

## **Table of Contents**

Table of Contents.....	i
1.10 Introduction .....	1
1.10.2 Objective .....	1
1.11 Quality Control and Management Personnel Identified in Plan .....	3
Quality Control Manager(s) for HUD and Investor Reporting.....	3
Section 1.20 – Post Closing Quality Control Review Program.....	4
1.21 - Audit Coverage/Scope.....	4
1.21.1 Appraisal Audit Function.....	4
1.21.2 Federal Law Compliance Function .....	4
1.22 – Selection Methodology.....	5
1.22.1 FHA Loan Selection Criteria .....	5
1.22.2 Early Payment Default .....	5
1.22.4 “Higher Risk” Criteria Loans Selected by Quality Control.....	6
1.22.5 Higher Risk Transactions Selected by Credit Policy as Warranted.....	6
1.22.6 Streamline Refinances.....	6
1.22.7 Special Handling for 203(k) Rehabilitation Transactions.....	7
1.22.8 Selection of Third Party Originator Transactions.....	7
1.23 - Loan Sampling/Selection Procedure .....	8
1.23.1 Post Closing Audit Selection Procedure .....	8
1.23.2 Pipeline Selection Tool .....	9
1.24 Loan Level Quality Control Review Procedure .....	10
1.24.1 Post Closing Review Process.....	10
1.24.2 – Post Closing Loan Level Quality Control Review Form and Findings Report .....	14
1.24.21 Quality Control File Order/Checklist .....	16
1.24.22 Quality Control Credit Report Order Log .....	17
1.24.23 Request for Re-verification of Income or Assets .....	18
1.24.24 Appraisal Review Request.....	20
1.24.24.1 Appraisal Request Log .....	21
1.24.24.2 Appraisal Desk Reviews and Field Reviews .....	22
1.24.24.3 Desk Review of Appraisal.....	23
1.24.24.4 Appraiser Independence Rules .....	24
1.24.4 Tax Return Authenticity Process (4506T).....	25
1.24.41 Tax Return Authenticity in Post-Closing Review .....	25
1.24.5 Owner Occupancy Re-Verification.....	26
1.24.6 Timing of Post-Closing Audits.....	27
1.24.61 Audit Schedule.....	27
1.24.63 Completion of Review.....	27
1.24.64 Special Procedure – Early Default.....	27
1.24.65 Special Procedure – Pattern of Deficiencies or Fraud.....	28
1.24.65.1 Pattern of Fraud.....	28
1.25 Production (Pre-Funding) Quality Control Review Elements.....	29
1.25.1 Quality Control Review .....	29
1.25.21 Validation of Borrower’s Social Security Number .....	29
1.25.22 Verbal Verification of Employment.....	30
1.25.31 Reviewing and Analyzing Automated Underwriting Findings .....	31
1.25.33 Validation of Income Computation Method.....	31
1.25.4 Pre-Funding Production and Post Closing Quality Control Review Checklist.....	32
1.25.5 Pre-Funding/Pre-Closing Quality Control Review.....	38
1.25.52 Pre-Funding/Closing Document Review Checklist.....	40
1.25.6 Post-Closing Loan Document Review .....	41
1.26 Corrective Action and Report Management.....	44

1.26.2 Corrective Action and Time Frames .....	44
1.26.3 Notification to HUD or Other Agency of Significant Discrepancies .....	45
1.27 Quality Control Personnel .....	46
1.27.1 Production Personnel Separated by Plan.....	46
1.27.2 Disbarred Employees/Ineligible Participants .....	46
1.27.21 Periodic Review of Employee Performance .....	46
1.27.4 Use of Outside Firms to Perform Quality Control Review .....	47
1.28 Financial and Compliance Audit.....	49
1.28.1 Review of Rejected Loans .....	49
1.28.3 State Audit Compliance Preparation Checklist.....	52
1.29 Employee Resources – Training.....	53
Resources .....	53
1.30 Field Review of Branch Offices .....	54
1.28.1 Field Review Items.....	54
1.28.3 Prohibited Branch Arrangements (HUD) .....	54
1.29 Mortgage Insurance Endorsement Process .....	55
1-29-1 Post Endorsement Technical Reviews.....	57
1.30 Reporting of Loan Sales Process.....	58
1.31 Termination of Insurance Process .....	59
1.32 Escrow Reporting.....	60
1.33 Record Retention Guidelines .....	61
1.34 Fraud Prevention – Red Flag Process .....	62
1.34.1 Fraud “Red Flags” Checklist.....	63
1.34.3 Origination Fraud Watch .....	66
1.34.31 Loan Characteristics .....	66
1.34.4 Red Flag Resources We Utilize .....	67

## **1.10 Introduction**

### **1.10.1 Our Quality Control Plan**

Government agencies and secondary market investors expect originating lenders to have established quality control procedures to insure the integrity of their loans. At Company Name our goal is to be able to accurately and routinely monitor a significant percentage of our origination, and to make adjustments to our operations based upon the results of our audits.

To that end, following is our quality control plan, which we have adopted to insure the quality of the loans we deliver to our investors so that we may continue to enjoy a mutually profitable relationship. In addition, our goal is to achieve 100% compliance with Federal, State and Local regulatory requirements.

### **1.10.2 Objective**

The overall objective of any spot check system is to accurately measure the basic quality of a product against predetermined standards. The specific objectives of the spot check system are to test the authenticity of various documents that are used in the credit evaluation process. Logically, a prudent credit decision cannot be made if the information used in the decision process is inaccurate.

The second objective of the spot check system is to test for the compliance with industry standards used to process the loan transaction. It is not the intent of the system to completely reprocess and/or re-verify all of the information contained on every credit document. The intent of the system is to select the most important documents and to ask specific questions aimed at uncovering unacceptable practices, procedures or inaccurate documentation.

### **1.10.3 Definitions – Broker/Correspondent – Underwriting and Review**

There are conflicting interests when dealing with mortgage quality control plans, the quality control process of a wholesale lender and the quality control process of the mortgage broker. Obviously, mortgage brokers do not make loan underwriting decisions, or funding decisions, but must still participate in the post closing review of loans. The determination of deficiencies, fraud, or other errors discovered in a post closing review must be addressed by BOTH the mortgage broker and the mortgage lender.

### **1.10.4 Pre-Closing and Post-Closing Review Process for Correspondents/Brokers**

With in the quality control plan there are multiple references to underwriting, funding, and mortgage insurance guarantees. The mortgage broker does not participate in underwriting or funding, but it must take a fiduciary approach to submitting loan files for underwriting review and documentation to facilitate closing.

As a consequence of the overall quality control process of loan files from “beginning to end” as required by 4060.1 REV-2, 7-7 Specific Elements for the Production Portion of the Quality Control Program, and 7-5 Quality Control from Beginning to End, mortgagees must evaluate the production and underwriting portion of the business. Ultimately, correspondent/brokers will be evaluated on the basis of the lender’s underwriting performance. It is our interpretation of the policy that the mortgage broker must “pre – underwrite” loan files against a checklist of the standard requirements. In this way, even though the correspondent or broker is not actually responsible for, or capable of, approving a mortgage application, the correspondent is responsible for ensuring documentation meets standard guidelines. In addition, this pre-review is the ideal environment for arresting fraud or documentation deficiencies prior to the loan closing.

Within our policy we describe that we will review quality control review findings against the original underwriting decision to determine whether not the loan would have been made with the re-verified information. As correspondents and brokers we understand that we are not issuing approvals for insurance, approvals for loans, or other commitments.

**1.10.5 Duplicative Post Closing Activities between Investors and Correspondents**

When conducting post closing reviews, particularly those areas such as appraisals, that involve large expenses, it is in the interest of both the lender and the correspondent/broker to coordinate reviews. Duplicative requests for re-verification can delay the conclusion of a review, precluding aggressive enforcement action to prevent further incidences.