur.

The Comergence Third Party Oversight solution provides wholesale and correspondent investors with the ability to confidently comply with agency and regulator requirements, while reducing costs and streamlining business processes for TPO management.

Optimizing third-party relationships enables organizations to eliminate unnecessary expenses, inefficiencies and risks, making the renewal process an integral part of the overall management of TPO business relationships.

The regulatory landscape continues to change and evolve post financial crisis. Managing your TPO business channel in this environment necessitates a keen capacity to navigate change, along with the ability to optimize investor relationships and produce relationships that go beyond compliance, driving organizational performance that increases profitability and maximizes TPO partnership loyalty. Technical solutions that are nimble and industry proven help to ensure your organization outpaces the competition.

Checklist

Having a detailed checklist to support your TPO renewals is an obvious requirement. Maintaining accuracy, consistency and timeliness throughout the process can be easily managed and optimized as illustrated by the following checklist, which pulls examples directly from the Comergence solution.

- ✔ Check your Client Board on a regular basis to make certain you're aware of who is coming up for a renewal. This will allow sufficient time to notify and/or terminate clients before the renewal launches, OR if more time is needed you can readily update the Renewal Date.
- ✔ Frequently check pipeline reports to prioritize your renewal applications. This can provide you with valuable insight into respective TPO volume and may influence your decision on renewal eligibility.
- ✔ It is recommended that you use the custom settings provided, allowing you to choose a date in which renewal applications will expire. Utilizing this feature will allow any incomplete renewals to expire. Closing them automatically avoids open applications sitting unresolved for extended periods of time.
- ✔ When a renewal application expires, the relationship status for the client updates to "renewal suspend". The "renewal suspend" list should be reviewed regularly to make decisions on the future of the partnership - for example, launch another renewal or terminate the relationship.
- ✔ Be sure you are confident in termination decisions before completing this process as it is not reversible. If a client needs to be approved once terminated, they will need to systematically re-apply as a new client.
- ✔ Don't forget that the designated Primary Contact is the person that receives the renewal notification emails.

About Optimal Blue

Optimal Blue operates the mortgage industry's Digital Marketplace, connecting originators, investors, and providers with a single, unified technology and value-added services platform. Optimal Blue's Digital Marketplace enables originators to automate their entire secondary marketing operation, from content through commitment, provides investors with network access and an array of compliance and business intelligence tools, and offers innovative providers API-based access to the Optimal Blue platform. Together, these originators, investors, and providers form a unique, multi-sided network touching one of every four mortgage loans closed nationally each year. For more information, visit www.optimalblue.com.