



Unlocking Lender Perspectives: Quality Control, Technology and Innovation

VO [00:00:09] Welcome to The Way Home, a Freddie Mac podcast series that explores the latest in mortgage solutions for today's dynamic housing market. Here, housing industry leaders will share insights and actionable strategies that you can put to work today to help make home possible. Let's get ready to dive in and to explore the complexities of the housing market with Freddie Mac.

Phil Treadwell [00:00:32] In this episode, Kevin Kaufmann, VP of single family seller Engagement at Freddie Mac Talks with Eileen, two vice president, product development and credit policy at Rocket Mortgage about how to get the most out of a lender partnership with Freddie Mac through communication, innovation and technology.

Kevin Kaufman [00:00:48] Kevin Kaufman here with Eileen two. Eileen, thank you for taking time to meet with Freddie Mac and being a part of our podcast series. Really excited to have you and you're an amazing partner and glad to have you here.

Eileen Tu [00:01:00] No thank you. Thank you for having me. It's great just to talk about some of our businesses together. So I'm looking forward to this.

Kevin Kaufman [00:01:06] It's good. So I think what we want to talk about is just long quality. I think we've had just quite a year is how we started. I wanted to tell the audience a little bit about just some of the story of how we've evolved throughout this year. I think you may remember we had a credit advisory board back in February. As a part of that, it was like I walked into the room, I just sensed all this tension, and it was supposed to be a nice easy night, and we had dinner and we're supposed to have drinks, and you could just sense the industry was in a really, really tough place. I bring it up because you were somebody who tipped me off, and I really appreciate it because the idea was, as much as we're going through from the pandemic to the technology changes to the market, to all of these different things, loan quality, repurchases, interacting with QC has been a top-of-mind subject. I think what I walked into was it could have been a big pitfall without you, and I just want to say thank you for what we were able to turn into a positive. I think as we sat down and had a conversation about what was real in the industry and how we can move things forward, we talked about some of the things that Freddie Mac could do differently. So you want to talk about loan quality from your perspective and what led us into some of that conversation.

Eileen Tu [00:02:31] Yeah, a hundred percent. I mean, when you talk about loan quality, that's important to Freddie as it is for us, right? It's expensive if you have a manufacturing risk that you can't see or understand, right? So QC is a vital part of that.



For us. We see that as a feedback loop. That's something at Rocket we talk about a lot is that the more we can inform our processes and how we think about things as far as policy is concerned, QC is one of those key things. So again, QC is also a partnership with folks like you guys, like Freddie. So in the beginning of the year you referenced this, which is there were some bumps in the road as far as communication, understanding and calibrating wasn't as great, and then just actually the policies we were not understanding how Freddie was interpreting some of the policies. So you've sensed that

tension, and I think what makes a great partner and what Freddie eventually ended up doing with QC is a testament of listening. Listening and trying to seek to understand. So you were referencing that time, and I just really remember it was there was a lot of pain and it wasn't just, "Oh, it's not just Rocket. We're talking the industry was having some issues that I think Freddie was recognizing, but needed to work faster on." Quickly, you listened, set up an advisory council specifically with QC folks to say, "What could make this better?" What's been great is we just recently had another advisory board meeting and hearing some of the solutions that were brought forth through that has been fantastic. For example, there's a separate group that's going to review and make sure that that repurchase demand or whatever information you're sharing with us, it's agreed upon. It makes sense.

Kevin Kaufman [00:04:18] It seems so simple, right? It doesn't seem so simple.

Eileen Tu [00:04:21] It does, but it's going back to the basics, right? I mean, you got to block and tackle, and if you don't have that right, it makes it very difficult for us to partner. So absolutely love that.

Kevin Kaufman [00:04:31] I like to embellish the story a little bit because it's where we go into it, and part of the story. I told a little bit this morning, but it was like, "I took it from this place of I got beat up by all these lenders, and they found me and they took me in this back alley and I walked out with black eyes and I came out with crutches." But in the end, it really was just about sitting around and having a conversation and listening. Today I evolved it into, "I was run over by someone's scooter and it was..." But really it does matter, and at Freddie Mac, one of the things we believe right now is the recipe for success has to be about listening, as you mentioned, and then taking action. As a result of those conversations, and we sat and there were yourself about six peers in the industry, and I made this comment, it's I collected loans door-to-door when you were able to do that in a period of time in this industry. My view from my seat at Freddie Mac is I can have any mortgage banker, broker, anyone in the banking sector give me a hard time because of the challenges we've had to come up through in our careers, and it was like, "If I can deal with what I've had to deal with in my career at other points, I can definitely have a hard conversation about loan quality initiatives and how we improve." I think you've heard me say this before and you touched on it, and we want everyone to



realize it. We thank you for how seriously you take loan quality and how serious a lot of lenders take loan quality because it is truly a shared responsibility of the industry. I think some people forget that. So there's an opportunity to leverage technology. There's an opportunity to change policy. There's an opportunity to do a lot of things, but it does start with just sitting down, finding some common ground, and setting a path forward in order for us to be successful together.

Eileen Tu [00:06:25] That's right. One thing that we always say is with visibility becomes responsibility. And with Freddie, you gave us that opportunity to be able to say, we're going to be very vulnerable, to say, "Hey, yeah, we want to get better with the fact that we have the same goal." Then the responsibility is of course, you're coming back and sharing all the great things that Freddie's doing. For us, you're right, we all care about the same thing. This whole process is, the word we purchased does sound negative, but at the end of the day, it's not about it being punitive. It's about how do we work together to create great, fantastic manufacturing processes to make sure that every loan, if we could deliver every loan a hundred percent perfect with the quality that we want, I think that'd be great. Because again, we care, we want clients as borrowers to stay in their homes. We want them to be able to repay and we want to manufacture that right, and so why can't we partner with that, right?

Kevin Kaufman [00:07:14] Sustainability is the key factor to it. I think what we look at is the number one defect in the industry from Freddie Mac, see, continues to be around income calculation and continues to be around different income types. Those things are not as easy as black and white. I think where we can come to some common ground on the majority of the loans, that's where we'll succeed together because it truly ends up being an opportunity for sustainability and home ownership. So I want to talk a little bit just about technology, the cost to originate, the overall tie to those things with loan quality. So in 2022, we put out a study talking about cost to originate and leveraging technology. So we've heard studies done by a lot of different forums. At Freddie Mac, we took it and said, "Well, we have as much data as anyone, so we know when the application's taken, we know when the note's finalized, we know when the loan is delivered. So how do we take all of that information and really create an opportunity to engage with lenders?" Then we followed that up. What we did see was those who use technology in their manufacturing process at a really high rate, they actually saw a savings of \$2,300 per loan difference. So we made the connection back to loan quality because the other piece that we realized was those same lenders who were leveraging technology saw a defect rate at 40% less than sellers who were not using it. So how do you approach, just when you look at new technology, how do you think about the things that you're trying to implement, whether it's new products, new technologies, new processes?



Eileen Tu [00:09:02] Yeah, I mean, we're in a world today where technology can really help us scale. Yeah, Rocket, our previous CEO, Bob Walters, he would always say this, and I think it really resounded with me, which is, "Let humans do what humans do best and let computers do what they do best." For computers, it is, as you said, it could be calculations, things that are known that a computer can do and replicate really quickly and let them be great at that and let humans be great at what we do, which is empathy. As humans, technology can actually help humans actually scale and build better things and better processes. So for us, it's very complimentary. I think for us, and you said this earlier, is how do you reduce the cost to originate? This is a great time right now to invest in technology and again, have technology help humans. It's not a replacement in our head. In that respect, then we can go wider, we can go broader, we can go deeper by partnering those two concepts together.

Kevin Kaufman [00:10:06] What you said, I don't think everybody always thinks about or realizes is that it's not a replacement.

Eileen Tu [00:10:14] That's right.

Kevin Kaufman [00:10:15] It's to make you more effective and more efficient in how you originate.

Eileen Tu [00:10:16] That's right.

Kevin Kaufman [00:10:17] I think a lot of lenders have to think about it of, what are they trying to accomplish? Are they trying to create greater capacity with the same staff? What is their goal? Are they trying to create a better borrower experience? By doing so, you hit on it, it's empathy. A computer's not going to be empathetic to what you're trying to accomplish. For me as a consumer, and I like to remind folks all the time, is that's the one thing we all have in common is we're all consumers and we get drawn to that experience.

Eileen Tu [00:10:47] That's right.

Kevin Kaufman [00:10:47] When you have a really good experience, it's not just because there was a piece of technology. It was because the entire thing made a lot of sense, leveraging tools and technology and time and empathy and all of the things that you put in.

Eileen Tu [00:11:01] That's right. I mean, it's a front-end thing. It's also, you mentioned loan quality. How can we leverage that within Rocket Mortgage in the lending space? Then partnering again with Freddie to think about what are some of the things? You



named a few things too, like things that Freddie knows that maybe as a lender we might not know in a little bit more of the subjectivity area in our business. Sometimes in that manufacturing, in that 30, 45-day window that we only have purview into, that some things cannot be known, like undisclosed liabilities. That's a topic that I think all lenders do struggle with because that 45-day window doesn't always expose that information. So how do we partner together? Is there technology around what we can see in asset statements that Freddie is working on to help say, "You know what? Let me inform you a little bit more." Because you want to buy a loan that's great. You don't want to buy a loan and try to catch us on something, right?

Kevin Kaufman [00:11:56] I'm glad you said it. I think folks from their seats don't realize that all the time. Our goal is we want to buy loans. We make money from buying loans. So when people are like, "Hey, you have all of these repurchases." That is not our end game. I think, again, and I'll say back to the empathy statement and back to the entire process was that was something too that we have control over, is that interaction model through the entire process of doing business with Freddie Mac. We just look ourselves in the mirror and say, "It's not just transactional. It has to be relationship, and it has to have an opportunity to say, 'You may disagree with the outcome of this. Let's have a real conversation, and I can't have my mind made up walking into that conversation that I'm right and you're wrong, and I'm here to catch you.'" That's where we're really, really trying to make a difference in how we show up to the industry.

Eileen Tu [00:12:51] Yeah, and again, goes back to partnership. I think there's this understanding we're not all perfect, and so whatever we see as a lender being able to share with Freddy and say, "You teed it off really well. We're in a different space today, purchase is the focus, and that's a bit of a different model for folks." So what are the things, what are the pitfalls, what are the unique things? It could be a fraud scheme that we see and continue to work better at making loan quality better. At the end of the day, I think that helps all of us as an industry. It helps on affordability. That's the number one thing for both of us. How do we provide home affordability in a space where rates are the highest and inventory of available listings are just at its lowest?

Kevin Kaufman [00:13:38] I just would ask the question, what would you want anyone to know about your view? What would you wrap up with on what's important to Eileen? What's important to Rocket in the industry, and when it comes to loan quality?

Eileen Tu [00:13:52] Well, I happen to sit in the space of credit policy in our origination and absolute care about how we perform through in servicing. What I would love is to be able to say, and we already touched on it, how do we think about leapfrogging our industry, leveraging things like technology? Our fantastic word of generative AI, I know that's spoken to a lot. But I think those types of things can actually help us create more



home ownership in this nation. So if we can think about that differently, and again, partnership with Freddy with the GSCs is super important to us. So how do we work together in that future journey, right? Change it and take it away from the good old 45-day lock and paper that we've always done and accelerate that.

Kevin Kaufman [00:14:40] We have our commitment. We are really trying to do something different. I think we're looking at every piece of technology, we're looking at every process, finding ways to improve it, and whether it's variations of AI, whether it's OCR, whether it's the digitization through AIM. We see all of them playing a role. I think the one thing the industry will have to get behind is finding the use cases that actually take a step forward for the entire industry, and that'll be our challenge. But I want to thank you for your leadership. I want to thank you for your partnership and look forward to the year to come. So, thank you.

Eileen Tu [00:15:16] Same here. Thank you very much, Kevin.

VO [00:17:50] The Way Home is brought to you by Freddie Mac, where we make home possible. For more thought-provoking discussions and expert insights, join us for upcoming episodes by following The Way Home on your favorite podcast platform. Connect with us on LinkedIn @freddiemacsf. You can also sign up for our newsletters by navigating to our subscription center at sf.freddiemac.com.