

MORTGAGE QUALITY CONTROL

5 KEYS FOR SUCCESS





1

UNDERSTANDING MORTGAGE QC

Quality Control is essential to the mortgage loan process. Fannie Mae, Freddie Mac and other regulatory entities won't purchase, insure or guarantee loans from lenders who do not have a clearly established and defined Quality Control process in place. There are several steps and careful considerations you must make with regard to the Quality Control process, with each being important to ensuring that loans are originated and serviced responsibly and properly.

Successful lenders and servicers recognize that making quality control a priority is of utmost importance. Creating a sustainable and achievable plan from the beginning sets your firm up for success, and can save you from potentially catastrophic financial and legal ramifications.

The ever-evolving process of Mortgage Quality Control doesn't end once you have a plan in place. Consistent monitoring of your Quality Control processes is crucial. Whether you plan to tackle QC yourself or outsource to a qualified third-party vendor, be sure to take time to carefully plan your strategy for continuous observation and evaluation.



Successful lenders and servicers recognize that making Quality Control a priority is of utmost importance. Creating a sustainable and achievable plan from the beginning sets your firm up for success in the future.

Important Factors of Quality Control

Documentation

Perhaps one of the most important aspects of Quality Control is keeping quality records. Be sure to document your Quality Control procedures with your visions and goals clearly stated up-front.

Standardized Procedures

Make your procedures easy-to-learn and follow for all current and future employees who will be affected by the QC process.

Consistency

Establish a consistent schedule for your Quality Control procedures (e.g. weekly, bi-weekly, monthly, quarterly, etc.).

Independence

It is imperative that your Quality Control personnel remain independent from the function being evaluated.

Metrics

Take time to review your Key Performance Indicators (KPIs) on a regular basis.

Scope

Be sure to include ALL aspects of the loan process, including: credit analysis, collateral, compliance, closing procedures, new loan setup, servicing processes, and any other critical loan origination and/or servicing functions.

Selection Criteria

There are a few different methods for selecting files for QC review. Be sure you use the correct criteria depending on your loan volume.



There are three main types of selection criteria: statistical sampling, random sampling and discretionary sampling. Depending on your organization's loan volume and QC processes, you may use any or all of the above methods for different situations.

2

CHOOSING A QC VENDOR



Take time to consider if in-house or outsourced Quality Control is right for your firm.



There is no one-size-fits-all solution for Mortgage Quality Control. Each organization has their own unique needs depending on their size, staffing, expertise, loan volume, growth potential, etc. Some firms may choose to keep their Quality Control in-house, often with the assistance of one or several pieces of software for managing the process, such as TENA's *SECONDLOOK* Software.

Other times, it may make more sense for a firm

to outsource their Quality Control functions to a responsible, qualified and verified third party.

Perhaps the biggest benefit to outsourcing Quality Control is the access to professionals experienced in the field of Mortgage QC. This eliminates the need for additional staffing and internal training; allowing lenders and servicers to focus on what matters most: providing great service to their customers.

Some of the main benefits to outsourcing Quality Control include:

Years of Experience

Established Quality Control firms offer a deep level of knowledge and understanding of all the various regulations, best practices, reporting and maintenance that is required to ensure the success of a Quality Control plan.

Flexibility

Having a third-party handle Quality Control allows lenders and servicers more flexibility and scaling options. An increase or decrease in loan volume will not require a significant change to processes or staffing.

Avoid Conflicts of Interest

Utilizing a third-party vendor removes the possibility of any overlap or conflict of interest within the organization.

Lower Cost

Often it is found that outsourcing mortgage QC can lower costs by not only eliminating expenses such as internal QC staffing and software licenses, but also saving the time spent and pressure that comes with managing a comprehensive Quality Control process internally.

While there are definite benefits to outsourcing Quality Control, it isn't always the right path for everyone. Careful vendor selection also plays a key part in the success of a Quality Control plan.

TENA encourages lenders and servicers to do their due diligence when selecting a QC vendor and continue it on an ongoing basis. Evaluate the potential for any conflict of interest and identify any potential risks. Make sure the vendor is the right fit for your organizational needs, and that their goals and values align with your own.

Assign a point of contact to perform as liaison between the QC vendor and your organization. This person should have a firm understanding of the QC process and have a deep knowledge of your organization's specific needs.



Perform due diligence when initially selecting a vendor for Mortgage Quality Control, and continue performing it on an ongoing basis.

3

CREATING A QUALITY CONTROL PLAN



Before Fannie Mae, Freddie Mac, FHA, or any other entity will purchase, insure or guarantee a loan, a clearly defined and written document outlining your firm's Quality Control process must be provided.

This QC policy document must include, but is not limited to, items such as:

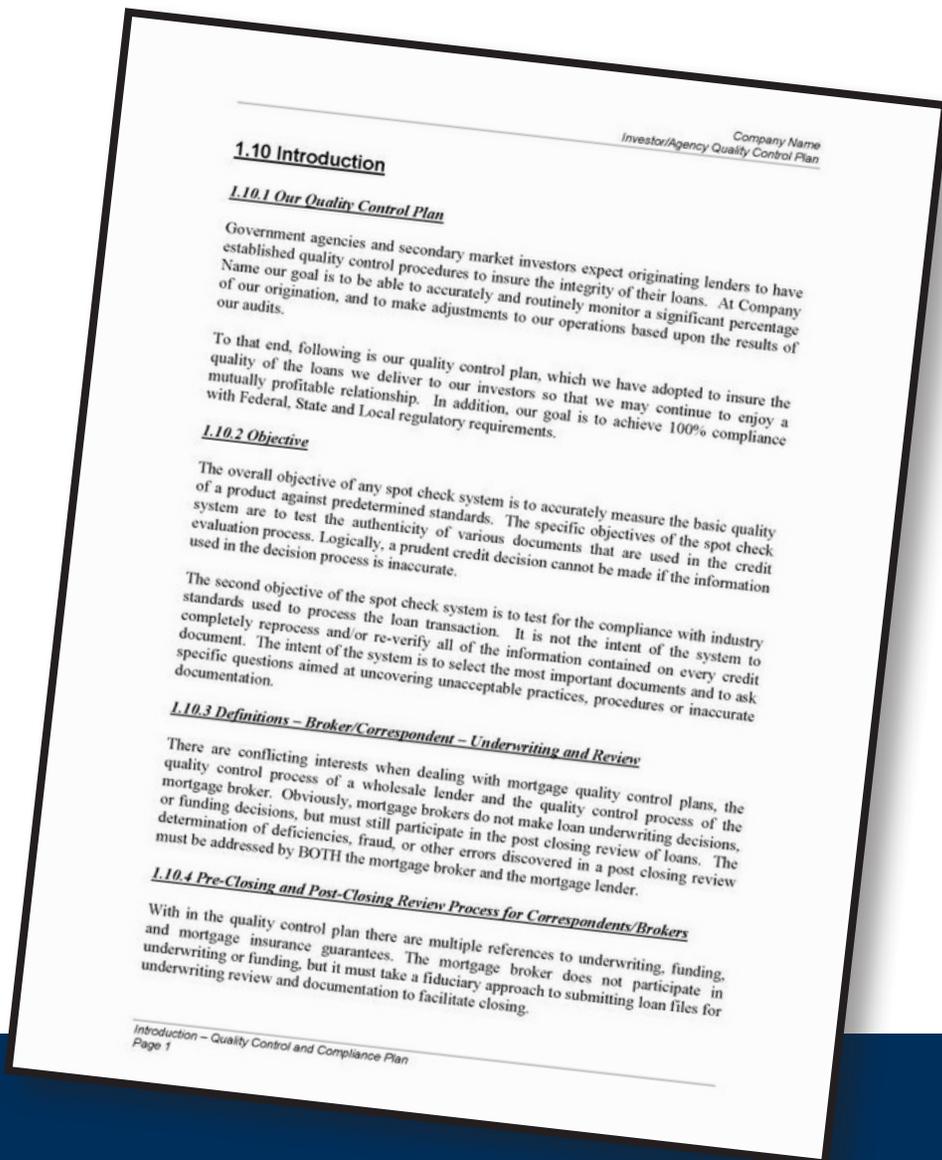
- *Selection Criteria*
- *Audit and Review Timelines*
- *Specific outlines and operating procedures for each step in the mortgage process, including pre-funding, closing, post-closing, servicing, and any other functions your organization will perform*
- *Reporting*
- *Reverification Process*
- *Followup and Action Plans*
- *Defect Rates*
- *Appraisal Review Process*
- *Record Keeping*
- *Fraud Prevention - Red Flag Process*
- *Vendor Reviews*

Many third-party vendors can also assist in developing this process document as an added service, if needed.

It is also important to note that the Quality Control audit must be performed by an individual or party who is independent of the function being audited. This should be outlined in the QC Plan. This is also why it is often a better choice to utilize a third-party QC vendor, as it eliminates any potential for creating a conflict of interest within your organization.



Timeliness is critical in Quality Control. Make sure your plan outlines the timelines for all the necessary QC processes.





4

FOLLOW-UP & ACTION PLANNING

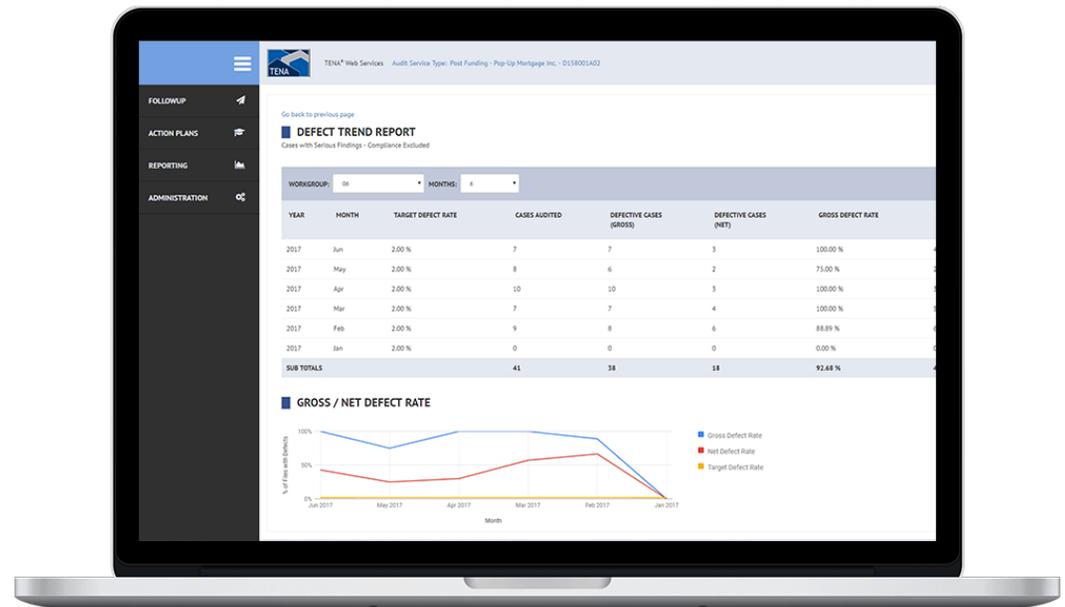


TENA Web Services (TWS) streamlines the follow-up and action planning processes, providing a cloud-based audit remediation platform that can be securely accessed anywhere.

Outlining the steps that will be taken to follow-up and respond to audit findings is a critical piece of the Quality Control planning phase. Consider how findings will be reported to management and how corrective action procedures will be carried out.

QC audit findings may indicate systemic issues that are best handled early and efficiently. Having a plan in place to analyze audit findings and make improvements to the correct areas allows the business to operate smoothly, and will ultimately save time and money.

TENA Web Services (TWS) streamlines the follow-up and action planning processes, providing a cloud-based audit remediation platform that can be accessed anywhere and utilized by your organization to view and respond to findings, securely transfer audit files, create and execute action plans, access reporting tools and more. The permissions allow you to assign roles for each function in the QC follow-up process, including: Coordinator, Supervisor, Rebuttal Coordinator, Responder and Administrator.



Screenshot from TENA Web Services

5

REPORTING, METRICS & KPIS



Even having the most robust Quality Control plan and processes in place won't do much good if you can't run reports or gain actionable insight on any of the data it provides. Collecting data is one thing; analyzing, reporting, and acting on it is another.

By measuring metrics and key performance indicators (KPIs), firms are able to gain valuable information about trends, identify

any potential issues, and ensure the success and overall performance of the Quality Control plan. It is essential to understand what metrics there are, know what needs to be analyzed, and set a timeline for frequency.

Some of the key metrics a QC process may include, but are not limited to:

- *Defect Trends*
- *Loan Risk Analysis*
- *High Severity Findings*
- *Most Frequent Findings*

These metrics can be used to provide evidence for action plans, improve processes, and keep your organization on track when it comes to loan Quality Control. Having a plan for reporting on key metrics and taking prompt action on any material findings is a requirement of most regulatory bodies. You must be able to quickly identify issues and be able to outline the actions being taken to correct them.

Reporting is also important for identifying process inefficiencies and improving your procedures. Some issues may not be as dire as others, and may instead indicate smaller inefficiencies and areas you can look to improve over time.



By measuring metrics and key performance indicators (KPIs), firms are able to gain valuable information about trends, identify any potential issues, and ensure the success and overall performance of the Quality Control program.