



Region 2 & 3 Virtual Meeting

Auditing Automated Lending Models

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Michigan ● Texas ● Florida ● North Carolina

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- Strategic Considerations
- Automated Underwriting
 - What is it?
 - Purpose, Benefits and Process
 - Types of systems
- Risks and Controls
- Audit Considerations
- Questions

- Does automated underwriting fit with strategies for:
 - Member demographics and market expansion
 - Products and services
 - Growth
 - Delivery systems
 - Staffing
 - Existing technology systems and IT talent
 - Risk management

“Consumers are looking for the institution that best fits with their lifestyle. Technology – both inside and out the branch – can be the differentiator in a crowded market” - Fiserv

Polling Question #1

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Does your credit union currently utilize automated loan decisioning systems?

- Yes
- No
- Unknown

What is Automated Underwriting?

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Automated underwriting is a technology-driven underwriting process that pulls relevant data from the loan application and credit report, evaluates that data based on the parameters and methods built into it, and provides a computer-generated loan decision.

- Near-instantaneous decisions of approval or denial
- Standardization in review and decision of loans
 - Uniform data analysis
 - Algorithms that eliminate human bias
- Easily consolidates data from multiple channels
 - Mobile, online, branch, call center, indirect, kiosk

- Reduction in time for decision to borrower
 - The closer the underwriting decision gets to the front-end of the sales process, the greater the ability to capture the sale
 - Higher production, greater profitability to the credit union
- Increased efficiencies
- Increased accuracy of decision
 - Reduction in underwriting leakage
- Reduction in costs
 - Greater volume of Straight-Through Processing (STP)
 - Experienced underwriters focus efforts on complex and higher risk profile applications
- Cross-selling opportunities

- Conforming mortgage loans (agencies)
 - Fannie Mae Desktop Underwriter (DU)
 - Fannie Mae Collateral Underwriter (CU)
 - Freddie Mac Loan Prospector (LP)
- Government insured mortgage loans
 - Federal Housing Administration (FHA) Total Scorecard
- Lending institution portfolio built/purchased systems for mortgage and consumer loans
 - Internal or through vendor

- Data
 - Mapping errors
 - Lack of controls in system for data input
 - System bypass
- Inadequate underwriting rules
 - Poorly developed product requirements
- Overuse of exceptions
 - Continued exception requests and approval defeats benefits
- Failed oversight and management
 - Lack of continued monitoring (demographics, analyze trends, decision frequency, decision quality, etc.)

Audit Considerations

Polling Question #2

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Do you currently audit your automated underwriting system, policies, and procedures?

- Yes
- No

- Automated underwriting methods used for?
 - Online membership applications
 - Online consumer loan applications
 - Unsecured personal loans
 - Secured loans
 - Online mortgage loan applications
 - Conforming agency loans
 - Government insured loans
 - Portfolio real estate secured loans
- Known control weaknesses and plans to remediate
- Reports used by management

- Automated underwriting rules compliant with each loan product guideline
 - Product guidelines identify (AUS) eligible vs. manual underwriting
 - Underwriting policy requirements supported by automated underwriting rules
 - Adequate controls established for all compliance requirements
 - For example: authorization received to pull credit prior to running
 - System records the borrower's authorization in transaction history
 - All actions taken leading up to decision can be validated

- Evaluate technology mapping and platform utilized
- Test sample selection of decisions made through automated underwriting (approval/denial)
- System integration
 - Where is the data pulling from and is it mapping correctly
- Evaluate decision result messaging and conditional supporting documents
- Assess if the automated underwriting includes predictive and fraud analytics

- Assess all analytic reporting of automated underwriting tool
 - User reports – segregation of duties
 - Percentage of approval vs denials
 - System overrides
 - Number of changes to data and re-run
 - Trends
 - Errors causing decision not be made

These reports can assist in identifying incorrect data mapping, possible fair lending violations, compliance violations and potential marketing opportunities.

- Evaluate end to end process to identify:
 - Redundancies
 - Inefficient processes
 - Systems utilization
 - Costs
 - Decision points and bottlenecks
 - Speed and quality of services provided
- Conduct a staffing analysis
 - Adequately staffed for volume
 - Core competencies
 - Training and bulletins for changes

- Evaluate manual processes
 - Higher risk loan products not eligible for automated underwriting decision
 - Loan products eligible for Straight-Through Processing (STP)
 - Post-funding activities
 - Underwriter validation of data and support for mortgage loans
 - Decision change due to supporting documentation

- Evaluate exception policy and process review
 - Steps for requesting exception approvals
 - Tracking and reporting of exceptions
 - Authorized approval levels

- Evaluate error rate threshold in post-closing reviews of applications decisioned by automated underwriting
 - Risk characteristics require further review
 - What can be streamlined in processing to increase the underwriting efficiency
- Consider metrics such as:
 - New business application processing time and expense (non-CU members)
 - Incomplete application rates
 - Loss frequencies
 - What are the baselines for each metric?

- Evaluate if the QC program includes automated underwriting review
 - Reverification
 - Data validation
 - Compliance adhered to
 - Ensures errors are remediated in a timely manner.
 - Quality assurance staff is comprised of individuals who have extensive underwriting knowledge to execute the reviews

- Tracking of repeat QC issues identified:
 - Database to reference and utilize for enhancements
 - Corrections and identification of repeat errors that may be a result of improper programming.
 - Root cause to drill down into error codes for analysis

Polling Question #3

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Do you plan to include automated underwriting in your 2021 audit plan?

- A. Yes
- B. No
- C. Maybe

Questions?



Thank You!

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