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Office of Thrift Supervision
Department of the Treasury

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September 17, 2008

MEMORANDUM FOR: **CHIEF EXECUTIVE OFFICERS OF ALL INSTITUTIONS**

FROM: Timothy T. Ward, Deputy Director Timothy T Ward
Examinations, Supervision, and Consumer Protection

SUBJECT: Documentation and Underwriting Standards

Recent experience has underscored the risks associated with the business model of originating mortgages for sale using investor documentation and underwriting standards that differ from your Board approved loan policy standards. Loan sales typically have contractual representations and warranties that allow the purchaser to "put back" loans that have documentation errors or omissions, where fraud is involved, or when the loan becomes delinquent during the warranty period. Likewise, changes in the secondary market for such mortgages can create liquidity and other funding challenges. These events can expose a savings association to much greater risk than it contemplated for this business model.

It has been and remains OTS policy that savings associations use prudent underwriting and documentation standards for all loans they originate, both for those to be held in portfolio and those originated for sale. OTS expects that loans originated for sale will be underwritten to comply with the institution's Board approved loan policy and all existing regulations and supervisory guidance governing the documentation and underwriting standards for residential mortgages.

Experience has shown that the level of pipeline, warehouse, and credit-enhancing repurchase exposure for mortgage loans originated for sale to non-government sponsored enterprise purchasers can constitute a concentration risk that should be aggressively identified, measured, monitored, controlled, and reported to your Board. Given the concentration risk, the Board approved loan policy should establish a limit for aggregate pipeline, warehouse, and credit-enhancing repurchase exposure from such lending programs. A savings association will receive closer supervisory review of its concentration risk when such exposure exceeds its Tier 1 capital. Our examiner Handbook Section 212, *One- to Four-Family Real Estate Lending*, now reflects this risk management practice.

If you have any questions regarding this memorandum, please contact your regional office.