

How to Use This Manual and CD

Ready-to-use manual. The *Model Compliance Manual: A Template for Mortgage Professionals* provides a draft compliance manual ready for customization and implementation by residential mortgage lenders. A CD is included with the manual to make customization easy. Using the CD, an institution can:

- Select applicable sections of the manual.
- Insert the names of its own firm and departments.
- Circulate sections as needed for review by knowledgeable staff.
- Obtain management approval.
- Print personalized compliance manuals for everyday use.

The compliance solution. The *Model Compliance Manual: A Template for Mortgage Professionals* enables residential mortgage lenders to focus on sales and production, rather than the complexity and continual changes in the regulatory environment. Many mortgage lenders do not have the human resources to commit one or more full-time employees to compliance. Nevertheless, their regulators expect them to comply with all applicable laws and regulations. The manual helps institutions do that.

Training resource. Many lenders do not have a compliance manual, or an operations manual, or a training manual, or any other document that describes their policies and procedures. New hires, whether experienced mortgage lenders or new to the field, are too often left on their own to pick up what they can from other employees or generic training materials. When a regulator visits and inquires about a policy or process, the answer may depend on who is asked. When a problem arises, it may be difficult to determine the process that should have been followed. The *Model Compliance Manual: A Template for Mortgage Professionals* can help fill the gap.

Discipline. No compliance manual can be the final answer by itself. The manual must reflect the way the firm does business. Knowledgeable staff must take the time to critically read it and agree that it is the way they do business or want to do business. Then, all staff must read it, understand

it, and follow it. Some checks should be in place to confirm that the organization does what the manual says it does.

Protection. A properly implemented compliance manual offers another important benefit. It can serve as evidence of compliance. Sometimes it is difficult to prove something was done a certain way. For example, without the stamped envelope in which a good faith estimate was sent, it may be hard to prove the disclosure was mailed on a certain day. But if the compliance manual states that the disclosure must be mailed on the day the firm receives the customer's application, and an employee testifies that the firm's standard practice is to mail the good faith estimate on that day, the compliance manual normally can be admitted in court as evidence that the firm actually mailed the particular good faith estimate on that day.

Regulator satisfaction. When regulators show up to audit a firm's compliance, or to investigate a complaint, they usually ask for written procedures and manuals. A firm's inability to provide written materials isn't necessarily viewed as an issue or problem, but it is perceived as a warning signal that the firm may not have all its ducks in a row. As a result, the regulators may spend a considerable time interviewing various employees and investigating how the firm handles the situation being investigated. Of course, having a manual doesn't eliminate this investigation. But if the regulator finds an acceptable written procedure and a sample transaction or conducts an employee interview that confirms the written procedure was followed, the regulator is less likely to keep searching for evidence that the procedure was not followed.

Alternatives. It is important not to simply take this manual and adopt it without ensuring it matches the way your organization does business. Not every lender offers the same products and not every lender offers the same products in the same way, so the manual includes questions and pointers to guide you in selecting the appropriate materials for your customized manual. Most of the guidance relates to significant differences in policies, procedures, and products, but other suggestions help you to customize the manual and truly make it your own. For example:

- The CD allows you to automatically include your firm's name throughout the manual.
- The CD uses the term "staff" or "staff member" to refer to your employees. If you prefer another term, such as "associate" or "employee," the CD allows you to automatically replace "staff member" with your preferred term.

- The CD uses the terms “Compliance Manual” or “Manual” to refer to this Manual. If you prefer another term, such as “Compliance Handbook,” the CD allows you to automatically replace “Compliance Manual” or “Manual” with your preferred term.

Regulatory change. Also, requirements change, so your firm should not implement a manual and then leave it alone year after year. The *Model Compliance Manual: A Template for Mortgage Professionals* is periodically updated to keep you apprised of necessary changes.

Focus on residential mortgage lending. The *Model Compliance Manual: A Template for Mortgage Professionals* focuses on first and secondary single-family residential mortgage lending activities. It does not address commercial loans secured by mortgage loans, loans secured by other than single-family residences, or nonconsumer loans. It does not fully address home equity credit lines or reverse mortgage loans, although it will be expanded to do so in the near future.

Compliance checklists and examination procedures. The compliance checklists that appear in the sections of this manual and in Part 9 will assist your institution in confirming that it has implemented each law and regulation. The compliance checklists, compiled from a section-by-section analysis of each law and regulation and from information distributed by the various regulators, provide a systematic way of setting up your compliance efforts and reviewing your performance.

The examination procedures that appear in the sections of this manual will help you understand what the various regulators look for when they audit an institution for legal and regulatory compliance. The examination procedures have been compiled from the examination handbooks and guidance materials issued by the regulators.

It is an excellent idea, on a periodic basis, to assign someone in your organization, or to hire someone else, to go through the compliance checklists and apply the examination procedures. Many institutions have instituted a standard policy of conducting the examination procedures when they know examiners from a regulatory agency will be coming for a visit. In this way, the organization obtains some confidence that there will be no surprises when the real examination occurs. Many larger institutions maintain compliance staff who apply the examination procedures on a regular, rotating basis throughout each year. Your own institution’s ability to adopt similar compliance review policies will depend on your staff resources and management’s compliance commitment.

User Guide. The User Guide is available on the CD that accompanies this manual.

