***NOTICE****: The following has been provided by WBA committee and section volunteers for use by member banks.
It should be reviewed and revised as appropriate to the user-bank’s own policies, procedures, and practices.*

**In-House Quality Control Program**

An effective Quality Control (QC) Program is not “one size fits all” to meet the needs of every lender. This outline is not all inclusive but is intended to provide elements to consider and evaluate in relation to your institution’s policies and procedures. Your QC Program should consider several factors such as, the size and structure of your organization, the expertise of your staff, and the volume and types of mortgages originated. Controls must be in place to ensure that your policies and procedures are being followed. Perform periodic reviews of your policies and procedures to determine whether changes are needed.

**Responsibilities of Financial Institution:**

* Have written procedures
* Operate QC independently of origination and underwriting/separation of duties
* Include re-verification and/or re-underwriting processes
* Employ effective sampling procedures
* Regularly monitor the overall quality of mortgage production
* Initiate corrective actions where appropriate
* Comply with federal and state law
* Risk management

**Procedures:**

* + Fraud prevention
		- HUD Limited Denial of Participation (LDP) list – verified on credit report
		- Check all parties to the transaction against Freddie Mac’s “Exclusionary List”
		- General Services Administration (GSA) list – verified quarterly
			* Third party vendors, mortgage loan personnel
		- OFAC – hits and matches for all parties involved in the transaction
		- Occupancy verification
		- IRS tax transcripts
		- Social security verification, as required per credit report
		- CIP
	+ Quality standards and measures
		- Trends reporting
			* Pre- and post-closing trends
				+ Categorized to document to assist in process improvement
				+ Used to eliminate deficiencies on future transactions
				+ Reports are provided to management on a monthly basis
	+ Annual review of appraisers’ credentials
		- * License and resume
	+ QC staff requirements
		- May be employed for all or part of QC Program
		- Financial institution must ensure that the services performed comply with program requirements
		- Monitor and evaluate performance on a regular basis
		- Review findings and initiate corrective actions
		- Ongoing training of new investor guidelines, regulatory changes, and new/corrective training from errors on reports
		- When possible, QC staff should be independent of the origination, underwriting, and closing process
		- Outsourcing – third party quality control services
			* Statement of work should be obtained if outsourcing quality control review services. Statement should include, but is not limited to, the following:
				+ Engagement scope and objective
				+ Services and responsibilities
				+ Deliverables

Working papers

Reporting of exceptions after review

* + - * + Engagement staffing

Ensuring that qualified and experience individuals are completing the reviews

* + - * + Professional fees and expenses to the bank
			* Verify selection is unbiased
			* Re-verification must include income, asset, credit, and collateral.
			* Sample selection must be unbiased (our external auditor utilizes “Research Randomizer Program”)
			* QC must include ordering and assessing a new appraisal on 10% of the sample selection
	+ Sample selections
		- Serviced loan sample includes 10% of originated or acquired mortgages and are selected for review within 30 days of the loan closing date
			* Sample must reflect the full scope of business and all product types
		- Random (a percentage of total originations so every mortgage has an equal chance of being selected)
		- Targeted (delinquent borrowers)
		- Discretionary (selected if fraud is suspected or to review the work of a new originator, review a new product offering, mortgages that went into early default, or files of employees that recently left the company)
	+ Pre-closing QC requirements
		- Loan application
		- Regulatory disclosures
		- Data entry (LP, DU, etc.)
		- Transmittal summary 1008
		- Presence of all required file documentation
		- Calculation of income used to qualify the borrower
		- Verbal employment verification
		- Calculation of sufficient assets
		- Appraisal or other property evaluation
		- Sales contract, if applicable
		- Underwriter issued closing conditions
		- Adequate mortgage insurance, if applicable
		- Condo project documentation, if applicable
		- Loan Quality Initiative (this is a mandatory component of Fannie Mae’s LQI required prior to loan delivery)
			* Confirm borrower identity
			* Confirm social security number or individual taxpayer ID number
			* Documentation must conform to USA Patriot Act and OFAC
			* Confirm all parties to the transaction are not on the HUD Limited Denial of Participation (LDP) list
			* All liabilities must be documented and included in qualifying ratios
			* All credit inquiries must be explained and as appropriate be included in qualifying ratios
			* Automated underwriting system exception messages have changed to “verification” message and require additional verification steps
			* Adequate controls may include pulling a new credit report prior to closing
			* Data integrity checks to verify consistency of borrower, mortgage, and property data before, during, and immediately after delivery of loan
		- Have procedure in place to suspend closing if deficiencies discovered in pre-closing QC process
	+ Post-closing QC requirements
		- * Mortgage note
			* Recorded mortgage or deed of trust
			* Riders to note or mortgage
			* Modification or assumption agreement
			* Assignment of mortgage
			* Title insurance commitment or binder
			* Title insurance policy
			* Plat or survey
			* Hazard insurance policy
			* Flood insurance policy
			* Settlement statement
			* Truth-in-lending disclosure
			* Closing instructions
			* Closing protection letter (CPL) from title company
			* Underwriter approval
			* Mortgage insurance certificate
			* Appraisal review – one out of 10 should be a field review (different appraiser from a different firm) the remaining nine are a desk review by staff with appraisal knowledge
			* All other documents required by applicable laws
	+ Documentary and reporting QC reviews
		- Explain discrepancies and inconsistencies
		- Results reported to senior management within 90 days
		- Analyze and document findings for acceptability and eligibility
		- Initiate corrective action
	+ Record retention
		- Minimum of three years – retain all records of findings and record corrective actions
	+ Audit review of the QC process
		- Audit process must be in place to:
			* Ensure that the quality control procedures are being followed by the QC staff
			* QC reviews and findings are consistent and recorded
* Quality control audit must be reported to management and an action plan put in place to remediate any findings