

# Mortgage Compliance Advisors

We have a QC Plan... Now what?

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Presenters: Kristen Kalikakis and Brady Meadows



# Instructions

- Because of the large number of registrants, the lines will be muted
- To ask a question, click the plus sign next to “Questions” on the GoToWebinar box and type your question
- There will be a break for questions during the presentation, and the remaining questions will be answered at the end of the webinar. If your question is not addressed, we will email the answer to you
- You should have received a reminder email with a link to the slides. You can also find the slides for all our webinars on our website under the News & Resources tab



# Our Panelists

*We are fortunate to have with us today a panel of experienced mortgage professionals. They will be taking the time to answer your questions and provide insight from hands-on application.*

- Bob Warnock *MCA CEO*
- Craig Christensen *MCA COO*



# Reviewing Last Month's Webinar

- We spoke in depth about Fannie Mae's Loan Quality Initiative (LQI). Its major focus is quality control development and execution.
- Now you need a practical approach and understanding of your QC plan.



# Agenda

- Reasons for a QC Plan
- QC at Application
- Pre-Fund & Post-Closing QC
- Management Reporting
- Trend Tracking
- Record Retention
- Adverse Action
- Audit & Review of QC Process
- Q & A
- Resources



# Reasons for a QC Plan

- Ensure company is producing a quality product to sell to investors
- Protect against re-purchase demands
- Minimize costs by
  - Reducing time file spends with UW
  - Reducing time in warehouse line  
(By reducing investor conditions)



## Reasons for a QC Plan (cont.)

- Maintain compliance with Contractual Obligations and applicable federal, state, and local laws and regulations
- Guard against fraud, negligence, errors, and omissions
- Assess compliance with internal policies



## Reasons for a QC Plan (cont.)

- And the last reason you should have a QC plan in place is...

**Because it is required**





# Establish Your Credit Culture

- A lender must establish its own set of standards for loan quality
- The standards will define the company's credit culture and aid in the development of the appropriate controls necessary to ensure loans are of investment quality

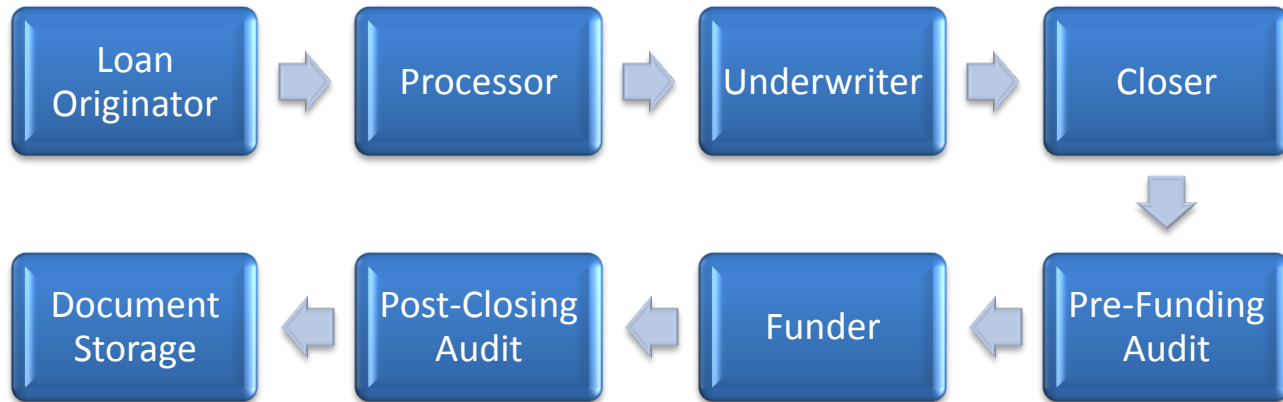


# Drafting Your QC Plan

- Tailor your QC plan to meet the specific needs of your organization
  - Size
  - Product mix
  - Business structure
  - Market
  - Day to day operational processes



# QC from Application to Post-Close



# QC at Application

- Make sure your application is completed in its entirety with the required information:
  - Employment (2 years)
  - Address (2 years)
  - Liabilities
- Also make sure that all declarations and government monitoring information is completed for HMDA purposes



# Timely Disclosure

- Credit report and RESPA/TILA disclosures
  - You must document disclosure within 3 business days of application date
- Originators will be aware of what fees they are allowed to collect up front and when
  - Limited to collection for credit report until GFE received and intent to proceed with transaction has been expressed



## Timely Disclosure (cont.)



GFE



Last chance to verify all figures are correct



# Pre-Fund QC

- The pre-funding portion of the quality control plan can contain procedures to assess:
  - Overall underwriting process
  - Validation methods
  - Risk assessment
- The first step in developing your QC Plan should be to look at previous pre- and post-fund audits to identify procedural weaknesses



## Pre-Fund QC (cont.)

- Implement steps to validate automated underwriting and compliance tools you use:
  - AUS findings: Review and validate
    - Income
      - Type and/or source input correctly and documented
    - Employment
      - Re-verify at this time
    - Assets
      - Type and/or source input correctly and documented





# Pre-Fund QC (cont.)

- AUS validation (cont.):
  - Property address and type
  - All investor guidelines
    - Verify all requirements of your AUS findings have been met and properly documented
  - Liabilities
    - Validate liabilities against credit report
  - Ratios
    - Validate ratios are within threshold tolerance

For manually underwritten loans, verify that all agency and investor guidelines have been satisfied.



## Pre-Fund QC (cont.)

- Additional automated compliance tools can be part of your pre-funding QC Plan:
  - ComplianceEase
  - Interthinx
  - Direct Check
  - AVM applications
- Address all red flags uncovered by the compliance tools, and retain documentation used to resolve them



## Pre-Fund QC (cont.)

- Procedures to review any high risk loans:
  - High LTV loans
  - Cash out Transactions
  - Transactions involving investment properties
  - Prior transactions which have displayed characteristics of risk
    - Identify common factors
    - Implement steps to address the risk



## Pre-Fund QC (cont.)

- Review your loan file against investor and agency guidelines
- Address and satisfy conditions **before** presentation to the investor to allow a smooth transition
- Minimize strain on warehouse lines by allowing loans to be quickly acquired by investors

This will dramatically reduce warehouse interest



## Pre-Fund QC (cont.)

- Pre-funding QC is your last chance to correct any errors
- **Reviewing initial and final documents is critical**
- Steps should allow for the review of RESPA, MDIA, and state timing rules
- Review GFE and HUD-1 to ensure fees are within tolerance



## Pre-Fund QC (cont.)

- Re-evaluate your pre-fund QC on a regular basis to make sure it is up to date with current trends
- Investor and lender requirements are constantly changing
- Perform periodic re-evaluation to gain the most benefit



# Questions?

- We'll take a moment to answer a few questions before we move on



# Post-Closing QC

- Post-closing QC review will allow you to assess your overall process from application through closing and funding
- Post Closing QC review process will address the following:
  - Timing of selections
  - Timing of reviews
  - Appraisal reviews
  - Checklists and required items to look for





# Post-Closing File Audits

- Post-closing file audits are required by many investors and any lender directly approved by:
  - FHA
  - Fannie Mae
  - Freddie Mac
- Post-closing audits can be done in-house or outsourced



# Post-Closing File Audits (cont.)

- Post-close file audit selection details should be outlined in your QC plan and should contain at least the following:
  - Detailed review of the credit package
  - Detailed review of the funding package
  - Desk or field review of the appraisal
  - Review of all state and federal regulations
  - Recalculations and re-verifications



# Selection of Files to Audit

- You must do a random or statistical selection of the files to be audited
- Generally, most companies do a 10% minimum selection
- It is also recommended to do a discretionary sample of high risk loans



# Timing of Selections and Reviews

- **FHA**
  - Selections within 30 days of funding
  - Reviews within 90 days of selection
- **Fannie Mae**
  - Selections within 30 days of funding
  - Reviews within 60 days of selection
    - If you are more than 30 days behind, you must report this to Fannie Mae
- **Freddie Mac**
  - Selections within 30 days of funding
  - Reviews within 90 days of selection



# Management Reporting

We have our Post-Closing audits completed...Now what?

- **Report to Management**
  - Deliver to senior management within 30 days of the audits being completed
- **Management's Response & Action Plan**
  - Management must respond to the report and make an action plan as to who should do what to correct the findings
- **Corrective Action Plan and Monitoring**
  - Action report should identify actions taken, timetable for completion, and planned follow-up
- **Reporting to Investors and Agencies**
  - Report any misrepresentation, breach of your contract agreement, or detection of fraud within 30 days of uncovering the findings



# Trend Tracking

- Trend tracking is not required, but it is the **best** way to track and monitor your QC. Trend tracking gives you added value to your completed post close audits.
- Simply place a numerical value to each file audit and track that numerical value over time.
- Trend tracking is an effective way to ensure your employees and business segments are producing quality loans.



## Trend Tracking (cont.)

- Our audits include a loan score and risk rating on each file
  - Track ratings over time to see if score is decreasing or increasing
- In addition, run tracking reports to determine most common findings and how often they reoccur
- Track the performance of many categories, including the following:
  - Loan originators
  - Underwriters
  - Branches
  - Processor
  - TPO (correspondents or brokers)



## Trend Tracking (cont.)

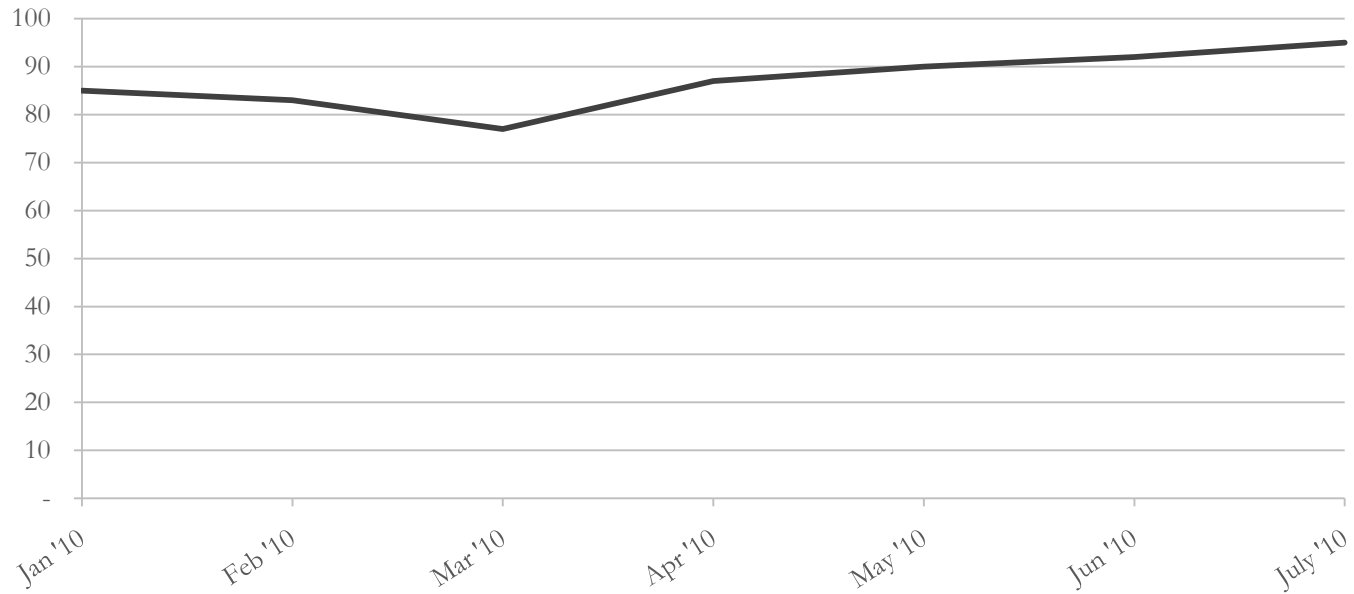
- Trend tracking can help decrease the number of defaults
  - If you find a trend of low FICOs defaulting more than higher FICOs, you can implement a minimum FICO requirement
  - You can trend track underwriter performance to increase the quality of underwriting





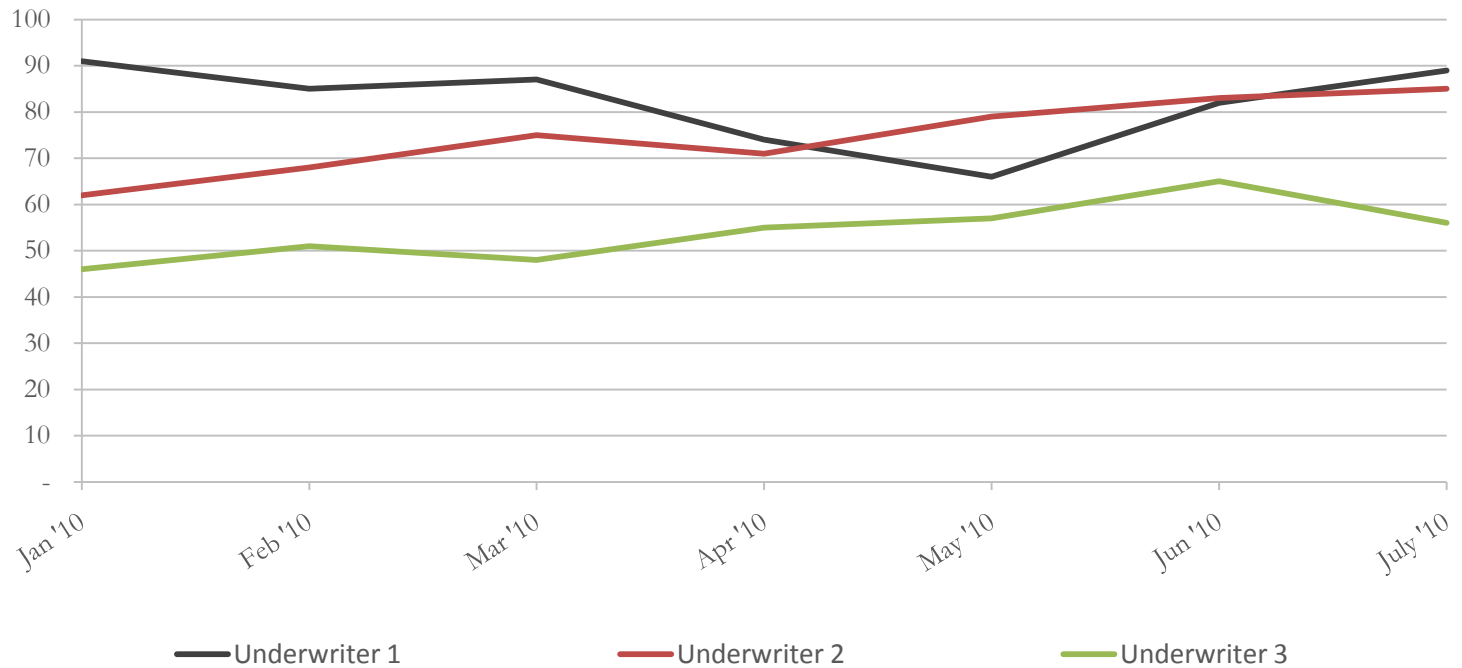
# Trend Tracking Charts

ABC MORTGAGE LOAN SCORE TRENDING



# Trend Tracking Charts

## UNDERWRITER LOAN SCORE TRENDING



# Adverse Action Reviews

- Adverse action file reviews are audits of all your denied and cancelled files
- Only FHA requires you to review **10%** of all adverse action files
  - Review to ensure file was correct in its denial
  - Ensure ECOA guidelines were met
  - Review HMDA monitoring



# Early Payment Default (EPD) Reviews

- FHA , Fannie Mae, and Freddie Mac all require you to review **100%** of your EPD files
- Fannie Mae and Freddie Mac define an EPD as 60 days late in 24 months
- FHA defines EPD as 90 days late in first 6 months
  - The purpose of reviewing EPD files is to uncover any patterns and if those patterns can be corrected with a new company policy



# HUD's Neighborhood Watch



- Neighborhood Watch:
  - <https://entp.hud.gov/sfnw/public/>
- Neighborhood Watch FAQs:
  - <http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/02-15a1.doc>



# Record Retention

- Each agency requires you to keep all documentation pertaining to QC review

**FHA**                      **2 years**

**FNMA**                    **3 years**

**FHLMC**                 **3 years**

- Also check with each state your are licensed in to ensure you are retaining the correct documentation and for the required amount of time



# Branch Reviews

- It is a good business practice to make random on-site visits to your branches to make sure they are compliant with all company policies
  - Signage and licenses posted
  - Compliance with Gramm-Leach-Bliley
  - Operation structure meets company requirements
  - Meets all company policy and procedures



# Branch Reviews (cont.)

- A few of FHA's branch review requirements:
  - Office is properly registered with FHA and address is current
  - Regulatory Lending signage posted and evident in each branch location including Fair Housing and Equal housing signage
  - Operations are conducted in professional, business-like environment
  - If located in non-commercial space, office has adequate office space and equipment
  - Office does not employ or have a contract with anyone currently under debarment or suspension, or a Limited Denial of Participation





# TPO Monitoring

- Third Party Originators are generally mortgage brokers. However, TPOs are also correspondent lenders.
- FHA will eliminate the correspondent (mortgage broker) approvals on December 31, 2010
  - Correspondents are **still required** to maintain all FHA guidelines until then

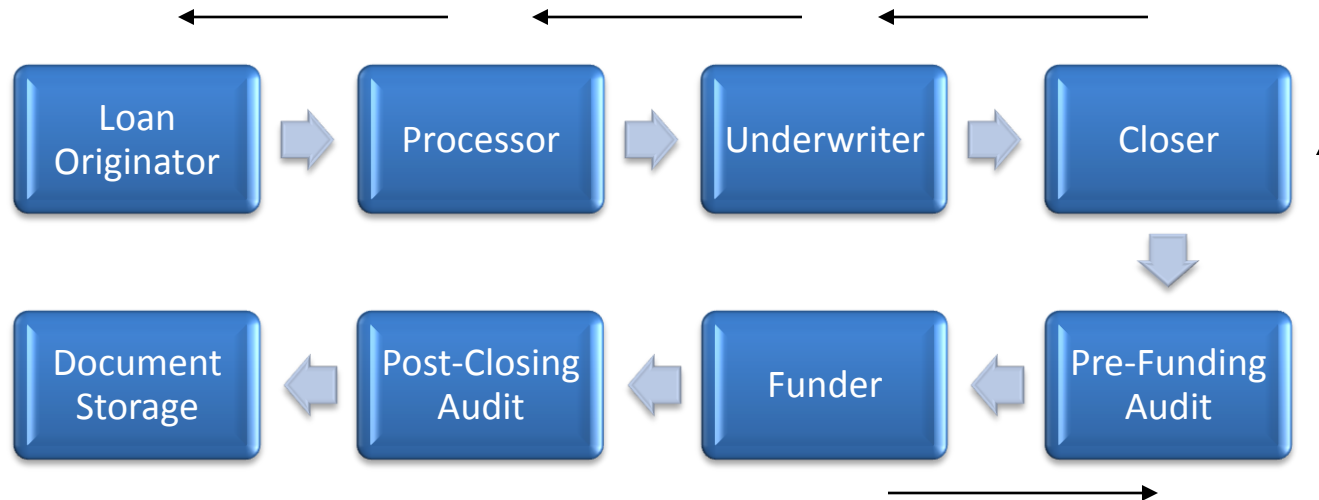


# TPO Monitoring (cont.)

- Fannie Mae has updated their TPO Monitoring with their new Loan Quality Initiative. Fannie Mae now requires:
  - Written approval process
  - Ongoing monitoring and evaluations
    - Quarterly review of loan performance
  - Re-certifications
    - Sample selection of each TPO client's post-close file audits reviewed annually



# QC Throughout the Process



# Audit and Review of the QC Process

- Complete an annual review of your entire QC process to ensure it is working as intended
  - No gaps in the process
  - All elements of QC plan are addressed
  - Unnecessary items are removed
  - Changes are updated in your **written** QC plan
- Continuously evaluate your QC process and update to correct recurring errors



# Audit and Review of the QC Process (cont.)

- Remember, no QC plan will fit every company
  - Each QC plan needs to be customized to your company and product mix
  - Each company will have unique portions of their QC process that need more attention than others



## We look forward to assisting you with all of your compliance needs

- FHA and Conventional Quality Control File Audits
- Red Flags Rule Implementation
- Agency Approval Services
- QC Plan Implementation
- Training and Consulting Services
- Lending Manuals
- 4506-T Income Verification
- Focus Reviews
- Identity Verification

[www.MortgageComplianceAdvisors.com](http://www.MortgageComplianceAdvisors.com)



# Contact Information

- We will be answering a few of your questions in just a moment. Questions not addressed at this time will be emailed directly to you, as well as answered in our next newsletter. You are also welcome to contact us at any time:

## Mortgage Compliance Advisors, LLC

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# Resources

- Fannie Mae
  - <https://www.efanniemae.com>
- Fannie Mae's LQI Resources
  - <https://www.efanniemae.com/sf/lqi/index.jsp>
- Freddie Mac
  - <http://www.freddiemac.com>
- HUD/FHA
  - <http://www.hud.gov>
- HUD's Neighborhood Watch
  - <https://entp.hud.gov/sfnw/public/>





# Questions & Answers



# Thank You!

*The information provided by Mortgage Compliance Advisors, LLC has been taken from various public resources and does not constitute legal advice*

