



312 (dw) HE Lending - HELOC Portfolio Management

Workpaper Details

Section	
Section:	2. Testwork
Workpaper Index:	2. <input checked="" type="checkbox"/> 312 (dw)
Subject:	<input checked="" type="checkbox"/> HE Lending - HELOC Portfolio Management

Result	
Result:	4. Exception(s) noted--issue Reportable Observation

Objective
Objective 1) Determine existence of Home Equity Line of Credit portfolio management: a) Is policy clearly communicated for HELOCS with respect to lending limits b) Underwriting standards defined for appraisal or analysis required on HELOC's c) Monitoring performed to determine LTV ratio's fall within lending guidelines d) Maturing HELOC process: review of borrower's financial situation

Source/Scope
Process/Procedure/Policy Discussion:  Home Equity Lending
Personnel Discussion: <ul style="list-style-type: none">• Mark Nelson, Chief Credit Officer• Brenda Craft, Consumer Loan Product Specialist• Dan Jacobson, Loan Product Manager and Chief Lending Officer
Link to previous workpaper:  ML WP 221- rotated out of Mortgage to Credit Admin
Link to supporting workpaper: N/A

312 (dw) HE Lending - HELOC Portfolio Management

Objective 1)



R1>> WP 312 Email Mark Nelson.pdf



R2>> WP 312 Consumer Loan Pricing Matrix.pdf

Reference only:



WP 312_ Credit Risk Management Guidance for Home Equity Lending_OCC Bulletin 2005-22.pdf

Results

Objective 1) Determine existence of Home Equity Line of Credit portfolio management :

1a) Is policy clearly communicated for HELOCs with respect to lending limits

Audit contacted Mark Nelson, Chief Credit Officer in regards to the Home Equity Line of Credit Policy. Mark stated that there has not been any changes to the policy. Along with lending limits, ownership verification is required on all home equity loans. Several methods to obtain this information is available. some resources would be the use of title insurance, attorneys opinion or an Owners Encumbrance Report. Flood hazard determinations are required on all home equity loans and proof of hazard insurance.

Closed End

- Up to 100 % Loan to Value with pricing adjusted for loan to value;
- amortization up to 15 years with a 5 year balloon;
- Debt to Income ratio with new payment 55% or below

Open End

- Up to 100% loan to Value with pricing adjusted for loan to value
- 5 year maturity
- Variable rate option

312 (dw) HE Lending - HELOC Portfolio Management

- Payment options are: interest only, 2% monthly of outstanding balance plus interest and 2% monthly of committed line amount
- Debt to income limited to less than 56%;

FHA Title 1 Program

- No equity required
- Maximum loan amount of \$25,000
- Home improvement purposes only
- Fixed rate
- Debt to income limited to less than 46%

1b) Underwriting standards defined for appraisal or analysis required on HELOC 's

With regards to Home Equity Lending and standards for appraisals, this is clearly stated within the policy. Appraisals can be obtained in various ways. The service of an outside provider can be used. This can be utilized with a prior fee paid appraisal prepared for the customer to support and form the basis of the evaluation. The appraisal/evaluation in this case must be delivered directly to us. We can accept a current appraisal on the property prepared in conjunction with a first mortgage loan made in our residential lending area. For stand alone loans of \$250,000 or more the transaction must be supported by a current fee paid appraisal prepared for us by an independent licensed or certified appraiser.

1c) Monitoring performed to determine LTV ratio 's fall within lending guidelines

The pricing matrix utilized in Consumer Lending (R1), indicates the maximum LTV on home equity loans and lines to be 95%. The lending policy indicates the maximum LTV on these types of loans to be 100%. A discussion with Dan Jacobson revealed the 100% LTV allowance came about a few years ago in the Fargo market and is available for physicians in that market as well as the Grand Forks market. Dan indicated this was in place well before fair lending became a primary focus for some of the regulators and in light of the current fair lending focus, this practice should probably be re-evaluated. From a fair lending perspective, the practice may potentially provide the potential for disparate impact to occur. The Chief Compliance Officer has also been made aware of this practice as well. (R2) **Observation noted**>> 📄

1d) Maturing HELOC process : review of borrower's financial situation

Audit contacted Brenda Craft, Consumer Loan Product Specialist in regards as to the process for maturing HELOC's. There is a process out in R & R with the routine name of "Home Equity Lines Maturing". Audit asked Brenda, the owner of the process if this was current and she indicated she was unaware that it was even out there. In talking with Brenda, she stated that this process is no longer used and now this is handled with the bankers contacting the borrowers 60-90 days prior to maturity. They then input a new application into Mark IV and a credit report is pulled and Underwriters make the decisions at that time. This serves as a guideline at that point in time to review credit quality of the borrower.

As for portfolio management overall, HE lending is conducted in a fairly conservative manner. Any exceptions to consumer underwriting policy are documented either in Cypress Mark IV, the consumer underwriting tool or the Loan Processing database. Although Alerus offers interest only as an option on HELOCs, interest only HELOCs represent a small portion of the total portfolio. LTVs are measured on a global basis and reviewed in WP 310. From an ALLL perspective, CCO Nelson, is responsible for performing those calculations and they are reviewed in WP 303. No issues have been identified by regulators with respect to HE portfolio management. **No exceptions noted.**

312 (dw) HE Lending - HELOC Portfolio Management

Narratives / Supporting Workpapers

Description

Document Family Information

Company Name:	Alerus Financial - Internal Audit (Alerus IA)	Group:	Risk Management
Auditable Entity:	2012 Credit Administration (2012)	Business Function:	Business Line
Division:	Banking		

Approval

Approvals

Completed:	Terry Guenther/FNBND 12/12/2012 11:51:42 AM
Approval 1:	Deb Winson/FNBND 12/14/2012 11:27:40 AM
Final Approval:	

History

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