



RHFC QUALITY CONTROL (QC) MANUAL OBJECTIVES, POLICIES AND PROCEDURES

RHFC Officer's Signature _____

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Chapter 1 Purpose and Scope

Residential Home Funding Corp. (“RHF”) is committed to the highest standards of federal consumer compliance and requires all management, employees, and third-party vendors follow these policies and adhere to these standards.

1.1 Corporate Mission Statement for Quality Control (QC) Standards

RHF developed this quality control plan in accordance with the institution’s Enterprise Risk Management (ERM) Plan and its Compliance Management System (CMS). The company’s quality control plan and any updates to the plan must be formally approved by the company’s executives and managers. The purpose of the plan is to set forth business practices and standards for pre- and post-funding quality control.

RHF’s quality control plan is designed to establish, monitor, and reevaluate various internal components of the organization to ensure the highest level of business practices. The plan also sets forth the steps and procedures in dealing with external components of the organization, including third-party originators (TPOs) and third-party service providers. Various components of the plan will function as an early detection warning system to identify documentation errors, compliance violations, fraud, or misrepresentation on the part of internal or external representatives of the company.

The organization’s operational plan will be carried out to comply with specific requirements stipulated by the organization’s internal credit policies, warehouse and correspondent lenders, insurers, private secondary market conduits, and government-sponsored enterprises (GSEs) including Fannie Mae and Freddie Mac, as well as HUD, Ginnie Mae, USDA, and the Federal Home Loan Bank’s Mortgage Partnership Finance Program. The plan reflects the steps and procedures to be carried out as a general practice based on universally accepted industry standards. Specific pre-funding, settlement, or post-funding review rules pertaining to any conventional, FHA, and VA mortgages will be implemented as an amendment to this plan.

RHF’s policy contained herein regarding post-funding quality control reflects the most recently published requisites for Fannie Mae, Freddie Mac, FHA, and VA. This plan does not preclude the company from its obligation to fulfill any present or future servicing elements set forth by HUD that are related to handling of escrow accounts, payment collection, agency, insurer, or investor reporting.

1.2 Regulatory Compliance

The final RESPA-TILA Integrated Mortgage Disclosure Rule implementing new, integrated disclosures was published in 2013 and becomes effective with applications received on and after October 3, 2015, for consumer closed-end credit transactions secured by real property. The Good Faith Estimate (GFE) required under RESPA and the initial Truth-in-Lending (TIL) disclosure are being combined into one new form, the Loan Estimate (LE), to be provided within three business days of loan application. The “Written List of Providers You Can Shop For” and “Written List of Providers You Cannot Shop For” are being introduced with the Loan Estimate. These two forms accompany the Loan Estimate as appropriate. The final Truth-in-Lending disclosure and the HUD-1 Settlement Statement required by RESPA are being replaced with another form, the Closing Disclosure (CD), to be provided to consumers at least three business days before consummation of the loan. The RESPA-TILA Integrated Mortgage Disclosures Rule provides very detailed instructions on how these new forms are to be completed and clarifies record retention requirements.

The final RESPA-TILA Integrated Mortgage Disclosures Rule implements a new Escrow Cancellation Notice effective October 3, 2015, and is required to be provided to mortgagors no later than three business days before the escrow account is closed.

Changes in terminology are located throughout this policy.

1.3 Required Plan Review

RHF requires this policy be reviewed no less than annually.

- Last Date of Review – 01/01/2015
- Next Due for Review – 01/01/2017

The above required annual review will include verification of the compliance of this policy with current law, regulation or directive, the procedural implementation of this policy within the then current scope of RHF’s business lines and operations, internal audit results received during the previous year, and the then current industry trends or regulatory guidance.

1.4 Separation of Duties

RHF adheres to an organizational structure that discourages conflict of interest. Quality assurance responsibilities are carried out on an interdepartmental level from the initial point of consumer rate inquiry to post-closing. Specific duties are separated as follows:

Quality and Assurance Control

Purpose and Scope

Early Detection Warning System



- The President and CEO is responsible for the overall operation of the company and is the person ultimately responsible to ensure adherence to the foregoing plan.
- Key members of senior management are responsible for hiring, managing, and training internal employees, business-to-business development, and overseeing the ongoing risk management and monitoring.
- Key senior management staff will oversee origination, disclosure, processing, and underwriting. Secondary marketing responsibilities include monitoring rate locks, commitment tracking, and end-to-end pipeline management.
- Departmental managers will coordinate the distribution of updates for investor and agency guidelines and automated underwriting requisites for Desktop Underwriter®, Loan Prospector®, etc. Updates will be made to company policies and procedures and training modules as necessary.
- The quality control department will perform loan level reviews to ensure compliance with regulations and RHF's policies and procedures. The quality control department and its functions shall be independent from production, underwriting, and closing functions.

1.5 Early Detection Warning System

RHF seeks to implement its QC plan to serve as an early detection warning system to include, but not limited to, any of the following possible occurrences:

- Noncompliance with fair lending regulations (regulated by the Consumer Financial Protection Bureau (CFPB) and other prudential regulators) including the Equal Credit Opportunity Act, Fair Credit Reporting Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, and the Truth in Lending Act
- Noncompliance with the Real Estate Settlement Procedures Act that include violations to tiered pricing and overages on the Good Faith Estimate and HUD Settlement Statement/Loan Estimate (LE) and Closing Disclosure (CD), as applicable
- Noncompliance with state mortgage laws for all states where the company originates loans
- Noncompliance with federal regulations regarding consumer credit such as the Gramm-Leach-Bliley Privacy Act, National Flood Insurance Act, Homeowners Protection Act, and the USA PATRIOT Act
- Noncompliance with agency, investor, or insurer standards
- Improper handling of escrow funds by settlement agents, unauthorized recipients, or mishandling of warehouse funds
- Use of unauthorized or suspended third-party service providers

Quality and Assurance Control

Purpose and Scope

Employee Background, Restrictions, and Disciplinary Action



- Noncompliance with guidance and rules issued by the Consumer Financial Protection Bureau, as applicable
- Noncompliance with qualified mortgage safe harbor rules, as applicable to RHF's origination products

1.6 Employee Background, Restrictions, and Disciplinary Action

RHF will ensure that background checks performed for individuals involved in the origination of mortgage loans will include a review of the General Services Administration (GSA)—Excluded Parties List, HUD's Limited Denial of Participation List for ineligible individuals and entities, and the Nationwide Mortgage Licensing System and Registry (NMLS), as applicable.

RHF's employees, representatives, contractors, and third parties must face the disciplinary action as necessary, depending on the level of violation. Fraud, preparation of bogus documentation, and knowingly engaging in a purchase transaction with the knowledge that gifts, funds, income, or credit documentation has been altered are grounds for immediate termination.

In such cases, processors and administrative staff will face scrutiny to determine if additional personnel were made aware of any fraudulent activities by coworkers. For loans received from correspondents or brokers, RHF will (depending on the severity of the QC findings) monitor more closely or revoke correspondent's or broker's approval with the company and will disclose its findings to the appropriate authorities. A Suspicious Activity Report may also need to be filed.

1.7 Corrective Action and Remediation

This quality control plan stipulates a requirement for written notification to senior management of deficiencies cited as a result of the reviews. Notification will be made on a monthly basis or, at a minimum, in conjunction with the QC sampling review schedule. Senior management will promptly initiate action to correct all deficiencies, including any required remediation.

The actions taken by management will be formally documented by citing each deficiency, identifying the cause of the deficiency, and providing management's response or actions taken to cure the deficiency and prevent future occurrences. Quality control personnel and/or management must follow up to ensure that all defects are cleared and remediation or corrective action has been completed.

Quality and Assurance Control

Purpose and Scope

Corrective Action and Remediation



Depending on the nature and severity of the deficiency, additional reviews may be conducted.

Management must take prompt action to deal appropriately with any material findings. The final report or an addendum must identify actions being taken, the timetable for their completion, and any planned follow-up activities. Management will ensure that quality control review results are promptly distributed to all loan origination personnel and their immediate supervisors. Quality control, in conjunction with key management personnel, will provide employees with corrective instructions where patterns of deficiencies are identified in origination, processing, or closing/funding loans.

Any findings including fraud or material misrepresentations or any other material findings RHF is unable to mitigate must be reported to the appropriate investors, agencies, or state regulators, as required.

Chapter 2 Accountability and Monitoring

RHF requires that its own organization, its employees, contractors, and its third-party vendors comply with all requirements of this policy and all underlying policies or regulations as they exist, or from time to time may be amended.

2.1 Internal Controls

RHF shall ensure that annual independent testing of RHF's compliance includes adherence with this policy and all underlying policies or regulations. The required compliance testing may be conducted by RHF personnel or by an outside party. At minimum, the annual audit shall include a review to assess the following:

- The effectiveness of staff training
- The delivery of all required disclosures in a format and timing compliant with RHF's policies
- Changes or amendments to RHF's policies since last audit have been adequately implemented
- RHF's policies have been properly applied to any new products or services offered since last audit
- All RHF's third-party service providers have complied with their obligations applicable to the product or service and RHF's policies and appropriate vendor/service provider monitoring procedures are in place
- RHF's policies are being applied equally and appropriately across all departments, business units, divisions or branches of RHF
- All required records are being maintained in accordance with RHF's policies
- The proper functioning and implementation of RHF's policies by any automated tools, systems or business unit procedures
- A review of business protocols for information security, documentation destruction, and incident preparedness
- A review of management and board reports of trend analyses to ensure corrective actions were implemented if needed
- The strength, adequacy or weakness of RHF's policies to include the identification of business units, delivery channels or offices for transaction testing
 - Test to confirm that actual practices are consistent with RHF's policies.
 - Test to determine the impact of any procedures identified as weak or deficient.

2.2 Managerial Oversight

RHF's organizational structure includes an executive capacity assigned to perform risk management and compliance oversight. The executive will oversee the approval, selection, and monitoring of third-party service providers. The plan outlines the steps and procedures for pre- and post-funding quality control, a function that is completed in an area and by individuals that are totally independent from loan production. Quality control auditors are experienced relative to the reviews they are conducting, including an in-depth understanding of manual underwriting and automated underwriting systems. They are trained and updated on all GSE and investor requirements for one- to four-family properties. Auditors are provided access to GSE and investor updates through HUD Mortgagee Letters and bulletins issued by the GSEs and investors. Additionally, auditors are provided with guidance and rules issued by the CFPB related to mortgage loan origination.

Managerial oversight includes a risk management system that warrants that only sound credit underwriting is exercised in all of its lending activities. Integral to the risk management function is the review of quality assurance trend reports, exception reports, individual file summaries submitted by quality assurance, and follow-through for remediation when applicable.

Ongoing review of the quality assurance reports is a management effort to ensure that the company standards are consistently met by all of its employees and representatives. The quality control plan includes a response action policy for remediation and disciplinary action when warranted.

Chapter 3 Staff and Training

RHF requires initial and ongoing training for all management and staff concerning this policy, other related policies, and underlying laws and regulations.

Training may be conducted in a variety of settings utilizing any established education modality. Regardless the method of training delivery, all training must include the following:

- Presentation of the subject material oriented for the adult learner
- An assessment of the learner to validate command of the subject matter with a minimum passing grade of 70%
- A completion certificate documenting satisfactory completion of all of the above

RHF will maintain adequate records of this training program to include the following:

- A description of all training programs
- Evidence of attendance and satisfactory completion for each employee subject to this policy
- Management response relative to additional training, reassignment, or other responses for those employees who may not have achieved a passing grade on the assessment and/or were not issued a completion certificate
- Annual review and updating of training as new rules and regulations are issued, where necessary
- Annual review and updating of training to ensure that training coincides with the company's current policies and procedures

3.1 Ongoing Training

All RHF employees shall receive training to ensure current knowledge of this policy and the underlying federal regulations, to a degree commensurate with their job function, which may impact RHF and the current state of law, regulation, and industry best practice.

At a minimum, annual training should address the following requirements as covered in this policy:

- RHF's policies and any changes within the last year.
- The law and regulation or guidelines underlying this and other policies including, but not limited to, the following:
 - Fannie Mae QC process (Selling Guide Part D, Subpart D1);
 - Freddie Mac QC requirements (Single-Family Seller/Servicer Guide, Volume 1, Chapter 48);

- FHA Quality Control for Single-Family Origination (4060.1 REV-2, Chapter 7) for case numbers assigned prior to September 14, 2015, and for case numbers assigned on or after September 14, 2015, 4000.1 FHA Single Family Housing Policy Handbook, V. Quality Control, Oversight, and Compliance;
- VA QC requirements (Lender's Handbook, Chapter 1,15);
- MPF In-House Quality Control Program (MPF Origination Guide, Chapter 28);
- Quality control requirements as approved by the Single Family Housing Guaranteed Loan Program (SFHGLP) administered by USDA Rural Development, Subpart B, 3555.51-3555.52;
- anything issued by the CFPB regarding quality control; and
- industry best practices regarding quality control.
- The implementation of these policies and the practical application thereof in the context of the employee's function or responsibility.
- Disciplinary consequences for noncompliance.

3.2 New Hire Training

New hire employees shall receive the above training as soon as is practicable but in no event later than four weeks of commencing employment with RHF.

Chapter 4 Pre-funding Quality Control

4.1 General Requirements of Pre-funding

RHF will complete its pre-funding quality control requirement in accordance with the specific practices required by the secondary market agency. The reviews are to be performed after approval, but prior to closing, allowing adequate time for review and suspension should significant findings be discovered. Pre-funding QC reviews should include an assessment of the underwriting for each loan in accordance with RHF's guidelines, GSE, agency, and investor overlays, as applicable. This section outlines the procedural steps generally acceptable to institutional investors. Mandatory components of pre-funding under Fannie Mae's Loan Quality Initiative (LQI), Freddie Mac's updated QC requirements, and HUD's Quality Control Program Requirements are outlined in the specific agency chapter in this manual.

4.2 Social Security Number Verification

Pre-funding quality control procedures will determine if the Social Security numbers of all borrowers were validated. File documentation should address identified discrepancies or include explanations. Supporting documentation provided by fax or printed e-mail communication by the borrower should be noted by QC. Any borrower whose name or Social Security number is listed on the OFAC list (Office of Foreign Asset Control) or other security list will be considered a red flag that must be investigated and cleared before the loan can be closed. All Social Security number verification and documents must be in compliance with RHF's USA PATRIOT Act and FACTA Red Flags Identity Theft policy and procedures.

4.3 Red Flag Detection

RHF's pre-funding quality control file reviews must include a step to determine if the requirements of the FACTA Red Flags Identity Theft policies and procedures were met by the underwriting and loan processing departments. Each mortgage application should be examined to ensure that any noted red flags were properly mitigated. If red flags are discovered during the pre-funding review and cannot be mitigated, QC staff shall follow established procedures for the post-ponement or cancellation of settlement or escalation to senior management for additional review.

For outsourced quality control, the compliance officer is responsible to ensure the company's quality control administrator monitors the QC efforts of the service

provider and that the red flag monitoring is included in management reports. Any exceptions noted in the QC findings report will require remediation and management response. Corrective action may include acceptable curing options for the borrower file and/or employee training.

4.4 Address Discrepancies

RHF must ensure that pre-funding QC monitors whether the company provided immediate response to all notices of address discrepancy received from the credit reporting agencies. An address discrepancy is noted on a consumer's credit report when the credit reporting agency has noted a substantial difference between the borrower's address the company provided when requesting the report to the addresses in the agency's file. All credit reports and additional investigative reports must be cross-referenced for accuracy. Should there be a discrepancy in a borrower's address or other identifying information from one consumer report to an additional report, the QC monitoring and testing should ensure that all steps and procedures were followed to resolve the discrepancy before loan closing.

4.5 Credit Alerts and Warnings

RHF must ensure that pre-funding QC monitors whether the company provided immediate response to all alerts and warnings contained in any consumer credit report (i.e., tri-merge credit report and/or all alerts and warnings noted on a Factual ID or Fraud Check report). QC shall review letters of explanation signed by the borrower to determine if adequate justifications have been provided. QC must document any identified noncompliance to management in its QC reports.

4.6 Fraud Investigation

RHF may utilize industry databases of public and nonpublic information to check the Freddie Mac Exclusionary List, HUD LDP List, etc. to monitor loan officers, contractors, and third-party service providers. Pre-funding spot checks that evidence fraud or misrepresentation will constitute suspension of the loan closing, no matter who is responsible. The company will maintain contracts with various reliable, industry-recognized, and agency-approved resources for the purpose of investigating public and nonpublic sources of information pertaining to loan officers, contractors, and third-party service providers in the mortgage industry.

4.7 Pre-funding Employment Verification

As appropriate and in accordance with changes to the company's risk management objectives or to conform to certain investor or agency requirements, the company will institute a general policy for pre-funding quality control, to include pre-funding employment verifications for borrowers. The company will internally complete or outsource procedures for verification for a selected percentage of loans submitted to underwriting by all business units and/or branches.

Prior to scheduling any closing, the closing department will telephone and/or fax the employment verification to the employer for all borrowers in a loan application. Loans from all originators must be covered in the pre-funding QC process on a regular basis for written pre-funding employment verification. At a minimum, telephone verification is required to be completed on all loans within 10 business days of funding.

4.8 Pre-funding Underwriting of Appraisals

The quality control manager is responsible for ensuring that RHF's policies and procedures and training materials contain information regarding the company's requirements for pre-funding spot checks for the following:

- Collateral assessment
- Review appraisal (field or drive-by)
- Review appraisal (desk)

Any pattern or practice of errors, omissions, over-stated appraisal valuations, and other appraisal errors may result in the company's suspension of certain appraisers from authorized use by the company. RHF must continually evaluate the quality of the appraiser's work through the normal review process of all appraisal reports, as well as through the spot-check field review or desk review of appraisals as part of its quality assurance system.

4.9 Pre-funding Reverifications

Pre-funding quality control, Social Security number reverifications, employment or asset reverifications, and/or appraisal spot checks must be fully documented for each loan. AUS data integrity, income calculations with supporting documentation, and mortgage insurance coverage, if applicable, must also be reviewed. Copies of reverifications, faxes, e-mail printouts, review appraisals, etc. are maintained in the pre-funding quality control report files as back-ups to the management report.

4.10 Pre-funding Management Reports and Trending

Pre-funding Management Reports must detail how sample selection was performed and the findings that were discovered. They must include defect trending information, document resolution of the defects, and include a summary of all findings for management review. Management reports must also reference any applicable ongoing spot checks for all loan originators and appraisers on a quarterly basis.

Pre-funding Social Security number and employment reverifications must be trended according to documentation type (full or alternate) and loan type (government or conventional). Trending reports must break out the property location by state/county and list each loan originator, underwriter, processor, and third-party originator, if applicable.

4.11 Third-Party Originations

RHF's quality control process must include procedures to monitor the quality of third-party originations. The QC process will, at a minimum, include a review of a representative sample of the mortgage loans received from the third-party originator to ensure that those originations meet RHF's, applicable agency, and investor standards for loan quality. Review cycles must be structured to ensure that transactions originated by each third-party originator are reviewed at least once annually, or quarterly, depending on loan volume.

The discretionary selection of the third-party originator's production may be based on, at a minimum

- property location;
- loan-to-value ratios;
- mortgage product types;
- borrowers' credit scores; and
- third-party originator's past loan portfolio performance, to include any first payment defaults or any buy back requests.

4.11.1 Transfer of Servicing of Third-Party Originations

When RHF assigns the servicing of its third-party originations to another lender/servicer, the company must either retain sufficient documentation to enable it

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to complete a subsequent QC review or make arrangements with the servicer to ensure that it has access to any files or information required for the QC review.

Chapter 5 Fannie Mae Quality Control Plan Requirements

RHF is responsible for ensuring that the mortgage loans it sells to Fannie Mae meet Fannie Mae's eligibility and underwriting requirements.

The following chapters provide RHF's policies and procedures to ensure that it is meeting Fannie Mae's requirements for establishing a quality control plan, including documenting the QC plan, staffing and outsourcing the QC process, selecting and reviewing the mortgage loan files, reporting results, and retaining records.

To assist in compliance of the QC requirements in Fannie Mae's Selling Guide, Fannie Mae has published a [Quality Control Self-Assessment Worksheet](#). The Worksheet is a checklist that monitors governance, target defect rates, pre-funding QC, post-closing QC, appraisal requirements, reporting, and QC vendor management.

5.1 Lender QC Requirements

RHF will comply with Fannie Mae's Lender Quality Control Requirements as outlined in the Fannie Mae Selling Guide Announcement (#SEL-2013-05) and in the Fannie Mae Selling Guide, Part D: Ensuring Quality Control. RHF will establish a quality control program with specific standards for loan quality and will maintain the QC program that establishes processes to achieve those standards.

In accordance with Fannie Mae requirements, the QC program will include

- quality control plan contents;
- quality standards and measures;
- quality control file reviews;
- selection of loans for QC review;
- reporting and remediation;
- pre-funding quality control reviews; and
- post-closing quality control reviews.

5.2 QC Plan Overview

RHF's QC plan provides the structure for identifying the deficiencies in the loan origination process and for implementing plans to quickly remediate those deficiencies and underlying issues.

The QC program must include a documented QC plan that outlines requirements for validating that loans are originated in accordance with RHF's policies and procedures, such as the following:

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Fannie Mae Quality Control Plan Requirements QC Plan Contents



- The loans comply with applicable federal, state, and local laws and regulations.
- The loans comply with Fannie Mae's Selling Guide, all related contractual terms and agreements, and are in all respects eligible for delivery to Fannie Mae.
- Establish specific standards for loan quality in the form of target defect rates and to categorize defects by at least three severity levels (with the highest severity level indicating that the loan is not eligible as delivered to Fannie Mae).
- Assess compliance with internal policies.
- Guard against fraud, negligence, errors and omissions by officers, employees, contractors (whether or not involved in the origination process) brokers, borrowers, marketing partners, and others involved in the mortgage process.
- Evaluate and monitor the overall quality of mortgage production through pre-funding and post-funding review programs including compliance with Fannie Mae's requirements regarding eligibility, underwriting, documentation, and property collateral.
- Confirm that the loan was underwritten in accordance with Fannie Mae's requirements, with adequate support within the file.
- Make recommendations to improve loan quality and the loan production process.
- Verify the existence and accuracy of credit documentation, legal documents, and property appraisals that the lender uses to reach its underwriting decisions.
- Conform to internal and Fannie Mae eligibility and underwriting policies.
- Comply with insurer or guarantor requirements.
- Demonstrate prudent underwriting judgment.
- Ensure loans are secured by properties that have adequate value to support the loans.

5.3 QC Plan Contents

RHF's QC program will specifically include a documented QC plan that establishes standards for quality and incorporates systems and processes for achieving those standards.

The QC plan, at a minimum, must contain information regarding the following:

- Quality standards and measures
- Procedures
- Sample selection process
- QC file review process
- Corrective action plan
- Reporting

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Fannie Mae Quality Control Plan Requirements QC Plan Contents



- Vendor review
- File retention
- Internal audit

To ensure that it meets these content guidelines, RHF's Fannie Mae QC plan will contain the following elements:

- Include detailed operating and reporting procedures for all employees, contractors, and third-party providers involved in the QC process.
- Validate that loans are originated in accordance with established policies and standards for quality.
- Incorporate systems and processes for achieving standards for loan quality in the form of target defect rates and severity, with these targets reset at least annually.
- Provide a structure for identifying and remediating deficiencies and underlying issues.
- Establish written procedures for reporting on results of QC reviews and identify location of findings and related documentation.
- Require that loan data discrepancies identified in the QC process result in reassessment of the underwriting decision and determination of loan eligibility.
- Require that if it is determined that the loan was not eligible as delivered, Fannie Mae must be advised of the findings (may include Fannie Mae's Lender Self Report Mailbox).
- Require that if it is determined that the loan involves fraud or misrepresentation, Fannie Mae is advised immediately of the findings.
- Require that results of pre-funding and post-funding reviews, including management responses to higher risk findings, be reported at least monthly to senior management.
- Establish minimum requirements for QC staff skills and expertise, including those of contractors or third-party providers.
- Ensure QC program includes a sampling methodology to target higher risk loans and to reevaluate as risks change over time.
- Maintains documentation regarding the sample methodology and selection process for each completed audit.
- Maintain a current corrective action plan including continued monitoring of necessary process changes or effects of additional training or other corrective actions.

5.4 Loan Quality Initiative (LQI)

RHF will comply with Fannie Mae's Loan Quality Initiative as outlined in Lender Letter (#LL-2010-03) and the Fannie Mae Selling Guide Announcement (#SEL-2010-01 and #SEL-2013-05). This section summarizes the key requirements for pre-funding validation and data integrity steps and summarizes Fannie Mae's general requirements for quality control. Pre-funding quality control is a mandatory component under Fannie Mae's LQI.

Fannie Mae's pre-funding quality control review process can be found in the Selling Guide, Part D, Ensuring Quality Control (QC)/Subpart D1, Lender QC Process/Chapter D1-2, Lender Pre-funding QC Mortgage Review/D1-2-01, Lender Pre-funding Quality Control Review Process.

5.4.1 LQI Steps Required Prior to Loan Delivery

The following steps should be taken prior to loan delivery to Fannie Mae:

1. Confirm each borrower's identity.
2. Confirm each Social Security number (SSN) or Individual Taxpayer Identification Number (ITIN).
3. Verify that all documentation conforms to the USA PATRIOT Act and the Department of Treasury's Office of Foreign Assets Control (OFAC) requirements.
4. Confirm all parties to the transaction are not on the General Services Administration (GSA) list or the HUD Limited Denial of Participation (LDP) list.
5. All liabilities must be documented and included in qualifying ratios.
6. All credit inquiries must be explained and, as appropriate, included in qualifying ratios.
7. Desktop Underwriter "Potential Red Flag" messages have changed to "Verification" messages and required additional verification steps have been completed.
8. Desktop Underwriter "Occupancy" message requires the company to verify the borrower's intended occupancy status of the subject property.
9. Adequate controls may include pulling a new credit report prior to closing and/or MERS check to establish new or undisclosed liabilities/liens.
10. Data integrity must be checked to verify consistency of borrower, mortgage, and property data before, during, and immediately after delivery of loans.

5.5 Pre-funding Quality Control Requirements

RHF's pre-funding QC program must ensure these requirements are met:

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Fannie Mae Quality Control Plan Requirements
Post-closing Quality Control Requirements



- The pre-funding review is conducted independently of production, and at a minimum is conducted by an individual who is independent of the processing and underwriting decision on the loan being reviewed.
- The pre-funding QC plan includes requirements for full reviews of loan files and analysis of data and documents prior to funding:
 - Pre-funding reviews are conducted early enough in the origination process to allow adequate time to make loan selections, complete the reviews, and properly inform the loan production organization so that corrections and/or revisions can be made prior to loan closing.
 - Pre-funding reviews are conducted when there is sufficient documentation to perform the review of data and documents, generally after initial loan approval.
 - The pre-funding review should encompass both the company's originated loans and loans originated through third-party sources.

The QC process will include the following validation and verification steps:

1. Data entered into the automated underwriting system (AUS).
2. Use borrower Social Security number to verify borrower identity.
3. Validate income calculations and supporting documentation.
4. Employment documentation, including verbal verification of employment.
5. Validate assets needed to close or meet reserve requirements.
6. Review appraisal or other property valuation data.
7. Confirm documentation of adequate mortgage insurance coverage.
8. The QC process will meet the following standards:
 - a. Be performed on a monthly basis.
 - b. Establish and document a process for selecting loans for the pre-funding reviews.
 - c. Take into account the company's assessment of the risks inherent in its origination processes, business sources and volume, and product mix.
 - d. Be reviewed regularly to ensure that the sample selected, including sample size, is appropriate.

5.6 Post-closing Quality Control Requirements

Fannie Mae's post-closing quality control requirements can be found in the Selling Guide/Part D, Ensuring Quality Control (QC)/Subpart D1, Lender QC Process/Chapter D1-3, Lender Post-Closing QC Mortgage Review.

RHF's post-closing QC program will include the following steps:

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Fannie Mae Quality Control Plan Requirements Post-closing QC Sampling Requirements



1. Ensure that the full QC process is completed within 120 days from the month of loan closing:
 - a. 30 days for loan file selection
 - a. 60 days for QC review and rebuttal
 - b. 30 days for reporting
2. Include both random and discretionary selection requirements.
3. Establish requirements for post-closing reviews, including approval conditions, credit reports, occupancy, reverification of employment, assets and income, data integrity, credit history, and closing documents.
4. Provide requirements for reverification of borrower income, employment, and asset information.
5. If not already obtained, the QC process must include the company's execution of the IRS Form 4506-T with the IRS (or designee). If transcripts were obtained during the pre-closing process, a new transcript need not be ordered for the post-closing process.
6. For owner-occupied properties, obtain reverification of owner-occupancy.
7. Require annual reviews of appraisers regarding licensing or certification and procedures for suspending, terminating, and reporting to applicable boards.
8. Require that only Fannie Mae's appraiser field review forms are used.
9. Ensure that the Lender Self-Report Mailbox is used to notify Fannie Mae of loans that were delivered and subsequently found to be ineligible.
10. Be prepared to provide QC audits and secondary audits of the QC process to Fannie Mae upon request.
11. Confirm that all conditions in the DU® Underwriting Findings report were resolved and documented for loans underwritten through DU.

5.7 Post-closing QC Sampling Requirements

RHF will comply with Fannie Mae guidelines by completing post-closing quality control reviews on a monthly basis.

The quality control sampling selection must reflect the full scope of business in both retail and wholesale channels. Over the course of time, the QC reviews should cover all underwriters, appraisers, processors, and branch offices associated with the mortgages in the sample. Over the course of time, the QC selection should cover the full range of various products, programs, property types, occupancy types, loan-to-value ratios, and loans with subordinate financing. All QC samplings must include a representative sample of loans underwritten by Desktop Underwriter, including loans that receive an *Approve*, *Refer*, or *Refer with Caution* recommendation.

Fannie Mae requires lenders to select loans for post-funding reviews within 30 days of origination and to complete the reviews within 60 days of the selection. Fannie Mae must be notified if QC is in arrears by more than one 30-day cycle.

5.7.1 Random Selections and Statistical Sampling

RHF must select for its post-closing QC review a minimum of 10% of the mortgage loans that it originates or acquires from a third-party originator using a random selection methodology (unless a statistical sampling methodology is used).

If 10% is less than one loan, then at least one loan must be selected.

If the company uses a statistical sampling for its selection process instead of the standard 10% random selection process, it must document the methodology and provide to Fannie Mae, upon request, a detailed written justification of the methodology, including the following information:

- Method for making a statistical selection
- Variables used in the selection model and how they are defined (for example, population size, precision rate, percentage of defect rate, and confidence level)
- The results of periodic evaluations of the process and variables, and establishment of time periods for the evaluations

5.7.2 Discretionary Sampling

Discretionary samplings are a required element for RHF's post-closing QC plan. Discretionary sample selections supplement (but do not replace) the company's random (or statistical) sample. The purpose of a discretionary sample is to look for or highlight areas that may post unique or elevated levels of risk for the company or to confirm that a particular control or process is working as intended.

Loans selected for post-closing discretionary QC reviews must target areas that the company identifies as having a higher potential for errors, misrepresentation, or fraud. Targeted areas may include the following:

- Loans with characteristics related to errors or defects identified in prior pre-funding and post-closing review results
- Loans with complex income calculations (for example, rental income, self-employed, short history of receipt of income)
- Loans originated using higher risk product features, including adjustable rate or interest only mortgages
- Loans requiring the use of nonstandard processing or underwriting guidelines (for example, delayed financing, multiple financed properties, assets used as income, or manual reserve calculations)

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- Loans secured by properties located in areas with high delinquency rates or areas experiencing rapid increases or decreases in property values
- Loans with multiple layers of credit risk, such as high LTV ratios, low credit scores, or high DTI ratios
- Loans originated or processed through various business sources, a particular branch office, staff person, contractor, third-party originator, or appraiser
- Loans originated or processed by newly hired loan officers, processors, appraisers, or other personnel or third parties involved in the loan origination process
- Loans that may be subject to concerns about delinquency rates or patterns identified in other reviews
- Loans for which the feedback or results from third-party tools indicate potential areas of concern

Additionally, Fannie Mae requires the company to sample loans that have a high risk for fraud, including loans that are early payment defaults.

5.8 Ability to Repay and Qualified Mortgage Requirements

Fannie Mae issued SEL-2013-06 which provided Selling Guide updates related to Ability to Repay and qualified mortgages. This announcement addressed the “Ability to Repay” (ATR) provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which amended the Truth in Lending Act (TILA). Fannie Mae has provided its requirements to address the CFPB’s final rule which became effective January 10, 2014.

RHF’s QC process must verify compliance with Fannie Mae’s guidance.

5.8.1 ATR Covered Loan Eligibility Requirements

An ATR covered loan is a mortgage loan that is subject to the TILA’s Ability to Repay requirements under Regulation Z, and is otherwise not an ATR exempt loan (defined below), with an application date on or after January 10, 2014. An ATR covered loan must meet the following requirements, in addition to the other underwriting and eligibility requirements in Fannie Mae’s Selling Guide:

- Have a loan term not exceeding 30 years
- Be a fully amortizing loan, as defined in Regulation Z
- Have total points and fees not in excess of 3% of the total loan amount (or such different amount as provided in 12 CFR §1026.43(e)(3)), all as determined in accordance with Regulation Z

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Ability to Repay and Qualified Mortgage
Requirements



The only exception to these requirements is for single-closing construction-to-permanent loans, which may have a loan term that exceeds 30 years including the construction period.

The ATR covered loan requirements have been added to Fannie Mae’s Selling Guide as mortgage eligibility requirements for acquisitions of newly originated loans (including government mortgage loans). These new eligibility requirements do not apply to an assumption or modification of an existing Fannie Mae mortgage loan regardless of the date on which such loan being assumed or modified was originally closed.

5.8.2 ATR Exempt Loan Eligibility Requirements

An ATR exempt loan is, with certain exceptions, a loan that either is not subject to TILA or is exempt from the Ability to Repay requirements in Regulation Z (12 CFR §1026.43(a) or (d)). Fannie Mae will purchase ATR exempt loans as long as such loans meet the other eligibility and underwriting requirements described in the Selling Guide (including the term and amortization requirements noted above). For purposes of determining whether a loan is an ATR exempt loan, RHF must follow the TILA and Regulation Z definitions.

Note: The classification of certain transactions for TILA purposes and for eligibility and underwriting purposes by Fannie Mae do not always align. For example, Fannie Mae defines a four-unit property where the borrower occupies one of the units as a “principal residence.” If under TILA such a loan is considered to be for commercial or business purposes, it will be exempt from TILA and therefore considered an ATR exempt loan by Fannie Mae.

Exceptions: To maintain consistency with current practice, Fannie Mae requires loans to an inter vivos revocable trust to be underwritten as an ATR covered loan to be eligible for sale to Fannie Mae. In addition, “nonstandard mortgage” to “standard mortgage” refinance transactions under Regulation Z must also be underwritten as ATR covered loans to be eligible for sale to Fannie Mae.

5.8.3 Points and Fees Limitations

The points and fees limitation formerly described in B2-1.4-03, Legal Requirements, has been eliminated. Fannie Mae is adopting the following requirements for points and fees charged by RHF. For purposes of these requirements, “total points and fees” and “total loan amount” must be calculated in accordance with Regulation Z (12 CFR §1026.32):

- ATR covered loans: Total points and fees may not exceed 3% of the total loan amount or such different amount in accordance with the qualified mortgage provisions of Regulation Z (12 CFR §1026.43(e)(3)).
- ATR exempt loans: Total points and fees may not exceed 5% of the total loan amount.

5.8.4 Mortgage Loans with Pre-payment Penalties

Mortgage loans subject to prepayment penalties will be ineligible for sale to Fannie Mae.

5.8.5 Refi Plus® Higher-Priced Mortgage Loans

Fannie Mae's Selling Guide currently requires that Refi Plus loans with a payment change of less than or equal to 20%, that are also higher-priced mortgage loans (HPML) under Regulation Z, be qualified using the stricter guidelines for Refi Plus loans with payment increases greater than 20%. While the substance of this provision remains unchanged, the provision was updated to refer to the Ability to Repay requirements under Regulation Z.

5.8.6 Qualifying Interest Rate for Seven-Year and Ten-Year Arms

The qualifying payment for all seven-year (including step-rate ARMs) and ten-year ARM loans must be based on the greater of the note rate or the fully indexed rate. This change will apply to all seven-year and ten-year ARMs loans, including Refi Plus and DU Refi Plus loans.

5.8.7 Retirement of Product Features

Fannie Mae is retiring the following mortgage loan features:

- Loan terms in excess of 30 years
- Loans with an interest-only feature
- Growing-equity mortgages (GEMs)

Fannie Mae no longer purchases loans, including ATR exempt loans, with these product features except on a negotiated basis only.

5.9 Rules for Document Reverification

RHF will ensure that its QC process complies with Fannie Mae Document Reverification guidelines.

Fannie Mae requires review and reverification of income and asset documentation, credit reports, and the appraisal. The company is required to have borrowers execute

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Fannie Mae Quality Control Plan Requirements Rules for New Credit Reports



IRS Form 4506 both at application and at closing. The QC audit will verify that this has been completed and will obtain an IRS tax transcript if one was not obtained during the origination process.

Fannie Mae requires written reverification of income and asset documentation for all loans in the sample. Copies of documents, along with a QC cover letter, are issued to the original source, such as employer or financial institution. All reverification processes performed by QC are treated confidentially. Written documents requiring reverification include both lender-generated verification forms and alternative documentation, including: VOsEs, paystubs, W-2s, VODs, bank statements, liquid asset statements, investment accounts, and gift letters. Reverified funds will cover the down payment and closing costs. If assets are not verifiable after loan closing, the QC auditor must make note that an attempt to do so was made.

Borrower self-employment is verified in the manner most appropriate for the circumstances, such as licensing authorities or telephone directories. Desktop Underwriter loans utilize the above QC requirements for reverification of income and asset documentation. If telephone verification was a DU condition, a telephone reverification is completed to confirm the accuracy of telephone verifications contained in the file. QC steps will include attempts to verify income or assets where the employer or financial institution could not be obtained, such as for self-employed borrowers.

QC steps must include steps to ensure that the borrower's Social Security number (SSN) was consistent throughout the loan documentation. QC will ensure that any requirements for validation of the SSN were properly completed prior to closing.

When verifications are performed by an outsource vendor, the vendor must provide the lender with the results of the reverification findings and documentation must be accessible to the lender for at least three years from the date of the report and must be provided to Fannie Mae upon request.

RHF will comply with Fannie Mae's requirement by execution of the Request for Transcript of Tax Return (IRS 4506-T) with the IRS (or designee) and that loans selected for QC reviews will include reconciliation of the transcript information with the income documents in the loan file. If the IRS transcript is obtained pre-closing, the same documents may be used in the post-funding quality control process without ordering new transcripts.

5.10 Rules for New Credit Reports

RHF will comply with Fannie Mae's requirement for obtaining new credit reports to reverify credit histories/debts.

Fannie Mae requires the company to reverify the borrower's credit history by obtaining a new tri-merge credit report for 100% of the monthly QC sample including both manually underwritten loans and through DU. QC credit reports must be ordered from a different credit agency than the original file. If a borrower's credit history was evaluated by using nontraditional credit or through the use of a nontraditional mortgage credit report, RHF must reverify each of the credit references on that report, including written references. If the company obtained written references from creditors, the QC process must include reverification of each of the credit references.

The liability information obtained on the new credit report must be reconciled against the credit report or references used at the time of underwriting the loan to identify any discrepancies or the existence of any debt that may not have been taken into account when the loan was underwritten.

The company must also review any potential red flag messages appearing in the DU Underwriting Findings report or alerts created by sources other than DU, including fraud protection services, associated with the credit report to ensure all messages have been addressed and documented, and that the loan is eligible for sale to Fannie Mae.

5.11 Rules for New Appraisals

RHF will comply with Fannie Mae's post-closing review of appraisals and appraisers, including the following:

- Evaluation of the appraiser's work and property field work
- Review of appraisals or property inspections
- Review of appraisal forms
- Reverification of appraisals through field reviews or desk reviews
- Use of automated valuation models (AVM) for desk reviews
- Ensuring compliance with the Appraiser Independence Requirements

5.11.1 Verification of Appraisals by Field Review

An appraisal field review (Fannie Mae Form 2000 for single family properties or Form 2000A for two- to four-unit properties) will be ordered on a minimum of 10% of the mortgage loans selected for QC review, that have an appraisal, via the random selection process. The Fannie Mae 2000/2000A includes a detailed analysis of a copy of all pages of the original appraisal, along with an investigation to determine the accuracy of facts of the original appraisal and includes a drive-by exterior inspection and photographs of the subject and street scene. The field review must be completed

by an appraiser who is not affiliated with the original appraiser or firm and should include an estimation of value, which will be compared to the original appraisal. For loans underwritten with DU, the review appraisal or property inspection must be consistent with the level of review that was conducted after the DU recommendation was received.

5.11.2 Verification of Appraisals by Desk Review

RHF may complete a desk review to evaluate the appraisal for the remaining 90% of mortgage loans the company has selected for QC review as part of its random sample. It is acceptable for the desk review to be completed by an individual who is not a licensed or certified appraiser; however, the appraisal reviewer must be competent in the application of basic appraisal theory, including the following:

- Assessing market risk
- Determining if a property meets eligibility requirements, including the LTV, CLTV, and HCLTV ratios
- Prescribing corrective actions in the underwriting process when defects are identified

Fannie Mae permits the company to use automated valuation models as a tool in the completion of the valuation assessment.

5.11.3 Components of the Appraisal Review Process

RHF's appraisal review process must also include the following:

- An annual review of an appraiser's state licensing or certification status
- A procedure for tracking appraisal findings, which may lead to suspending or terminating business with individual appraisers, as applicable
- A procedure for referring appraisers to the applicable state appraiser licensing and regulatory board, as applicable

5.12 Rules for Reviewing DU Underwriting Decision

For manually underwritten loans, RHF must determine that the mortgage loan was properly underwritten and that sound underwriting judgments were made in accordance with Fannie Mae guidelines and requirements and that adequate support for the underwriting decision is contained in the loan file. Manually underwritten mortgage loans must be reviewed for compliance with Fannie Mae's mortgage loan eligibility criteria.

For loans underwritten through DU, RHF must validate the integrity of the loan file data and confirm that the requirements of the DU Verification Messages/Approval

Conditions were satisfied and adequately supported by appropriate documentation. If DU returned an Ineligible recommendation, the reviewer must confirm that the loan was eligible for delivery to Fannie Mae.

RHF's quality control procedure must determine that the loan meets Fannie Mae eligibility and underwriting guidelines and standards as follows:

5.12.1 Approved Loans

The QC focus for approved DU loans is data verification and compliance with the Verification Messages/Approval Conditions. The company must confirm that all Verification Messages/Approval Conditions have been satisfied and are adequately documented in the loan file.

5.12.2 Referred Loans

The QC focus is to determine the rationale applied in the decision to approve a referred loan, and also conduct a full review of the entire underwriting file. This will include the additional documentation the company provided in support of its underwriting decision, data verification, and compliance with Verification Messages/Approval Conditions.

The company must review all factors considered by the underwriter that caused the underwriter to approve the loan outside of Desktop Underwriter and the rationale the underwriter applied in the course of making the final decision should be clearly documented in the loan file.

5.12.3 Ineligible Loans (Approve or Refer)

The company must verify that the ineligible conditions referenced in the Underwriting Findings report are permitted in the Master Agreement, thus making the loan eligible for sale to Fannie Mae. Determination of Fannie Mae eligibility is not required if the loan receives an Eligible recommendation. If applicable, the Master Agreement will be referenced by quality control to check for any applicable negotiated variances.

RHF must determine that any loan approval conditions required by the underwriter were satisfied and that the information on the HUD-1 Settlement Statement/Closing Disclosure reflects compliance with the closing instructions for the mortgage loan.

5.13 Rules for Data Integrity Check

When an AUS is used to underwrite the loan, a data integrity check must be performed to verify that the data in the system is the same as that in the mortgage

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Fannie Mae Quality Control Plan Requirements Rules for Review of Closing Documents



file. Inconsistent data must be reconciled to determine whether the submitted data was within tolerance, and if not, whether the loan is eligible for sale to Fannie Mae. Lenders must verify the accuracy of all data entered into Fannie Mae's Desktop Underwriter system.

Data integrity checks must verify consistency of borrower, mortgage, and property data before, during, and immediately after delivery of loans. QC must determine accuracy of Section VI Real Estate Owned, including accounts omitted from the underwriting analysis. In addition, QC must ensure that documentation exists to support the data used to underwrite the case and that it matches the Liability Reconciliation Worksheet window.

Data integrity verification will consist of a comparison of the following data elements to information in the loan file:

- Borrower name
- Social Security number
- Employment and employment types
- Income and assets
- Property address, including unit number
- Property type
- Mortgage loan term, type, and purpose
- Points and fees
- Loan amount and LTV ratio
- Source of documentation used to determine the borrower's ability to repay the loan

When a QC loan data file review identifies discrepancies between the data that was used in the underwriting decision and the data verified through the QC process, the company must resubmit the file to DU and reassess the underwriting decision based on the newly verified information to determine whether the loan remains eligible as delivered to Fannie Mae.

5.14 Rules for Review of Closing Documents

RHF will ensure that it complies with Fannie Mae's rules for QC audit of closing documents.

Data integrity checks must verify borrower, property, and mortgage data. At a minimum, Fannie Mae requires a review of the following closing documents for accuracy and completeness:

- Mortgage note

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Fannie Mae Quality Control Plan Requirements Rules for Verification of Occupancy



- Recorded mortgage/deed of trust
- Riders to note or mortgage
- Assignments
- Final loan application
- Title insurance commitment or binder
- Title insurance policy
- Plat or survey
- Hazard insurance policy, including the flood insurance policy, if applicable
- Truth-in-Lending disclosure/Closing Disclosure
- HUD-1 Settlement Statement/Closing Disclosure
- Closing instructions
- Underwriter approval
- MI certificate
- MERS registration

5.15 Rules for Verification of Occupancy

RHF will ensure that its QC process complies with Fannie Mae's requirements for verification of occupancy.

The QC audit must include steps to verify that the borrower is occupying the home if it is a primary residence. An initial review of the documents in the loan file, including the property insurance policy, appraisal, income tax returns, or transcripts shall confirm there are no indicators that the property is not the borrower's principal residence. For refinance transactions, copies of the borrower's utility bills will also be considered acceptable evidence of owner occupancy.

Post-funding review steps will include documented evidence of all attempts to verification occupancy, including printouts of Internet sources used for validation.

5.16 Rules for Due Diligence of Third-Party QC Providers

To ensure complete and accurate quality control audits, RHF must complete a post-closing audit review of the QC process when performed by a third-party provider.

RHF's vice president of compliance, or designee, will choose a random 10% sample of the monthly post-closing 10% random or statistical audit selection for an independent due diligence test of the vendor. The files will be reunderwritten in an area outside of the company's production group and must be performed internally without the use of a separate third-party vendor.

The results of the due diligence audit will be compared to the vendor's QC findings for each borrower file selected for reunderwriting.

Each month a summary report of the vendor audit will be submitted to senior management that describes the comparative review of the files and any findings. A pattern of serious discrepancies, errors, or omissions on the part of the QC vendor will warrant a reevaluation of the vendor and up to and including a possible termination of the contract.

5.17 Management Reports

The results of QC reviews must be reported on a regular basis to senior management. This report should be made within 30 days after the review and rebuttal process is completed and within 120 days of the end of the month in which the loans closed. RHF must have procedures in place requiring response to, and resolution of, findings identified with the QC review process. RHF must notify Fannie Mae immediately after confirming any misrepresentation or breach of a selling warranty, including fraud.

Fannie Mae requires that management reports cover QC results at a high level by focusing on defects and broad trends that are revealed by the review process, as well as identifying mortgage loans or items that need specific corrective action.

At a minimum, RHF's post-closing QC reports must be produced monthly and

- reflect the final defect rate for the results of the current review period (taking into account responses and resolution of the initial QC findings);
- include trending information (issues and top defects);
- distinguish between defects related to compliance with federal, state, or local laws and regulations and underwriting and eligibility defects;
- report on each type of review (random and discretionary) and provide results using consistent methodology and terminology across review types;
- include intended corrective actions; and
- summarize the results of each individual review type into a comprehensive, summary report of all QC findings.

5.18 Rules for Monthly Reporting of Defect Rate

The QC reviews performed by RHF or the contract with the third-party QC vendor will stipulate that monthly quality control reports include the "Target Defect Rate" on a service-area basis. The target defect rate must be measured against the most serious defects. The service areas include, but are not limited to, the following:

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Fannie Mae Quality Control Plan Requirements Delivery Cycle of QC Findings



- Business channel
- Division
- Operations center
- Branch
- Geographic state
- Broker
- Originator
- Underwriter
- Loan program
- Product type
- Points and fees threshold

Additional reports will denote the quarterly trend by service area of the “mitigated” defects and categorized by type of curing or process improvement.

5.19 Delivery Cycle of QC Findings

RHF must select loans for post-funding reviews within 30 days from origination and ensure that the loan file reviews and rebuttals are completed within 60 days of the selection. The contract with the vendor must stipulate that quality control reports must be delivered within 30 days of receipt of the loan files. Management remediation and response reports must be completed within 60 days of the loan file selection and final reports must be submitted to management no later than 30 days after completion of the file review and rebuttal process.

Fannie Mae must be notified if QC is in arrears by more than one 30-day cycle.

5.20 Record Retention

RHF will retain all electronic images and hardcopies of findings reports, management responses, trend and management summaries, review appraisals, credit reports, returned verifications, and all other supporting investigative documents for a minimum period of three years. These records include documentation of QC reports, QC review findings, as well as documentation related to any correction actions. Additionally, the company will retain access to a full copy of the borrower file.

5.21 Outsourcing of the QC Process

RHF may outsource its QC processes; however, Fannie Mae holds the company fully accountable for the work performed by its contractors. RHF must ensure that any QC vendor conducts its review in accordance with the company's QC plan.

RHF requires that at least 10% of the loans reviewed by a QC vendor, with or without findings, are reviewed by the company on a monthly basis.

RHF must establish a process for reviewing the contractor's work to ensure that the requirements and guidelines are applied consistently and that the review results accurately reflect the quality of RHF's loan originations. RHF must implement procedures to address any findings identified in its mortgage loan reviews of the vendor as well as any required corrective actions within the organization.

QC contractors must be proficient in knowledge and use of all automated underwriting systems utilized by RHF and demonstrate competency in the review of manually underwritten loans. The QC contractor must have written policies and procedures detailing its review methodologies, including selections based on results of prior post-closing reviews, identification of defects and trends, and reporting those results to RHF. RHF should maintain current copies of the vendor's policies and procedures, including qualifications of its QC auditors.

RHF must ensure that the QC vendor's review staff members possess the qualifications and experience required to provide quality reviews and meaningful analysis.

5.22 Internal Audit of QC Process

As part of a complete internal audit program, RHF shall have an audit process for ensuring that the QC policies and procedures are followed by the QC staff or vendor and that findings are accurately reported and corrective actions are consistently applied. The audits do not need to be completed by an employee of RHF and may be outsourced to a third-party vendor. If an employee of RHF performs the audit, this individual cannot take part in the normal quality control process.

The results of any internal audits must be distributed to senior management. Management must distribute the results to the appropriate areas within the organization to establish an action plan for remediation or changed to polices or processes, as appropriate.

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Fannie Mae Quality Control Plan Requirements
Ineligible Delivery to Fannie Mae and Self-Reporting
Requirements



5.23 Ineligible Delivery to Fannie Mae and Self-Reporting Requirements

Should the quality control vendor or RHF's internal investigation uncover defects in any loan that deem the loan ineligible for purchase by Fannie Mae under the applicable contract, RHF will notify Fannie Mae through the Lender Self-Report Mailbox (self_report@fanniemae.com).

RHF is required to notify Fannie Mae within 30 days of confirmation that one or more defects identified through the QC file review process results in the loan being ineligible as delivered to Fannie Mae.

When making the self-report to Fannie Mae, the company must provide Fannie Mae with a written report of its findings and copies of the relevant documentation that support the reason for the finding.

5.24 Misrepresentation or Fraud Reporting Requirements

RHF is required to notify Fannie Mae immediately if it learns about any misrepresentation or fraud. This self-reporting is required regardless of who committed the act or whether RHF believes that the act results in an actual breach of its selling warranties.

Before notifying Fannie Mae about any misrepresentation or fraud, the company will conduct appropriate due diligence to determine whether a reasonable basis exists to conclude that misrepresentation or fraud may have occurred. If such reasonable basis exists, RHF must notify Fannie Mae immediately. This includes any fraudulent or dishonest activities by employees, lenders, contractors, or brokers.

A record of activity under the quality control plan must be maintained and made available to Fannie Mae upon request.

The appropriate contacts at Fannie Mae to report fraud or misrepresentation can be found in the Selling Guide, Part E, Quick Reference Materials, Chapter E-1, Selling Guide Resources, E-1-03, List of Contacts.

Chapter 6 Freddie Mac Requirements

RHF must operate a quality control program for the origination of home mortgages that is acceptable to Freddie Mac. RHF may use any combination of pre-closing or post-closing quality control reviews based on the company's specific operational needs so long as the quality control program operates independently of the mortgage origination and underwriting departments.

RHF must also comply with the requirements of Sections 7.2(c) or 57.2(c) of Freddie Mac's Single Family Seller/Servicer Guide relating to fraud prevention and detection in its quality control program, as well as other applicable requirements of Chapters 7 or 57 relating to fraud prevention, detection, and reporting.

6.1 Basic Elements of Freddie Mac's QC Program

Freddie Mac requires that RHF's quality control program must follow this guidance:

- Be in writing
- Provide for standard operating procedures for all employees who will be involved with or affected by the quality control process
- Be capable of evaluating and monitoring the overall quality of mortgage production on a regular and timely basis
- Include pre-closing and post-closing quality control reviews
- Include procedures to ensure that sample selection, mortgage file reviews, and the reporting of findings to senior management are conducted in a timely manner

Freddie Mac's quality control program guidelines can be found in the Single-Family Seller/Servicer Guide, Volume 1/Chapter 48.

6.2 Rules for Documenting Reviews

RHF must adhere to the following rules:

- Maintain complete records for each mortgage file selected for a pre-closing or a post-closing quality control review
- Document and explain discrepancies or inconsistencies found in the mortgage file that affect the eligibility of the mortgage based on the requirements of the company, the mortgage insurer, or Freddie Mac

6.3 Rules for Reporting Requirements

RHF's quality control program must provide that all pre-closing and post-closing quality control activities be fully documented in writing and reviewed by management on a regular basis.

The results of quality control reviews must be reported in writing to the company's senior management within 90 days of selection of the mortgage file for review. RHF must thoroughly analyze findings affecting the acceptability or eligibility of mortgages and initiate any necessary corrective actions.

RHF must notify Freddie Mac in writing within 30 days of the company's determination that a post-closing quality control finding affects the eligibility of a mortgage sold to Freddie Mac, except that findings related to fraud or possible fraud must be reported in accordance with Sections 7.3 or 57.3 of Freddie Mac's Single-Family Seller/Servicer Guide.

Freddie Mac reserves the right to increase the sampling or to impose other requirements on a case-by-case basis.

Various reports that may be utilized by RHF are described in the following subsections:

6.3.1 Mortgage Sample Selection Documentation

This report lists the mortgage files selected for quality control review and how they were selected.

6.3.2 Individual Mortgage File Report

This report is written by the quality control reviewer and contains the findings of the quality control review of a specific mortgage loan.

6.3.3 Summary Report of Individual Findings

This report is prepared on a regular basis and summarizes the findings of the individual mortgage file reports, helping to identify trends, fraud, or other problem areas. Freddie Mac advises preparing the report weekly or monthly.

6.3.4 Reporting of QC Findings to Affected Areas

The findings must be provided to the department heads of those areas directly concerned with the individual findings. The department heads should be asked to provide comments, recommendations, or explanations.

6.3.5 Regular Report of QC Findings to Senior Management

Findings must also be presented to management on a regular basis (monthly or quarterly); the report contains the summary report of individual findings plus the responses from the affected department heads.

6.3.6 Management's Response to QC Findings

The response includes recommendations and explanations of the steps the company intends to take to resolve any problems.

6.3.7 Special Problems Report

This report is prepared and given to management immediately when fraud, willful misrepresentation, or other serious origination problems are discovered during the quality control review. The report states the facts of the special problem and includes copies of any evidence that will assist management's understanding of the problem.

6.3.8 Corrective Actions Status Report

This report tracks the company's progress in implementing management's plans for corrective actions.

6.3.9 Report to Investors, Mortgage Insurers, or Government Agencies

This report presents serious findings to the investor, mortgage insurer, or government agency. Freddie Mac requires notification within 30 days of determination that a finding affects the investment quality or eligibility of a mortgage sold to Freddie Mac.

6.3.10 Tracking, Trending, and Special Reports

Trend reports track the historical quality of the originations; includes other reports such as branch office reports, reports of targeted reviews, mortgage service provider reports, and fair lending reports.

6.4 Retention of QC Records

RHF must maintain quality control records for at least three years from the date of the pre-closing or post-closing quality control review. All records must be retained with regard to quality control findings, along with documentation of any corrective action taken.

These records must be made available to Freddie Mac upon request and must be included in the information provided to the new servicer if a transfer of servicing occurs.

6.5 Preclosing Reviews

RHF's preclosing quality control program must include a process to perform quality control reviews on a sampling of mortgages prior to closing in order to identify and address deficiencies prior to loan closing. The purpose of the preclosing quality control function is to monitor origination policies, ensure the accuracy of the mortgage data, and prevent the closing of mortgages with deficiencies such as fraud, inaccurate data, and insufficient documentation.

The preclosing quality control process will operate independently of RHF's mortgage origination and underwriting departments when operationally possible.

The company will comply with guidelines published by Freddie Mac as listed in the following subsections.

6.5.1 Procedures

The pre-closing review process should include procedures for

- sample selection and timing that permits reviews to be completed prior to closing;
- reporting deficiencies and taking appropriate corrective measures;
- documenting the resolution of defects; and
- cancelling or postponing settlement when the pre-closing review reveals deficiencies or when the review cannot be completed prior to the scheduled settlement.

6.5.2 Sample Selection

The sampling process should include mortgages that are representative of the full scope of RHF's product line and production process. RHF will regularly assess its sampling methodology to ensure that its pre-closing quality control process is effective. Additionally, RHF will target samples on an as-needed basis in order to

- review the work originated by a new branch office, employee, or third-party originator;
- validate that a new product or offering is being originated in accordance with RHF's policies and procedures; and
- evaluate the work of a particular employee or mortgage transaction participant when there is a reason to suspect fraud.

6.5.3 Validation and Reverification

RHF's pre-closing quality control review process will include validation or reverification of the following:

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- Data entered into Loan Prospector
- Social Security number provided by each borrower, unless the company validated the number during the loan origination process
- Income documentation and calculation
- Employment
- Assets required to close or meet reserves requirements
- Appraisal report or property valuation data
- Adequate mortgage insurance coverage
- Whether additional credit was granted and considered in qualifying when the borrower's credit report reveals inquiries within the previous 120-day period

6.6 Post-closing Sampling Requirements

The post-closing quality control sample must, at a minimum, consist of three sample types:

- Random
- Targeted
- Discretionary

6.6.1 Random Sample

Mortgages in the random sample are randomly selected from the population so that every mortgage has an equal chance of selection. Loan Prospector mortgages must make up a representative portion of the RHF's quality control sample.

The QC sample requirements can reflect 10% of one of the following production populations:

- Total annual production
- Total secondary market production
- Total Freddie Mac mortgage production

QC must be scheduled so that every mortgage within the selected population has a chance of being selected for review within 90 days of the note date. Any mortgages excluded from the quality control sample selection process are not eligible for sale to Freddie Mac.

RHF will authorize quality control personnel to conduct additional reviews at their discretion.

RHF will warrant that over the course of each 12-month period, the selected samples are representative of the full scope of the company's product line and production process within the selected population.

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The full scope of the product line and origination process includes all of the following:

- Mortgages from all product lines
- Mortgages from all states of operation
- Mortgages from each branch office
- Mortgages from each third party involved in the origination process
- Mortgage loans with high risk characteristics (for example, high loan-to-value ratios, adjustable rate mortgages, 3–4 unit properties, manufactured homes, cash-out refinance mortgages, investment property mortgages, any loan with a Caution LP rating, etc.).
- Ability-to-repay and QM guideline adherence
- Points and fees thresholds

If RHF's total annual loan production volume is in excess of 5,000 mortgages, the company may substitute a statistically based sampling methodology that is of sufficient size to ensure a confidence level of 95% and a margin of error not to exceed 2% on an annual basis on the defect rates for mortgages recently reviewed by RHF's quality control.

6.6.2 Targeted Sample

Each month, RHF will select all mortgages sold to Freddie Mac that become 60 days or more past due in the first six months following the note date. These mortgages will be evaluated to determine the presence of any fraud or other deficiency.

6.6.3 Discretionary Sample

Mortgages in a discretionary sample will be selected on a nonrandom basis from a specific population. Discretionary samples must be selected to evaluate the work of a particular employee or mortgage transaction participant when there is a reason to suspect fraud.

Discretionary samples should also be selected as needed in order to

- review the work of a new branch office, employee, or third-party originator;
- validate that a new product or offering is being originated in accordance with the company's policies and procedures; or
- to comply with a request from Freddie Mac to review loans in a specific population.

6.7 Ability to Repay and Qualified Mortgage Requirements

On January 10, 2013, the CFPB issued a final rule implementing the Ability to Repay provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“final rule”). The final rule generally requires a seller to make a reasonable, good faith determination of a borrower’s ability to repay before originating a mortgage and establishes certain protections from liability for qualified mortgages. The final rule is effective for mortgages with applications received on or after January 10, 2014.

Freddie Mac guidelines for ATR and QM loan production are provided in the following subsections:

6.7.1 Mortgages Eligible for Sale

On May 2, 2013, the Federal Housing Finance Agency (FHFA) directed Freddie Mac to limit future purchases to the following:

- Mortgages that are “qualified mortgages” under the final rule, including those meeting the special or temporary qualified mortgage requirements
- Mortgages that are exempt from the Ability to Repay requirements, such as investor transactions

Therefore, effective for mortgages subject to the final rule with applications received on or after January 10, 2014, Freddie Mac will not be permitted to purchase the following:

- Mortgages that are not fully amortizing (e.g., mortgages with a potential for negative amortizations or interest-only mortgages)
- Mortgages with terms in excess of 30 years (e.g., 40-year fixed-rate mortgages)
- Mortgages with points and fees in excess of 3% of the total loan amount or such other limits for low-balance mortgages as set forth in the final rule

Freddie Mac will continue to purchase mortgages that meet existing Single-Family Seller/Service Guide (“Guide”) underwriting and delivery eligibility requirements (e.g., debt-to-income ratio, loan-to-value ratio, and reserve requirements), provided they do not fall into the three categories listed above. This includes mortgages that are evaluated through Loan Prospector.

6.7.2 Additional Guidance

Freddie Mac currently intends to continue purchasing Freddie Mac Relief Refinance Mortgages and mortgages sold under written negotiated terms and exceptions to the Guide under the temporary QM rule established by the CFPB.. The temporary QM

rule, which expires January 10, 2021, extends QM status to certain loans eligible for purchase or guarantee by Freddie Mac.

For mortgages with applications received on or after January 10, 2014, Freddie Mac will rely on selling representations and warranties that the mortgage is a qualified mortgage.

6.8 Post-funding Review—General Requirements

Freddie Mac specifically requires lenders to complete the following procedures in post-funding quality control reviews:

- Verify the existence and accuracy of the information in the loan files
- Evaluate the underwriting decisions associated with the mortgages
- Determine where additional training may be needed
- Identify errors, omissions, and violations of rules
- Identify necessary changes in the company's processes and workflow
- Assess whether mortgages conform to company policy and insurer
- Determine that regulatory requirements are met, including compliance with points and fees thresholds for qualified mortgages as well as qualifying parameters for Ability to Repay
- Determine that specific Freddie Mac requirements are met
- Monitor the overall quality of the mortgage production

6.8.1 Rule for Document Reverification

RHF will ensure that Loan Prospector and non-Loan Prospector mortgages are selected for post-closing quality control review. The purpose of the reverification process is to

- evaluate the validity and quality of the information used in the original underwriting decision; and
- to protect against fraud and misrepresentation.

Reverifications may be in written or verbal form. All reverification documentation must be retained in the mortgage file.

RHF will reverify the information listed below as soon as possible after the sample selection to facilitate the mortgage file review.

6.8.2 Verifications of Employment, Income, and Sources of Funds

For post-closing quality control reviews, the QC steps will include reverification of all employment, income, and sources of funds used in the original underwriting process

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and based on the minimum documentation required at the time of origination. Copies of the original verifications should be submitted to the issuers with a request that they confirm the accuracy of the documentation. Any verbal reverification of employment, income, and source of funds must be documented in writing. The written documentation must

- identify the name of the quality control reviewer who made the contact;
- identify the name of the business (employer, bank, etc.);
- identify the name and title of the individual who provided the verification (employer contact, gift donor, etc.);
- show the dates of the contact;
- confirm that the information in the original verification was accurate or identify any inaccuracy;
- identify the phone number for the individual contacted (the phone number must be obtained from an acceptable third-party source); and
- identify the name of third-party source used to obtain the phone number (phone book, Internet, 411.com, etc.).

RHF will obtain the Internal Revenue Service (IRS) income information using Form 4506-T (or an alternate form acceptable to the IRS that collects comparable information) for each mortgage selected for quality control review. The IRS form does not need to be resubmitted to the IRS if a response was received during the origination process.

For borrowers with income that is derived from sources in Puerto Rico, Guam, or the U.S. Virgin Islands that are exempt from federal income taxation under the Internal Revenue Code, the above requirements apply, except as follows:

- For borrowers with income that is derived from sources in Puerto Rico, the company must submit the Commonwealth of Puerto Rico Form 2907 titled "Request for Copy of the Return, Estate, or Gift Certificate of Release to the Puerto Rico Department of the Treasury, Internal Revenue Area.
- For borrowers with income that is derived from sources in Guam or the U.S. Virgin Islands, the company must submit Form 4506T (or an alternate form that authorizes the release of comparable tax information) to the Guam Department of Taxation and Revenue or Virgin Islands Bureau of Internal Revenue, as applicable.

6.8.3 Social Security Number Validation

RHF will validate the Social Security number provided by each borrower. The file reviewer will document discrepancies in the QC findings report.

The company is not required to validate the SSN during the post-closing quality control review if

- the SSN was validated during the loan origination process or a preclosing QC review;
- the SSN was not initially validated by a mortgage broker or correspondent; and
- the mortgage file indicates there were no misrepresentations in connection with the borrower's application or the underwriting of the mortgage.

6.8.4 Credit Reports

For Loan Prospector mortgages, RHF is not required to obtain a new credit report. However, the company must verify that the identifying information for any borrower (name, current and previous address, and Social Security number) is true, complete, and accurate and that it was properly input into Loan Prospector on or before the note date. Additionally, any credit information obtained from sources other than Loan Prospector must be reviewed.

For Loan Prospector Accept Mortgages and A-minus Mortgages, the company is not required to review the Loan Prospector-provided credit reports to determine that the credit report was properly underwritten, or that it is in compliance with credit underwriting guidelines, except as follows:

- For Accept and A-minus Mortgages, the company must verify that the Loan Prospector-provided credit reports are for the correct borrower.
- For A-minus Mortgages, the company must review the Loan Prospector-provided credit reports to determine compliance with Sections C33.3 and 37.11(c).

For 1 out of every 10 non-Loan Prospector mortgages selected for post-closing quality control review, the company must obtain either a new residential mortgage credit report or a three-repository (tri-merge) merged in-file credit report.

For the remaining non-Loan Prospector mortgages in the company's post-closing quality control sample, the company must obtain new in-file credit reports containing information from one or more of the national repositories.

The new credit report should be ordered from a source other than the original reporting agency. The new credit report must be compared with the credit report used when the mortgage was originated.

For manually underwritten mortgages, the company must reunderwrite the credit and continue to review the mortgage file documents in accordance with Section 48.7 to determine that the mortgage was underwritten to Freddie Mac's requirements.

For all mortgages selected for post-closing quality control review, the company must determine whether additional credit was granted and considered in qualifying when the borrower's credit report reveals inquiries within the previous 120-day period.

6.8.5 Occupancy Verification

RHF will verify that the borrower is occupying the property as a primary residence for all loans in the QC sampling that are secured by a primary residence. The QC reviewer must document the sources used and steps taken to complete the occupancy verification, including any verification attempts.

6.9 Rules for New Appraisals

For post-closing quality control reviews, RHF must select from the following options:

- Option 1—Of every 10 mortgages selected for quality control review, one must be a field review and the remaining 9 mortgages may be desk reviews.
- Option 2—Of every 10 mortgages selected for quality control review, 3 must be a field review. No desk reviews are necessary for the other 7 mortgages.

For purposes of performing field reviews, the following quality control requirements apply:

- If the mortgage is secured by a one-unit property and was originated using an appraisal report, RHF must obtain a field review with the results reported on a field review report, such as a Freddie Mac Form 1032, One-Unit Residential Appraisal Field Review Report.
- If the mortgage is secured by a two- to four-unit property, the company must obtain a field review with the results reported on Freddie Mac Form 1072, Two- to Four-Unit Residential Appraisal Field Review Report.
- RHF does not need to obtain a field review during the quality control review if one was obtained during the origination process.
- The field review must
 - be prepared by a qualified appraiser not affiliated with the original appraiser or appraisal firm;
 - either concur with, or provide a different opinion regarding, the value and marketability of the mortgaged premises as of the effective date of the original appraisal and not as of the date of the appraisal review;
 - be used to evaluate the quality of the original appraisal report;
 - include an exterior review of the subject property and comparable sales; and
 - include a review of the accuracy of the factual data in the original appraisal report.

When a desk review of the original appraisal or inspection report is required for the remaining mortgages in the post-closing quality control sample, the reviewer need not be an appraiser. However, the reviewer must be familiar with the subject's market area and be qualified to

- address the appropriateness of the data presented in the report;
- address the appropriateness of the comparable sales (as applicable); and
- conclude that the appraiser's rationale for the final reconciliation of value was supported (as applicable).

6.10 Rule for Data Integrity Review

RHF's post-closing quality control review procedures for all mortgages must include a review of the completeness and accuracy of the information obtained in the mortgage origination process. The data integrity review of the information must include a process for checking data fields entered in Loan Prospector and ensuring that all data submitted is valid.

RHF must perform a data integrity review on all mortgages sampled to ensure that the loan data is accurate and consistent. Source documentation to be reviewed includes the following:

- Uniform Residential Loan Applications (Form 65)
- Initial disclosures, including the Good Faith Estimate and Truth-in-Lending disclosures or the Loan Estimate
- Employment and income verifications
- Sales contracts
- Tax returns
- Credit data
- Asset documentation
- Appraisal and inspection reports
- Mortgage delivery data, including the Key Number when applicable
- Points and fees are accurate

If during a post-closing quality control review, the reviewer determines that the Key Number for a Loan Prospector Mortgage is missing or is inaccurate, RHF must notify Freddie Mac in writing within 30 days of the finding.

The data integrity review of the information must include a process for checking data fields entered in Loan Prospector and ensuring that all data submitted is valid. In order to assist in this process, the quality control reviewer must have access to documentation which lists the required codes and formats for all data fields.

6.11 Rule for Closing Documents Review

For all mortgages included in the post-closing quality control sample, RHF must review

- the existence and accuracy of documentation required by applicable law;
- compliance with the eligibility and underwriting requirements and guidelines of the company, the mortgage insurer and Freddie Mac, as applicable;
- compliance with the company's warranties regarding Freddie Mac's Exclusionary List; and
- the HUD-1 Settlement Statement/Closing Disclosure or other closing statement and related documentation to determine that all conditions of closing have been satisfied.

RHF must also include the following documents in its quality control review for comparison with the reverifications received:

- Uniform Residential Loan Application
- Credit documentation
- Employment and income documentation
- Asset documentation
- Appraisal or inspection documentation
- Sales contract
- Uniform Underwriting and Transmittal Summary

RHF must include the following applicable closing documents in its post-closing quality control review to ensure that the information is accurate, complete, and consistent with other documents in the mortgage file:

- Mortgage note
- Security instrument and assignments
- Mortgage insurance certificate or policy or mortgage guaranty certificate
- Modification or assumption agreements
- Flood certificate
- Title binder or final title insurance policy (both if available) or other evidence of title
- Plat or survey
- HUD-1 Settlement Statement, Closing Disclosure, or other closing statement
- Leasehold estate documents
- Hazard insurance policy or certificate
- Flood insurance policy or certificate or flood zone determination documents
- Closing instructions
- Underwriter's approval and any conditions of closing

- MI certificate

6.12 Loan Quality AdvisorSM (LQA) and Resubmission

Effective with Freddie Mac Bulletin 2013-11: Availability of Loan Quality Advisor, RHF may use LQA, a web based risk and eligibility assessment tool to help identify possible Freddie Mac eligibility issues, both pre- and post-closing.

RHF may determine through LQA or by other means such as QC review that information entered in LP was not true, complete, and accurate and does not match the terms of the mortgage to be delivered to Freddie Mac. In these instances, unless otherwise prohibited, RHF will resubmit the mortgage to LP after the note date, but prior to the delivery date. The loan must have been initially submitted to LP before the note date. Certain Freddie Mac restrictions apply. When these restrictions exist, RHF will manually underwrite the loan and treat it as Non-Loan Prospector mortgage.

6.13 Electronic Submission

Freddie Mac has accepted electronic submission of loan files selected for quality control review for many years. Effective October 1, 2015, Freddie Mac will require the electronic submission of those loans selected for review. Paper submissions will no longer be accepted.

Freddie Mac specifies document order, naming convention, and file size requirements. Additional information can be found in [Single-Family Seller/Servicer Guide Bulletin 2015-7](#) and [Specifications for Electronic File Delivery for QC Loan File Reviews](#).

Chapter 7 FHA Requirements for Case Number Assignments Prior to September 14, 2015

All FHA-approved mortgagees, including loan correspondents, must implement and continuously have in place a quality control plan for the origination of insured mortgages as a condition of receiving and maintaining FHA approval. This applies to both the single family and the multifamily housing programs.

Quality control must be a prescribed and routine function of each mortgagee's operations whether performed by a mortgagee's staff or an outside source.

FHA's requirements for quality control for case numbers assigned prior to September 14, 2015, can be found in the Single Family/4060.1 REV-2: Mortgagee Approval Handbook/Chapter 7: Quality Control Plan and are detailed in the following sections.

7.1 Goals of FHA Quality Control

RHF's quality control plan must be designed to meet the following basic goals:

- Assure compliance with FHA's and RHF's own origination requirements throughout its operations
- Protect RHF and FHA from unacceptable risk
- Guard against errors, omissions, and fraud
- Assure swift and appropriate corrective action

7.2 Basic Elements of FHA Quality Control

RHF's quality control plan must contain the following basic elements:

- **Plan form and execution.** All quality control programs must be in writing. RHF must have fully functioning quality control programs from the date of its initial FHA approval until final surrender or termination of the company's approval.
- **Independence.** The quality control function must be independent of the origination functions. This independence may be accomplished in a variety of ways. Depending on RHF's operations, loan volume, staff size, or other factors, the company may prefer one method over another. Quality control functions may be performed using:
 - **In-house staff.** RHF may establish a unit that is dedicated solely to quality control. Staff performing quality control reviews must not be involved in the day-to-day processes that they are reviewing.

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- **Outside firms.** RHF may engage outside sources to perform the quality control function. The FHA-approved sponsors of loan correspondents are acceptable as such outside sources. If RHF is contracting out any part of its quality control function, the company is responsible for ensuring that the outside source is meeting HUD's requirements. Any agreement with the outside source must be in writing, state the roles and responsibilities of each party, and be available for review by HUD staff.
- **Qualified staff.** RHF must properly train staff involved in quality control and provide them access to current guidelines relating to the operations they review. Guidelines may be provided in hardcopy or electronic format.
- **Timeliness.** RHF must ensure that quality control reviews are performed on a regular and timely basis. Depending on the company's production volume, origination reviews may be performed weekly, monthly, or quarterly. The review of a specific mortgage should be completed within 90 days of closing.
- **System of loan file review.** The quality control program must provide for the review of a representative sample of RHF's loans. This review must evaluate the accuracy and adequacy of the information and documentation used in reaching decisions in the origination process.
- **Adequate scope and sampling.** The quality control reviews must thoroughly evaluate RHF's origination to determine the root cause of deficiencies. The company must expand the scope of the quality control review when fraud or patterns of deficiencies are uncovered (scope means both an increased number of files as well as more in-depth review). All aspects of the company's operation including, but not limited to, all branch offices or sites, FHA-approved loan correspondents, authorized agents, loan officers or originators, processors, underwriters, appraisers, closing personnel, all FHA loan programs, escrow analysis, and assumptions must be subject to the company's quality control reviews.
- **Site review.** RHF's offices, including traditional, nontraditional branch, and direct lending offices engaged in origination of FHA-insured loans must be reviewed to determine they are in compliance with FHA's requirements.
- **Affiliate review.** FHA requires RHF to ensure that its contractors, agents, and loan correspondents are acceptable to FHA and operate in compliance with FHA requirements.
- **Reporting and corrective action.** Review findings must be reported to RHF's senior management within one month of completion of the initial report. Management must take prompt action to deal appropriately with any material findings. The final report or an addendum must identify actions being taken, the timetable for their completion, and any planned follow-up activities.

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FHA QC as a Risk Assessment Tool



- **Notification to HUD.** Findings of fraud or other serious violations must be immediately referred, in writing (along with any available supporting documentation) to the director of the Quality Assurance Division in the HUD Homeownership Center (HOC) having jurisdiction (determined by the state where the property is located). In lieu of submitting a paper report, RHF must use the Lender Reporting feature in the Neighborhood Watch Early Warning System.

RHF's quality control program must ensure that findings discovered by employees during the normal course of business and by quality control staff during reviews/audits of FHA loans are reported to HUD within 60 days of the initial discovery.

- **File retention.** The quality control review report and follow up, including review findings and actions taken, plus procedural information (such as the percentages of loans reviewed, basis for selecting loans, and who performed the review) must be retained by RHF for a period of two years. These records must be made available to HUD on request.
- **Restricted Participation.** The quality control review report must determine that no one is employed for HUD origination, processing, or underwriting who is debarred, suspended, subject to a Limited Denial of Participation (LDP), or otherwise restricted from participation in HUD/FHA programs. RHF must periodically check its employee list, at least semiannually.

7.3 FHA QC as a Risk Assessment Tool

HUD recommends that quality control reports to RHF's management include an assessment of risks. RHF may develop a system of evaluating each quality control sample on the basis of severity of the violations found during the review. The system should enable the company to compare one month's sample to previous samples so RHF may conduct trend analysis.

RHF management can also use this tool to respond quickly to a sudden decline in the quality of its loans and help identify and correct the problem. RHF may consider a ratings system such as the following for each loan reviewed, then aggregate these into an overall rating for the sample:

- **Low Risk.** No, or a minor, problem was identified with the origination of the loan.

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FHA QC from Beginning to End



- **Acceptable Risk.** A variety of issues were identified pertaining to processing, documentation, or decisions made but none were material to creditworthiness, collateral security, or insurability of the loan.
- **Moderate Risk.** The records contained significant unresolved questions or missing documentation. Failure to resolve these issues has created a moderate risk to the company and FHA.
- **Material Risk.** The issues identified during the review were material violations of FHA or RHF requirements and represent an unacceptable level of risk. The company must report these loans, in writing, to the Quality Assurance Division in the FHA Homeownership Center having jurisdiction.

7.4 FHA QC from Beginning to End

RHF will implement quality control throughout the loan origination process, as described in the following subsections.

7.4.1 Monitor Application Process

RHF will monitor the intake of mortgage information to ensure sufficient questions are asked to elicit a complete picture of the mortgagor's financial situation, the source of funds for the transaction, the intended use of the property, and that employees working with the mortgage applicant are knowledgeable of the origination process to fully describe the mortgagor's responsibilities in obtaining an FHA-insured mortgage.

This may involve periodically monitoring calls and following up with applicants regarding their treatment and understanding of the process and their obligations (i.e., to avoid misrepresentation and falsification). RHF must also verify the identity of the loan applicant.

7.4.2 Conduct Prefunding Reviews

RHF will sample cases prior to closing to evaluate the quality of processing and underwriting. An important part of prefunding reviews is reverification (by telephone or in writing) of the applicant's employment, source of funds, and residency history. If a written reverification received during a prefunding quality control review is satisfactory, another written reverification is not required if the loan is selected for post-closing review.

7.4.3 Identify Patterns

RHF must identify patterns of early defaults by location, program, loan characteristic, loan correspondent, or sponsor. The company must identify commonalities among

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participants in the mortgage origination process to learn the extent of their involvement in problem cases. Loans involving appraisers, loan officers, processors, underwriters, etc., who have been associated with problems must be included in the review sample.

7.5 Basic Requirements for QC of Single Family Production

RHF must adhere to each of the following requirements when conducting quality control reviews.

7.5.1 Timeliness

Loans must be reviewed within 90 days from the end of the month in which the loan closed. This requirement is intended to ensure that problems left undetected prior to closing are identified as early after closing as possible.

7.5.2 Frequency

If RHF closes more than 15 loans monthly, quality control reviews must be conducted at least monthly and must address one month's activity.

If RHF closes 15 or fewer loans monthly, it may perform quality control reviews on a quarterly basis.

7.5.3 Sample Size and Loan Selection

If RHF originates and/or underwrites 3,500 or fewer FHA loans per year, it must review 10% of the FHA loans it originates.

If RHF originates and/or underwrites more than 3,500 FHA loans per year, it must review 10% of its loans or a statistical random sampling that provides a 95% confidence level with 2% precision.

Each review must document how the sample size and selections were determined.

Regardless of the percentage of loans being reviewed, RHF must comply with the following requirements.

7.5.3.1 Targeting Loans for Review

The quality control program must contain provisions to select loans meeting the conditions stated below. It may not be feasible to select loans from each category every month, but an effort must be made to select loans from each category as often as possible:

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1. Loans must be reviewed from all branch offices and all sources, including authorized agents and loan correspondents.
2. RHF must review the work of each of the loan processors, loan officers, and underwriters based on the sample selected. In addition, the company must review the work of roster appraisers, real estate companies, and builders with whom it does a significant amount of business.
3. The sample must include all FHA programs in which the company participates including, but not limited to, 203(b), 203(k), 234(c), and Home Equity Conversion Mortgages.
4. Early Payment Defaults—In addition to selecting the loans for routine quality control reviews, RHF must review all loans that are originated or underwritten by the company and that are originated by its sponsored third-party originators that go into default within the first six payments (referred to as early payment defaults):
 - a. Reviews of early payment defaults within 45 days from the end of the month the loan is reported as 60 days past due.
 - a. The early payment default review report and following along, including review findings and any actions taken, with procedural information must be retained by RHF for a period of two years.

7.5.3.2 Selecting Individual Loans

RHF must consider the following characteristics, or any additional ones it finds useful in identifying loans to be reviewed:

- 1–4 unit properties
- New construction or rehabilitation loans
- Properties transferred within the past year
- Substantial seller concessions
- Non-occupying co-mortgagors or multiple mortgagors
- Housing expenses increasing by 1.5 times or more
- Large or multiple earnest money deposits (money orders)
- Large increase in bank account balance
- Sale of personal property for funds to close
- Gifts or loans of funds to close
- Self-employed
- Loans risk assessed as “refers” by automated underwriting systems

7.5.4 Documentation Review and Verification

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The quality control program must provide for the review and confirmation of information on all loans selected for review.

7.5.4.1 Credit Report

A new credit report must be obtained for each borrower whose loan is included in a quality control review; unless the loan was a streamline refinance or was processed using an FHA-approved automated underwriting system exempted from this requirement.

A credit report obtained for a quality control review may be a residential mortgage credit report, a three repository merged in-file report, or, when appropriate, a business credit report. A full residential mortgage credit report must be obtained from a different credit source on cases in which the in-file report reveals discrepancies with the original credit report.

7.5.4.2 Credit Document Reverification

Documents contained in the loan file should be checked for sufficiency and subjected to written reverification.

Examples of items that must be reviewed include, but are not limited to, the mortgagor's

- employment or other income;
- deposits,
- gift letters,
- alternate credit sources; and
- other sources of funds.

Sources of funds must be acceptable as well as verified.

If the written reverification is not returned to RHF, a documented attempt must be made to conduct a telephone reverification. If the original information was obtained electronically or involved alternative documents, a written reverification must still be attempted.

Any discrepancies must be explored to ensure that the original documents (except blanket verification releases) were completed before being signed, were as represented, were not handled by interested third parties, and that all corrections were proper and initialed.

All conflicting information in the original documentation should have been resolved before the complete file was submitted to the underwriter.

7.5.4.3 Appraisals

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At a minimum, a desk review of the property appraisal must be performed on all loans chosen for a quality control review except streamline refinances and HUD real estate owned (REO) sales.

The desk review must include a review of the appraisal data, the validity of the comparables, the value conclusion (“as repaired” to meet safety and soundness requirements in HUD Handbook 4905.1 (as revised)), any changes made by the underwriter, and the overall quality of the appraisal.

RHF will perform field reviews on 10% of the loans selected during the sample process. Field reviews must be performed by licensed appraisers listed on FHA’s Roster of Appraisers.

RHF will select loans for field reviews based on factors listed in the loan selection criteria above and the following:

- Property complaints received from mortgagors
- Discrepancies found during desk reviews, particularly when there are significant problems or deficiencies in the appraisal report
- Large adjustments to value
- Comparable sales more than six months old
- Excessive distances from comparables to the subject property
- Repetitive sales activity for the subject property
- Investor-sold properties
- Identity of interest between buyer and seller
- Seller identity differs from owner of record
- Vacant properties

If serious deficiencies or patterns are uncovered, RHF must report these items, in writing, to the Quality Assurance Division in the HUD Homeownership Center having jurisdiction.

The field review steps will include a site inspection of the subject, photographs of the exterior, photographs of the comparable sales, and a comparative review of the original appraisal. The review appraiser will note whether or not he is in agreement with the facts and analysis of the original appraiser. The Quality Control Findings Report will indicate the review appraiser’s responses.

7.5.4.4 Occupancy Reverification

In cases where the occupancy of the subject property is questionable, RHF must attempt to determine whether the mortgagor is occupying the property.

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If it is found that the mortgagor is not occupying a property mortgaged as owner-occupied, RHF must report this, in writing, to the Quality Assurance Division in the HUD Homeownership Center having jurisdiction.

7.5.4.5 Underwriting Decisions

Each Direct Endorsement loan selected for a quality control review must be reviewed for compliance with HUD underwriting requirements, sufficiency of documentation, and the soundness of underwriting judgments.

7.5.4.6 Condition Clearance and Closing

Each loan selected for a quality control review must be reviewed to determine whether

- conditions which were required to be satisfied prior to closing were in fact met prior to closing;
- the seller was the owner of record, or was exempt from the owner of record requirement in accordance with HUD regulations;
- the loan was closed and funds disbursed in accordance with RHF's underwriting and subsequent closing instructions; and
- the closing and legal documents are accurate and complete.

7.6 Specific Elements of the Production QC Program

RHF's quality control program must provide for a review of mortgage loan files to evaluate the loan origination and underwriting functions.

Minimally, the quality control program must address the following procedures as well as any others that might be useful in the evaluation:

1. Determine whether the information in the preliminary loan application, final application, and all credit documents is consistent or reconciled.
2. Determine whether the appraised value was established using reasonable comparable sales, reasonable adjustments, and in expectation of repairs required to meet minimum safety and soundness requirements.
3. Determine whether loan documents requiring signature (other than blanket verification releases) were signed by the mortgagor or employees of RHF only after completion, and that all corrections were initialed by the mortgagor or employees of RHF whether manually or electronically signed and/or initialed.
4. If an electronic signature process was followed, validate that all required process steps were followed in accordance to FHA e-sign policy and procedures.

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5. Determine whether verifications of employment, verifications of deposit, or credit reports are suspect due to handling by any interested third party or the mortgagor.
6. Determine whether the loan file contains a financial statement, tax returns, and the appropriate type of credit report if the mortgagor is self-employed.
7. Determine whether more than one credit report was ordered and whether all credit reports were submitted with the loan package to HUD/FHA or the Direct Endorsement underwriter.
8. Determine whether outstanding judgments shown on the credit report were shown on the Form [HUD-92900](#) LT (Loan Transmittal) and acceptably explained in accompanying documentation.
9. Determine whether the loan file contains pertinent documentation of the mortgagor's source of funds for the required investment, the acceptability of that source, and that any obligation to repay the funds is included on Form HUD-92900. This is especially important in cases where the source was other than the applicant's accounts at a financial institution.
10. Determine whether all conflicting information or discrepancies in the application file were resolved and properly documented in writing prior to submission of the loan for underwriting.
11. Determine whether there are sufficient and documented compensating factors if the debt ratios exceed FHA limits.
12. Determine the accuracy and completeness of underwriting conclusions and company documentation.
13. Determine whether all conditions were cleared prior to closing.
14. Determine whether the [HUD-1](#) Settlement Statement/Closing Disclosure was accurately prepared and properly certified. Assure that only FHA allowable fees and charges were paid by the mortgagor. The HUD-1/Closing Disclosure should be compared with other relevant loan documents to determine whether the mortgagor made the required minimum investment and whether any credits resulted in an over-insured mortgage.
15. Determine whether the loan file contains all required loan processing, underwriting, and legal documents.
16. Determine whether the loan was submitted for insurance within 60 days of closing or included a payment history showing the loan was current when it was submitted for mortgage insurance.
17. Determine whether the seller acquired the property at the time of or soon before closing, indicating a possible property "flip".

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FHA Review of Procedural Compliance in Production



18. If possible, determine whether the mortgagor transferred the property at the time of closing or soon after closing, indicating the possible use of a “straw buyer” in the transaction.
19. Determine whether all items requiring documentation have been properly evidenced and retained in the file.

7.7 FHA Review of Procedural Compliance in Production

In addition to review of RHF’s case files, other areas of the company’s operation must be reviewed and corrected if deficient.

7.7.1 Fair Lending

The quality control program must verify that RHF’s operations are in compliance with the various fair lending laws including the following:

- Fair Housing Act
- Equal Credit Opportunity Act
- Truth in Lending Act

Possible violations or incidences of discrimination must be reported to the Office of Fair Housing and Equal Opportunity in HUD’s headquarters in a timely manner.

7.7.2 Rejected Applications

Of the total loans rejected, a minimum of 10% or a statistical random sampling that provides a 95% confidence level with 2% precision must be reviewed, concentrating on the following areas:

- Ensuring that the reasons given for rejection are valid
- Ensuring that each rejection has the concurrence of an officer or senior staff person of the company, or a committee chaired by a senior staff person or officer
- Ensuring that the requirements of the Home Mortgage Disclosure and Equal Credit Opportunity Acts are met and documented in each loan file
- Ensuring that no civil rights violations are committed in rejection of applications

Where possible discrimination is noted, RHF will take immediate corrective action.

7.7.3 RHF Practices

RHF shall ensure that it is in compliance with HUD’s requirements concerning tiered pricing, overages, and premium pricing.

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FHA Requirements for Case Number Assignments
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FHA Review of Procedural Compliance in Production



7.7.4 Minimum Loan Amounts

RHF is prohibited from setting minimum loan amounts.

7.7.5 Fair Housing Logo

Verify that fair housing and equal opportunity signs and logos are displayed in offices, on stationery and documents, and on all marketing and advertising pieces.

7.7.6 Home Mortgage Disclosure Act

The quality control program must verify that RHF is in compliance with the Home Mortgage Disclosure Act reporting requirements and HUD's requirements for reporting FHA-insured mortgages. The check will include confirmation that the report is made timely, information being reported is accurate, and information is being reported correctly.

7.7.7 Ineligible Participants

The quality control program must verify that RHF is ensuring that none of the participants in a mortgage transaction (excluding the seller of a principal residence) is debarred or suspended, or is under an LDP for the program and jurisdiction.

RHF must periodically check its employee list at least semiannually.

RHF and the quality control program must also include procedures to determine if the mortgage applicant is ineligible due to a delinquent federal debt.

7.7.8 Real Estate Settlement Procedures Act

The quality control program must verify that RHF is in compliance with the provisions of RESPA.

7.7.9 Escrow Funds

The quality control program must verify that escrow funds received from mortgagors are not used for any purpose other than that for which they were received. RHF and the quality control program must also ensure that the funds are maintained in an account separate from the company's operating account.

7.7.10 Mortgage Insurance Premiums

The quality control program must verify that HUD/FHA mortgage insurance premiums (MIPs) that are due upfront (prior to insurance) are remitted within the time period established by FHA, or if not, that the remittance includes late charges and interest penalties. RHF must address any pattern of late submissions and promptly take corrective measures.

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Other FHA Quality Control Issues



7.7.11 Timely and Accurate Insurance

The quality control program must determine whether mortgages are being submitted to HUD for insurance within 60 calendar days of closing. If mortgages have been submitted beyond the 60 days, the quality control program should verify that the mortgage was current when submitted and met the payment requirements of HUD Handbook 4165.1. RHF must address any pattern of late submissions and promptly take corrective measures.

The quality control program also should include a review of the mortgage insurance certificate for accuracy.

7.7.12 Underwriting Reports

The quality control program should include a review of reports available to RHF, including underwriting reports and notices of return (regarding cases rejected for insurance due to errors or omissions).

7.7.13 Advertising

The quality control program should include a review that ensures that branch offices or employees are not engaging in false or misleading advertising practices.

7.8 Other FHA Quality Control Issues

7.8.1 Automated Underwriting

The quality control sample must include loans that fairly represent the percentage of loans underwritten through RHF's automated underwriting system.

The quality control program must verify that correct information has been entered into the automated underwriting system, including data identifying the borrowers, property, mortgage, income, assets, and source of funds. Copies of the assessment by the automated underwriting system must be included in the loan file in addition to the normal documentation required for an FHA mortgage transaction.

Whenever the automated underwriting system cannot "accept" the application, the basis of the automated underwriter system's decision on the loan must be documented and retained.

7.8.1.1 Referred Applications

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FHA General QC Requirements



The quality control program must verify that applications receiving a “refer” are manually underwritten by an underwriter before a final decision is made on the application.

7.8.1.2 Exemptions to Individual Quality Control Program Requirements

A new credit report is not required for loans approved through automated underwriting systems.

7.8.1.3 Overrides

The quality control program must verify that if manual downgrades or overrides are applied, that no patterns of illegal discrimination against loan applicants are revealed and that the downgrade or override was proper.

7.8.2 Streamline Refinances

Streamline refinances should be included in the quality control sample; however, they should comprise a very small proportion of the sample unless streamline refinances are a significant portion of RHF’s production.

7.8.3 Specific Programs

Mortgages originated under specific FHA programs may warrant special attention in quality control reviews, such as the following:

- Section (203)K loans
- Home Equity Conversion Mortgages (HECMs)

7.8.4 Sale and Transfer of Loans

The quality control program must ensure the review of all MERS or Mortgage Change Records for accuracy.

7.9 FHA General QC Requirements

As a supervised or unsupervised Title II FHA mortgagee, RHF’s quality control plan and review procedures must include the following:

- Selection of loans that include loans from all branch offices, authorized agents, loan correspondents, and servicing agents.
- Assurance that all loan officers, underwriters, appraisers, and servicers will have loans subjected to reviews.
- Analysis of all loans which go into default within the first six months.

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Prior to September 14, 2015
FHA Guidelines for ATR and Qualified Mortgages



- Procedures for expanding the scope of the review where a pattern of deficiencies or fraudulent activity is disclosed.
- Sponsors of loan correspondents are required to perform quality control reviews on loans purchased from each of their correspondents. This is not meant to be a substitute for the correspondent's own quality control. A loan correspondent may enter into a contractual arrangement with its sponsor or some other entity to perform its quality control. The results of these reviews must be passed on to the management of the loan correspondent and appropriate action must be taken.
- An on-site branch office review at least once a year must be performed for each branch that originates or services HUD-FHA insured mortgages. Annual visits are mandatory for offices meeting certain high risk criteria such as high early default rates, new branches or new key personnel, sudden increases in volume, and past problems. Other sites must be reviewed to assure compliance with FHA's requirements at a frequency and in a manner determined appropriate by RHF. The criteria used by RHF to determine the frequency of on-site reviews must be in writing and available for review by HUD at the corporate office and any branch office that is not being reviewed annually.
- A review of alternative document loans. The requirements for those types of loans are stated in Mortgagee Letters 91-51 and 92-15.
- Assurance that RHF is reporting to HUD-FHA under the Home Mortgage Disclosure Act; the information being reported is accurate; all required information is being reported; and the information is reported promptly.
- Assurance that, when implemented, all requirements of the electronic signature process are met.

7.10 FHA Guidelines for ATR and Qualified Mortgages

RHF's quality control plan must ensure the company's compliance with HUD's guidelines for qualified mortgages as published in the Federal Register.

7.11 QC Operations Independent from Loan Production

RHF will operate its Quality Control Department in an area that is independent from loan origination, processing, and underwriting.

RHF is responsible for ensuring that quality control auditors are qualified in the file review and reverification of mortgage documents. Each auditor is provided training

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FHA Rule for Outsourced QC



on HUD mortgagee regulations and documentation requirements for forward and reverse mortgages. The company subscribes to online compliance update services available through AllRegs®, HUD, and the FHA Connection.

7.12 FHA Rule for Outsourced QC

RHF may elect to not perform its own quality control and is free to make use of outside firms that provide this service. Quality control services provided by these third-party providers must comply with the HUD's quality control requirements, and must provide written reports to management.

RHF will be responsible for ensuring these requirements are met and must carefully review and analyze the results of these quality control efforts.

RHF must take prompt corrective measures when specific deficiencies are noted or procedural problems are identified. Also, any instance of mortgage finance fraud must be reported to HUD.

7.13 FHA Site Review Requirements

RHF quality control program will assure that site reviews are completed at least once per year in accordance with HUD 4060.1.

The site review will confirm that the office is properly registered with FHA and the address of record is current. The site review will confirm that commercial space is conducive to mortgage lending, clearly identified, separate from other entities with proper signage, fair housing posters, and accessible to persons with disabilities. The site review will ensure that business is conducted in a professional manner in a business-like environment, sufficiently staffed with trained personnel with access to all HUD handbooks, regulations, and notices. The site reviewer will submit a written report to verify compliance with HUD 4060.1 and provide an updated LDP check on all personnel and authorized contractors at least semiannually.

7.14 Reporting of Fraud and Material Deficiencies

RHF's quality control program must ensure that any instance of potential fraud or other serious material deficiencies are immediately reported to HUD via the Neighborhood Watch Early Warning system.

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Prior to September 14, 2015
Record Retention



HUD expects management to review and respond accordingly to each instance of fraud or other serious material deficiency, indicating what steps, if any, have been taken to cure and/or resolve these violations.

7.15 Record Retention

RHF will retain quality control records for a period of at least two years, and make those records available to HUD upon request. Records will include, at a minimum, copies of quality control files, verifications, reports, and procedures used for the sampling selection. The quality control review report and follow-up, including review findings and actions taken, plus procedural information will be retained by the company for a period of two years and will be made available to HUD on request.

7.16 Data Integrity

RHF's quality control plan will verify that accurate information has been entered into the origination software system. A data integrity check will be completed to determine the accuracy of borrower, property, mortgage, income, assets, and source of funds data. The review will include a comparative review of the loan transmittal and the file documentation.

The quality control auditor will verify that if manual downgrades or overrides are applied, that no patterns of illegal discrimination against loan applicants are revealed and that the downgrade or override was proper.

7.17 FHA Self-Reporting Requirements

RHF must report to FHA all findings of fraud and material misrepresentations. The company must also report any material findings concerning the origination or underwriting of the loan, that the company is unable to mitigate or otherwise resolve in accordance with ML 2013-41.

For all findings which must be reported, RHF must identify what actions, if any, have been taken to attempt to mitigate or resolve each finding, and report any planned or pending follow-up activities.

All findings must be reported to FHA through the Neighborhood Watch Early Warning System.

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FHA Requirements for Case Number Assignments
Prior to September 14, 2015
Summary of QC Required Elements



Findings of fraud or material misrepresentation must be reported to FHA immediately. All other material findings (as identified in ML 2013-41]) must be reported to FHA no later than 30 days after RHF has completed its own internal evaluation of the findings, or within 60 days of initial disclosure of the findings, whichever occurs first.

7.18 Summary of QC Required Elements

The following quality control steps are required by FHA:

1. RHF will assure that each of its offices including, if applicable, its approved loan correspondents, authorized agents, and branches maintain copies of all HUD issuances, including regulations, Handbooks, Mortgagee Letters, and Circular Letters which are relevant to RHF's HUD-FHA origination and servicing activities. These documents must be accessible to all employees, periodically reviewed with appropriate staff, and kept current. If paper documents are not maintained, individuals must have online access to the HUD website.
2. RHF will assure that all loans submitted to HUD-FHA for mortgage insurance endorsement are processed by its employees, its approved loan correspondents, or authorized agent.
3. RHF will assure that HUD-FHA upfront mortgage insurance premiums (UFMIPs) are remitted within 10 days from the date of loan closing and that late charges and interest penalties are promptly submitted for single-family mortgages and that the requirements of 24 CFR Parts 200 to 499 are complied with for multifamily mortgages.
4. RHF will assure that sales of HUD-FHA insured mortgages or transfers of loan servicing are properly reported to HUD on Form HUD-92080, Mortgage Record Change and that the purchaser be advised of any loans subject to a HUD audit or investigation.
5. RHF will assure that the termination of HUD-FHA mortgage insurance of a single-family mortgage is properly reported to HUD on Form HUD-27050-A, Lender's Request for Termination of Home Mortgage Insurance and that an assumption of a mortgage is properly reported on Form HUD-92080, Mortgage Record Change. The termination of a multifamily mortgage is reported on Form HUD-9807, Insurance Termination Request for Multifamily Mortgage.

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Summary of QC Required Elements



6. RHF will assure through a thorough review that escrow funds received from mortgagors are not excessive and are not used for any purposes other than that for which they are received.
7. RHF will assure that it does not employ for HUD origination, underwriting, or servicing any individual who is debarred, suspended, or subject to a Limited Denial of Participation (LDP) or otherwise restricted from participation in HUD-FHA programs. All employees will be checked against the LDP at least semiannually.
8. RHF will assure that it is in compliance with the provisions of the Real Estate Settlement Procedures Act (RESPA), including distribution to mortgagors of the Special Information Booklet and good faith estimates which bear a reasonable relationship to actual costs, and disclosure of business relationships with a particular provider of services.
9. RHF will assure that it keeps records of quality control findings and actions taken.
10. RHF will assure that branch offices or employees do not engage in false or misleading advertising practices. This includes the misuse of government seals and emphasis must be on the company name, not the government. If such practices are found, necessary action must be taken to ensure practices do not occur again.
11. RHF will assure that findings of fraud or serious violations will be immediately referred in writing within 60 days to the appropriate HUD Homeownership Center (HOC) along with available supporting documentation or utilize the lender Reporting feature in the Neighborhood Watch Early Warning System.
12. RHF will assure that a data integrity check is completed within the automated underwriting system, including data identifying the borrowers, property, mortgage, income, assets, and source of funds. QC must verify that applications receiving a "Refer" are manually underwritten before the final decision was made on the application.
13. RHF will ensure that streamline refinances are included in the quality control sample. The sampling size should be proportionate to the company's production.
14. RHF must ensure that for applicable 203(k) loans QC steps include reviews of the handling of rehabilitation escrows and disbursements, the rehabilitation loan agreements, the scope of the repairs, the timeliness of their completion,

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Review of FHA Documentation



and borrower complaints about quality and additionally conduct physical inspections on a sampling of 203(k) loans.

15. RHF must ensure that for applicable HECM loans QC steps include reviews to determine if the homeowners received the appropriate counseling and that any referral fees paid are reasonable for the service provided and disclosed in the loan file.

7.19 Review of FHA Documentation

The following forms will be incorporated in the QC review for compliance:

1. Good Faith Estimate
2. Truth in Lending
3. Third-Party Service Providers
4. Informed Consumer Choice Disclosure
5. HUD-1 Addendum Settlement Agent Certification/Closing Disclosure, as applicable
6. HUD-1 Addendum Buyer/Seller Certification
7. CAIVRS Authorization
8. Evidence of LDP/GSA
9. HUD 92900-A
10. HUD 92900-B
11. HUD 92900-LT
12. HUD 92800.5B
13. HUD-54114
14. HUD 92051
15. HUD 92564-VC
16. Appraised Value Disclosure
17. Coercion Statement
As Needed
18. Refinance Cost Worksheet
19. Notice to Homebuyer HUD 92564-HS
20. Get a Home Inspection HUD 92564-C
21. Purchase Agreement Addendum

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Review and Reverification of the Loan File



7.20 Review and Reverification of the Loan File

Quality control reviews will encompass a complete review of the mortgage file. As such, quality control investigation will include steps to ensure that the information submitted by the borrower is authentic. As applicable and depending upon the loan purpose, occupancy, and other file characteristics, quality control may include verification of the borrower's address in telephone directories and other miscellaneous steps over and above the reverification supporting documents.

Quality control steps and procedures will provide for a review of all origination documents. The quality control review must examine the following areas of the borrower's application in order to validate authenticity:

- **Application.** Determine whether each loan file contains all required loan processing, verification, and legal documents. Determine whether the preliminary loan application listed each outstanding asset and liability used in qualifying for the mortgage. Determine whether relevant loan documents were "signed in blank" by the applicant or employees of RHF and that all corrections were initialed by the applicable party.
- **Statutory investment.** Determine if the borrower made the required minimum investment and whether any credits resulted in an over-insured mortgage. The QC reviewer must determine whether the file contained acceptable and verified documentation if the borrower's source of funds for the required minimum investment, if the borrower made the required minimum investment, and whether any credits resulted in an over-insured mortgage. QC steps may include a written reverification of funds with the depository institution.
- **Gift funds.** Determine accuracy and completion of donor gift letters and that the relationship of donor to borrower was stated and from an acceptable source with no required repayment, and that gift funds were deposited into the borrower's account. QC steps will include a written reverification of gifts with the original donor.
- **Credit.** Determine if more than one credit report was ordered and if all credit reports were submitted with the FHA package; whether any outstanding judgments shown on the credit report were shown on the Form HUD-92900 with an explanation and documentation.
- **Income.** Determine whether verifications of employment, verifications of deposit, and the credit report were handled by any interested third party or the applicant; determine whether the self-employed borrower provided financial statements and a business credit report.
- **Verifications.** Determine that the file documentation was complete and there were no discrepancies or conflicting information. If the loan was a streamline

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refinance, determine that origination functions were adequately completed and confirm that the loan was eligible for streamline processing.

- **Approval.** Determine whether all conflicting information or discrepancies were resolved and properly documented in writing prior to submission to FHA sponsor for mortgage insurance endorsement. Determine that the closing conditions were satisfied prior to closing and/or met at closing.
- **HUD Settlement/Closing Disclosure.** Determine whether the HUD-1 Settlement Statement/Closing Disclosure was accurately prepared and certified properly, including the comparison of the HUD-1/Closing Disclosure with other relevant loan documents. Determine whether the borrower made the required minimum investment and whether any seller's credit resulted in an over-insured mortgage; determine that the property seller was the owner of record and that funds were disbursed in accordance with the closing instructions.
- **Straw buyer test.** Determine whether the seller acquired the property shortly before closing, indicating a possible "flip" and/or whether the mortgagor transferred the property soon after closing indicating the possible use of a "straw buyer" in the transaction.
- **Occupancy certification.** Determine whether the borrower is occupying the property. If it is found that the mortgagor is not occupying a property mortgaged as owner-occupied, RHF will report the incident in writing to the Quality Assurance Division in the HUD Homeownership Center.

Chapter 8 FHA Requirements for Case Number Assignments September 14, 2015, and After

All FHA-approved mortgagees, including loan correspondents, must implement and continuously have in place a quality control plan for the origination of insured mortgages as a condition of receiving and maintaining FHA approval.

Quality control must be a prescribed and routine function of each mortgagee's operations whether performed by a mortgagee's staff or an outside source.

For case numbers assigned on or after September 14, 2015, FHA's requirements for quality control can be found in 4000.1 FHA Single Family Housing Policy Handbook, V. Quality Control, Oversight and Compliance.

8.1 QC Program Overview

8.1.1 Goals of FHA Quality Control

RHF's quality control plan must be designed to meet the following basic goals:

- Ensure compliance with both FHA and RHF's origination policies used throughout its operations
- Protect RHF and FHA from unacceptable risk
- Guard against errors, omissions, and fraud
- Determine the root cause of any deficiencies and identify potential internal and external control weaknesses
- Alert RHF management to patterns of deficiencies with respect to mortgage process and personnel
- Ensure swift and appropriate corrective action
- Ensure the existence of required documentation (e.g., credit, loan, and appraisal information) that is the basis of underwriting or servicing decisions
- Ensure mortgages are secured by properties with sufficient collateral values
- Ensure compliance with fair lending laws, including the Fair Housing Act and the Equal Credit Opportunity Act (ECOA)

8.1.2 Record Retention

RHF will retain quality control records for a period of at least two years from the initial QC review, or from the last action taken to mitigate findings, whichever is later, and make those records available to HUD upon request. Records will include, at a minimum, copies of quality control files, verifications, reports, and procedures used

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for the sampling selection. The quality control review report and follow-up, including review findings and actions taken, plus procedural information will be retained by the company for a period of two years and will be made available to HUD on request.

8.1.3 FHA Rule for Outsourced QC

RHF may elect to not perform in-house quality control and is free to make use of outside firms that provide this service. Quality control services provided by these third-party providers must comply with HUD's quality control requirements and RHF's quality control policies. The third-party QC vendor must provide sufficient written reports to management which must include the results of each review.

RHF will be responsible for ensuring these requirements are met and must carefully review and analyze the results of these quality control efforts.

RHF must take prompt corrective measures when specific deficiencies are noted or procedural problems are identified. Any instance of mortgage finance or any other fraud must be immediately reported to HUD.

8.2 Operational QC Program Requirements

8.2.1 QC Operations Independent from Loan Production

RHF will operate its Quality Control Department in an area that is independent from loan origination, processing, and underwriting. RHF must ensure quality control personnel are not within any chain of reporting or management that is directly connected to Loan Administration staff.

RHF is responsible for ensuring that quality control auditors are qualified in the file review and reverification of mortgage documents. Each auditor is provided training on HUD mortgagee regulations and documentation requirements for forward and reverse mortgages, if applicable. A list of all trainings provided to the staff shall be maintained by RHF. The list must include a summary of the content covered.

To remain current, the company subscribes to online compliance update services available through AllRegs, HUD, and the FHA Connection. All QC auditors shall be granted access to FHA guidance including Handbooks, Mortgagee Letters, Frequently Asked Questions, and other guidance issued by FHA.

8.2.2 Restricted/Ineligible Participation

The quality control review report must determine that none of the participants in each mortgage transaction and that no one is employed for HUD origination,

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processing, or underwriting who is debarred, suspended, subject to a Limited Denial of Participation (LDP), or otherwise restricted from participation in HUD/FHA programs. Additionally, RHF must verify that all employees and affiliates participating in HUD programs for or on behalf of RHF are registered with the National Mortgage Licensing System and Registry (NMLS), unless excluded from NMLS requirements by law or regulation. RHF must periodically check its employee list, at least semiannually, and must maintain copies of each employee's eligibility verification print-outs.

Participants in a mortgage transaction may include, but are not limited to, the following:

- Seller
- Listing and selling real estate agent
- Loan originator
- Loan processor
- Underwriter
- Appraiser
- 203(k) consultant

8.2.3 Fair Housing and Lending

The quality control program must verify that RHF's operations are in compliance with the various fair lending laws including the following:

- Fair Housing Act
- Equal Credit Opportunity Act
- Truth in Lending Act

Possible violations or incidences of discrimination must be reported to the Office of Fair Housing and Equal Opportunity (FHEO) in HUD's headquarters in a timely manner. The report may be made online using Form HUD-903 Online Complaint or by phone through the Fair Housing Complaint Hotline at 1-800-669-9777.

8.2.4 Rejected Applications

Of the total loans rejected, a minimum of 10% or a statistical random sampling that provides a 95% confidence level with 2% precision must be reviewed, concentrating on the following areas:

- Ensuring that the reasons given for rejection are valid
- Ensuring that each rejection has the concurrence of an officer or senior staff person of the company, or a committee chaired by a senior staff person or officer

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- Ensuring that the requirements of the Equal Credit Opportunity Act are met and documented in each loan file
- Ensuring that no civil rights violations are committed in rejection of applications

Where possible discrimination is noted, RHF will take immediate corrective action to ensure compliance with fair lending laws.

RHF must document the methodology used to review rejected applications, the results of each review, and any corrective actions taken as a result of review findings. Reviews must be completed within 90 days from the end of the month in which the decision was made. The procedures used to review rejected applications must be included in RHF's QC plan.

8.2.5 Fair Housing Logo

Verify that fair housing and equal opportunity signs and logos are displayed in offices, on stationery and documents, and in all marketing and advertising pieces distributed to the public.

8.2.6 Home Mortgage Disclosure Act

The quality control program must verify that RHF is in compliance with the Home Mortgage Disclosure Act reporting requirements and HUD's requirements for reporting FHA-insured mortgages. The check will include confirmation that the report is made timely, information being reported is accurate, and information is being reported correctly.

8.2.7 Real Estate Settlement Procedures Act

The quality control program must verify that RHF is in compliance with the provisions of RESPA.

8.2.8 Escrow Funds

The quality control program must verify that escrow funds received from mortgagors are not used for any purpose other than that for which they were received. RHF and the quality control program must also ensure that the funds are maintained in an account separate from the company's operating account.

8.2.9 Mortgage Insurance Premiums

The quality control program must verify that HUD/FHA mortgage insurance premiums (MIPs) that are due upfront (prior to insurance) are remitted within the time period established by FHA, or if not, that the remittance includes late charges

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and interest penalties. RHF must address any pattern of late submissions and promptly take corrective measures.

8.2.10 Timely and Accurate Insurance

The quality control program must determine whether mortgages are being submitted to HUD for insurance within 60 calendar days of the loan disbursement date. If mortgages have been submitted beyond the 60 days, the quality control program should verify that the mortgage was current when submitted and met the payment requirements of HUD Handbook 4000.1, Section II.A.7.d. RHF must address any pattern of late submissions and promptly take corrective measures.

The quality control program also should include a review of the mortgage insurance certificate for accuracy.

8.2.11 Underwriting Reports

The quality control program should include a review of reports available to RHF, including underwriting reports and notices of return (regarding cases rejected for insurance due to errors or omissions).

8.2.12 Advertising

The quality control program should include a review that ensures that branch offices or employees are not engaging in false or misleading advertising practices and are not incorrectly using HUD's name or logos in advertising pieces. RHF must retain samples of the advertising reviewed, the results of each review, and any corrective actions taken as a result of review findings. RHF must retain copies of any advertising it develops, or that is developed on its behalf, that is related to FHA programs.

8.2.13 Identify Patterns

RHF must identify patterns of noncompliance by location, program, loan characteristic, loan correspondent, or sponsor. The company must identify commonalities among participants in the mortgage origination process to learn the extent of their involvement in problem cases. Loans involving appraisers, loan officers, processors, underwriters, etc., who have been associated with problems must be included in the review sample.

RHF may use HUD's Neighborhood Watch Early Warning System to assist in the identification of patterns.

[The procedures used to review patterns of noncompliance must be included in RHF's QC plan.]

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8.2.14 Reporting of Fraud and Material Deficiencies

RHF's quality control program must ensure that any instance of potential fraud or other serious material deficiencies are immediately reported to HUD via the Neighborhood Watch Early Warning system.

HUD expects management to review and respond accordingly to each instance of fraud or other serious material deficiency, indicating what steps, if any, have been taken to cure and/or resolve these violations.

If HUD employees or contractors are suspected of being involved in fraud or material misrepresentations, RHF must refer the matter directly to HUD's Office of Inspector General (OIG) through the HUD OIG Website or via direct mail to the HUD OIG Hotline at 451 7th Street SW, Room 8254, Washington, DC 20410 or by fax to (202) 708-4829.

8.2.14.1 FHA Self-Reporting Requirements

RHF must immediately report to FHA all findings of fraud and material misrepresentations. The company must also report any material findings concerning the origination or underwriting of the loan that the company is unable to mitigate or otherwise resolve in accordance with ML 2013-41. A finding is considered material if it would have altered the decision to approve the loan.

For all findings which must be reported, RHF must identify what actions, if any, have been taken to attempt to mitigate or resolve each finding, and report any planned or pending follow-up activities.

All other material findings (as identified in ML 2013-41) must be reported to FHA no later than 30 days after RHF has completed its own internal evaluation of the findings, or within 60 days of initial disclosure of the findings, whichever occurs first.

To report findings, RHF must use the Lender Reporting feature in Neighborhood Watch. FHA may request supporting documentation necessary to fully evaluate any reported findings.

8.3 Loan Level QC Requirements

RHF will implement quality control throughout the loan origination process, as described in the following subsections.

RHF will monitor the intake of mortgagor information to ensure sufficient questions are asked to elicit a complete picture of the mortgagor's financial situation, the source of funds for the transaction, the intended use of the property, and that employees

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working with the mortgage applicant are knowledgeable of the origination process to fully describe the mortgagor's responsibilities in obtaining an FHA-insured mortgage.

This may involve periodically monitoring calls and following up with applicants regarding their treatment and understanding of the process and their obligations (i.e., to avoid misrepresentation and falsification). RHF must always verify the identity of the loan applicant.

8.3.1 Time Frames

8.3.1.1 Pre-funding Reviews

RHF will sample cases on a monthly basis after loan approval, but prior to closing to evaluate the quality of processing and underwriting. An important part of pre-funding reviews is reverification (by telephone or in writing) of the applicant's employment, source of funds, and residency history.

RHF will select 10% or less of the total QC sample size for pre-closing reviews.

8.3.1.2 Post-closing Reviews

RHF will sample cases for post-closing reviews on a monthly basis. The sample must include loans closed in the prior one-month period. Mortgages selected must be reviewed within 60 days from the end of the prior one-month period.

RHF will select 90% or more of the total QC sample size for post-closing reviews.

8.3.1.3 Early Payment Default Reviews

RHF must sample early payment defaults (EPD) on a monthly basis. Selected loans must be reviewed within 60 days from the end of the month that the loans were selected.

A loan is considered to be in early payment default if the mortgage becomes 60-days delinquent within the first six months.

The company must identify patterns of early defaults by location, program, loan characteristic, loan correspondent, or sponsor. The company must identify commonalities among participants in the mortgage origination process to learn the extent of their involvement in problem cases. Loans involving appraisers, loan officers, processors, underwriters, etc., who have been associated with problems must be included in the review sample.

8.3.2 Sample Size Standards

If RHF originates and/or underwrites 3,500 or fewer FHA loans per year, it must review 10% of the FHA loans it originates.

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If RHF originates and/or underwrites more than 3,500 FHA loans per year, it must review 10% of its loans or a statistical random sampling that provides a 95% confidence level with 2% precision.

RHF must document how the sample size and selections were determined.

Regardless of the percentage of loans being reviewed, RHF must comply with the following requirements.

8.3.3 Sample Size Composition

The quality control program must contain provisions to select loans meeting the conditions stated below. It may not be feasible to select loans from each category every month, but an effort must be made to select loans from each category as often as possible:

- Loans must be **randomly** reviewed from all branch offices and all sources, including authorized agents and loan correspondents.
- RHF must perform **discretionary** sample reviews on programs, participants, or sources representing a higher level of risk. In addition, the company must review the work of roster appraisers, real estate companies, and builders with whom it does a significant amount of business.
- The sample must include all FHA programs in which the company participates including, but not limited to, 203(b), 203(k), 234(c), and Home Equity Conversion Mortgages.
- Early Payment Defaults—In addition to selecting the loans for routine quality control reviews, RHF must review all loans that are originated or underwritten by the company and that are originated by its sponsored third-party originators that become 60 days delinquent within the first six payments (referred to as early payment defaults):
 - Reviews of early payment defaults within 60 days from the end of the month the loan is reported as 60 days past due.
 - The early payment default review report and following along, including review findings and any actions taken, with procedural information must be retained by RHF for a period of two years.

8.3.3.1 Selecting Individual Loans

RHF must consider the following characteristics, or any additional ones it finds useful in identifying loans to be reviewed:

- 1–4 unit properties
- New construction or rehabilitation loans

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- Properties transferred within the past year
- Substantial seller concessions
- Non-occupying co-mortgagors or multiple mortgagors
- Housing expenses increasing by 1.5 times or more
- Large or multiple earnest money deposits (money orders)
- Large increase in bank account balance
- Sale of personal property for funds to close
- Gifts or loans of funds to close
- Self-employed
- Loans risk assessed as “refers” by automated underwriting systems

8.3.4 Loan Sample Risk Assessment

HUD requires that quality control reports to RHF’s management include an assessment of risks. RHF may develop a system of evaluating each quality control sample on the basis of severity of the violations found during the review. The system should enable the company to compare one month’s sample to previous samples so RHF may conduct trend analysis.

RHF management can also use this tool to respond quickly to a sudden decline in the quality of its loans and help identify and correct the problem. RHF may consider a ratings system such as the following for each loan reviewed, then aggregate these into an overall rating for the sample:

- **Low Risk.** No, or a minor problem was identified with the origination of the loan.
- **Moderate Risk.** The records contained significant unresolved questions or missing documentation. Failure to resolve these issues has created a moderate risk to the company and FHA.
- **Material Risk.** The issues identified during the review were material violations of FHA or RHF requirements and represent an unacceptable level of risk. The company must report these loans via Neighborhood Watch.

8.3.5 Documentation Review And Verification

The quality control program must provide for the review and confirmation of the following information on all loans selected for review.

1. Appraisal
2. Mortgage application, eligibility, and underwriting documents
3. Disclosures and legal compliance

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4. Mortgage origination documents
5. Handling of mortgage documents
6. Borrower occupancy (post-closing only)
7. Credit reports and outstanding debt obligations
8. Verifications of employment and deposit
9. Self-employed borrowers
10. Borrower's source of funds
11. Underwriting accuracy and completeness, including compensating factors
12. Property flipping restrictions
13. Prohibited restrictive covenants
14. Qualified mortgage (QM) requirements
15. Good Faith Estimate or Loan Estimate, as applicable
16. Discrepancies in the loan file
17. Condition clearance
18. Closing procedures and documents (post-closing only)
19. Settlement Statement or Closing Disclosure, as applicable (post-closing only)
20. Pre-endorsement review (post-closing only)
21. Timely submission for insurance (post-closing only)

8.3.5.1 Review of FHA Documentation

The following forms as applicable will be incorporated into the pre-funding and post-closing reviews for compliance:

1. Good Faith Estimate/Loan Estimate as applicable
2. Truth in Lending/Loan Estimate or Closing Disclosure as applicable
3. Third-Party Service Providers
4. Informed Consumer Choice Disclosure
5. HUD-1 Addendum Settlement Agent Certification/Closing Disclosure as applicable
6. HUD-1 Addendum Buyer/Seller Certification/Closing Disclosure as applicable

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7. CAIVRS Authorization
8. Evidence of LDP/GSA
9. HUD 92900-A
10. HUD 92900-B
11. HUD 92900-LT
12. HUD 92800.5B
13. HUD-54114
14. HUD 92051
15. HUD 92564-VC
16. Appraised Value Disclosure
17. Coercion Statement
as applicable:
18. Refinance Cost Worksheet
19. Notice to Homebuyer HUD 92564-HS
20. Get a Home Inspection HUD 92564-C
21. Purchase Agreement Addendum

8.3.5.2 Credit Report

A new credit report must be obtained for each borrower whose loan is included in a post-closing quality control review; unless the loan was a noncredit qualifying streamline refinance.

A credit report obtained for a quality control review may be a residential mortgage credit report, a three repository merged in-file report, or, when appropriate, a business credit report. A full residential mortgage credit report must be obtained from a different credit source on cases in which the in-file report reveals discrepancies with the original credit report.

8.3.5.3 Credit Document Reverification

Documents contained in the loan file should be checked for sufficiency and subjected to written reverification.

Examples of items that must be reviewed include, but are not limited to, the mortgagor's

- employment or other income;
- assets;
- gift letters/gift funds;
- mortgage payments or rental payments;
- alternate credit sources; and

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- other sources of funds.

Sources of funds must be acceptable as well as verified.

If the written reverification is not returned to RHF, a documented attempt must be made to conduct a telephone reverification. If the original information was obtained electronically or involved alternative documents, a written reverification must still be attempted.

Any discrepancies must be explored to ensure that the original documents (except blanket verification releases) were completed before being signed, were as represented, were not handled by interested third parties, and that all corrections were proper and initialed.

All conflicting information in the original documentation should have been resolved before the complete file was submitted to the underwriter.

8.3.5.4 Appraisals

A desk review of the property appraisal must be performed on all loans chosen for a quality control review except streamline refinances and HUD Real Estate Owned (REO) sales where a new appraisal for a property financed with an FHA-insured mortgage was not required.

The desk review must include a review of the appraisal data, the validity of the comparables, the value conclusion (“as repaired” to meet safety and soundness requirements as required by FHA guidance), any changes made by the underwriter, and the overall quality of the appraisal.

RHF will perform field reviews on 10% of the loans selected for the monthly post-closing sample and for all EPDs. Field reviews must be performed by licensed appraisers listed on FHA’s Roster of Appraisers.

RHF will select loans for field reviews based on factors listed in the loan selection criteria above and the following:

- Property complaints received from mortgagors
- Discrepancies found during QC reviews
- Large adjustments to value
- Comparable sales more than six months old
- Excessive distances from comparables to the subject property
- Repetitive sales activity for the subject property
- Investor-sold properties
- Identity of interest conflicts between buyer and seller
- Seller identity differs from owner of record

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- HUD Real Estate Owned (REO) sales financed with an FHA-insured mortgage
- Vacant properties
- Soft markets

If serious deficiencies or patterns are uncovered, RHF must report these items via Neighborhood Watch to the Quality Assurance Division in the HUD Homeownership Center.

The field review steps will include a site inspection of the subject, photographs of the exterior, photographs of the comparable sales, and a comparative review of the original appraisal. The review appraiser will note whether or not he is in agreement with the facts and analysis of the original appraiser.

8.3.5.5 Occupancy Reverification

In cases where the occupancy of the subject property is suspect, RHF must attempt to determine whether the mortgagor is occupying the property during a post-closing review.

If it is found that the mortgagor is not occupying a property mortgaged as owner-occupied, RHF must report this via Neighborhood Watch to the Quality Assurance Division in the HUD Homeownership Center.

8.4 Data Integrity

RHF's quality control plan will verify that accurate information has been entered into the origination software system. A data integrity check will be completed to determine the accuracy of borrower, property, mortgage, income, assets, and source of funds data. The review will include a comparative review of the loan transmittal and the file documentation.

The quality control auditor will verify that if manual downgrades or overrides are applied, that no patterns of illegal discrimination against loan applicants are revealed and that the downgrade or override was proper.

Whenever the automated underwriting system cannot "accept" the application, the basis of the automated underwriter system's decision on the loan must be documented and retained.

8.4.1 Referred Applications

The quality control program must verify that applications receiving a "refer" are manually underwritten by an underwriter before a final decision is made on the application.

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8.4.2 Overrides

The quality control program must verify that if manual downgrades or overrides are applied, that no patterns of illegal discrimination against loan applicants are revealed and that the downgrade or override was proper.

8.5 Sale and Transfer of Loans

The quality control program must ensure the review of all MERS information and Mortgagee Change Records for accuracy.

8.6 Summary of QC Required Elements

The following quality control steps are required by FHA:

1. RHF will assure that each office including, if applicable, its approved loan correspondents, authorized agents, and branches maintain copies of all HUD issuances, including regulations, Handbooks, Mortgagee Letters, and Circular Letters which are relevant to RHF's HUD-FHA origination and servicing activities. These documents must be accessible to all employees, periodically reviewed with appropriate staff, and kept current.
2. RHF will assure that all loans submitted to HUD-FHA for mortgage insurance endorsement are processed by its employees, its approved loan correspondents, or authorized agent.
3. RHF will assure that HUD-FHA upfront mortgage insurance premiums (UFMIPs) are remitted within 10 days from the date of loan closing and that late charges and interest penalties are promptly submitted for single-family mortgages and that the requirements of 24 CFR Parts 200 to 499 are complied with for multifamily mortgages.
4. RHF will assure that sales of HUD-FHA insured mortgages or transfers of loan servicing are properly reported to HUD on Form HUD-92080, Mortgage Record Change, and that the purchaser be advised of any loans subject to a HUD audit or investigation.
5. RHF will assure that the termination of HUD-FHA mortgage insurance of a single-family mortgage is properly reported to HUD on Form HUD-27050-A, Lender's Request for Termination of Home Mortgage Insurance, and that an assumption of a mortgage is properly reported on Form HUD-92080, Mortgage Record Change. The termination of a multifamily mortgage is reported on Form HUD-9807, Insurance Termination Request for Multifamily Mortgage.

Quality and Assurance Control

FHA Requirements for Case Number Assignments
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6. RHF will assure that escrow funds received from mortgagors are not excessive and are not used for any purposes other than that for which they are received.
7. RHF will assure that it does not employ for HUD origination, underwriting, or servicing any individual who is debarred, suspended, or subject to a Limited Denial of Participation (LDP) or otherwise restricted from participation in HUD-FHA programs. All employees will be checked against the LDP at least semiannually.
8. RHF will assure that it is in compliance with the provisions of the Real Estate Settlement Procedures Act (RESPA), including distribution to mortgagors of the Special Information Booklet and good faith estimates/Your Home Loan Toolkit and Loan Estimate, as applicable, which bear a reasonable relationship to actual costs, and disclosure of business relationships with a particular provider of services.
9. RHF will assure that it keeps records of quality control findings and actions taken.
10. RHF will assure that branch offices or employees do not engage in false or misleading advertising practices. This includes the misuse of government seals and emphasis must be on the company name, not the government. If such practices are found, necessary action must be taken to ensure practices do not occur again.
11. RHF will assure that findings of fraud or serious violations will be immediately referred in writing within 60 days to the appropriate HUD Homeownership Center (HOC) along with available supporting documentation or utilize the lender Reporting feature in the Neighborhood Watch Early Warning System.
12. RHF will assure that a data integrity check is completed within the automated underwriting system, including data identifying the borrowers, property, mortgage, income, assets, and source of funds. QC must verify that applications receiving a 'refer' are manually underwritten before the final decision was made on the application.
13. RHF will ensure that streamline refinances are included in the quality control sample. The sampling size should be proportionate to the company's production.
14. RHF must ensure that for applicable 203(k) loans QC steps include reviews of the handling of rehabilitation escrows and disbursements, the rehabilitation loan agreements, the scope of the repairs, the timeliness of their completion, and borrower complaints about quality and additionally conduct physical inspections on a sampling of 203(k) loans.
15. RHF must ensure that for applicable HECM loans QC steps include reviews to determine if the homeowners received the appropriate counseling and that any

Quality and Assurance Control

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referral fees paid are reasonable for the service provided and disclosed in the loan file.

Chapter 9 VA Requirements

RHF must implement a quality control plan that ensures VA loans are originated in compliance with VA guidelines.

9.1 Requirements for VA Automatic Lender Authority

RHF's quality control plan provides for steps in accordance with the Department of Veterans Administration (VA) requirements for Automatic Lender Authority.

9.1.1 VA Quality Control Audit Program

Pre- and post-funding quality control steps will ensure that the QC function consists of

- a program of internal or external audit of RHF's compliance with VA loan processing and underwriting requirements; or
- an independent review by management personnel knowledgeable of such requirements who have no direct loan processing or underwriting responsibilities.

9.1.2 VA Quality Control Plan Elements

RHF's QC plan must provide, at a minimum, for the following:

- The plan ensures that VA funding fees are remitted within 15 days from the date of loan closing and late charges and interest penalties are promptly submitted.
- The plan ensures that escrow funds received from borrowers are not excessive and are not used for any purposes other than that for which they are received.
- The plan ensures that all loans submitted to VA for guaranty are processed by employees of RHF or its authorized agents.
- The plan ensures that the company does not employ for VA loan originations or underwriting any individual who is debarred or suspended.

9.1.3 Procedures and Access to Regulations

RHF's QC plan will ensure that procedures are revised in a timely manner to accurately reflect changes in VA requirements and all personnel will be informed of the changes.

Each of the company's offices, including its approved agents and branches, will maintain copies of all VA publications, including regulations, handbooks, releases, and so on, which are relevant to the company's VA loan origination activities. Handbooks

will be accessible to all employees, periodically reviewed with appropriate staff, and kept current.

9.2 Site Review Requirements

RHF's QC plan will ensure that for each branch office that originates VA loans, an on-site branch office review will be conducted at least once annually. This QC plan provides for written notification of deficiencies cited as a result of audits or reviews at least quarterly to senior management.

9.3 Reporting and Corrective Action

RHF will require prompt reporting of any violation of law or regulation, false statements, or program abuses by the company, its employees, or any other party to the transaction to the VA office of jurisdiction.

The company's employees will be held accountable for performance failures or errors, and corrective instructions will be provided to all relevant employees where patterns of deficiencies have been identified.

The company will maintain documentation of deficiencies and corrective actions taken. Prompt and effective corrective action will be taken by senior management on all deficiencies identified by either the company or VA. RHF will provide audit or review findings to the VA on demand.

9.4 Requirements for Adequate QC Scope

RHF's QC plans must provide the following:

- The scope of audits or reviews will not be less than 10% of all VA-guaranteed mortgages originated monthly, including branches and authorized agents. If the company originates more than 140 VA mortgages monthly, a statistical sampling may be used in lieu of the 10%.
- The loan sample includes loans processed by all loan officers and underwriters and a random selection which includes loans from all branch offices and authorized agents.
- QC procedures are in place for expanding the audit scope when fraudulent activity or patterns of deficiencies are identified.
- Quality control reviews include LAPP, if applicable.

- That for each branch office that originates loans, an on-site branch office review is conducted at least once annually.

9.5 Rules for Reviewing the Loan File

The QC plan must provide for the following on loans selected for review:

- Review of loans within 90 days of loan closing
- Written reverification of borrower's employment, deposits, and all sources of funds
- Reordering of a new credit report from another credit source
 - The new credit report may be a Residential Mortgage Credit Report (RMCR) or an in-file report which merges the records of the three national repositories of credit files, (tri-merge).

The reviewer must determine whether underwriting conclusions and documentation are complete and accurate; specifically, the reviewer must make a determination on each step below:

1. Does each loan file contain all required loan processing, underwriting, and legal documents?
2. Were all relevant loan documents not “signed in blank” by the borrower or employees of the company, and were all corrections initialed by the borrower or employees of the company?
3. Were verifications of employment, verifications of deposit, and the credit report not handled by the borrower or any interested third party?
4. Do credit reports conform to Residential Mortgage Credit Report standards (if RMCR used), and if more than one credit report was ordered, were all credit reports submitted with the loan package to VA?
5. Is there a correlation of each outstanding liability and each asset of the borrower and co-borrower used to qualify for the loan to those listed on the initial loan application?

Note: If discrepancies exist, the loan file must show they have been explained or otherwise resolved.

6. Were any outstanding judgments appearing on the credit report listed on the application with an accompanying explanation and documentation?

Note: When there is a delinquency or judgment involving debt to the federal government, evidence must be provided showing the delinquent account was brought current or satisfactory arrangements were made between the borrower and the federal agency owed, or the judgment was paid or otherwise satisfied.

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VA Requirements

Rules for Reviewing the Loan File



7. Does the loan file contain required tax returns?

Note: If the borrower is self-employed, the loan file must include two years' tax returns and a profit and loss statement for year to date since the end of the last fiscal year (or whatever shorter period records may be available), and a current balance sheet showing all assets and liabilities.

8. Was the HUD-1 Settlement Statement/Closing Disclosure accurately prepared and properly certified?
9. Were fees charged to the veteran appropriate and accurate?
10. Was the loan properly documented and submitted in accordance with VA standardized loan file set-up procedure?
11. Was the loan current at the time it was submitted to VA for guaranty?
12. Did the borrower transfer the property at the time of closing or soon after, indicating possible misuse of the veteran's loan entitlement?
13. Were all conflicting information or discrepancies resolved and properly documented in writing prior to submission of the loan to VA for guaranty?
14. Were escrow funds received from borrowers not excessive and are not used for any purposes other than that for which they are received?
15. Was the loan originated in compliance with [VA Circular 26-14-1] regarding compliance with ATR and QM?

Quality and Assurance Control

Ginnie Mae Issuer, Servicing/Subservicing
Monitoring
Monitoring of Issuer Responsibilities



Chapter 10 Ginnie Mae Issuer, Servicing/Subservicing Monitoring

RHF must ensure that it meets Ginnie Mae's requirements for monitoring of its issuer requirements and servicing and subservicing relationships.

10.1 Monitoring of Issuer Responsibilities

RHF is responsible for the administration and servicing of pooled mortgages. Certain responsibilities may be performed by a servicer; however, RHF's quality control oversight will include the monitoring of both the issuers and servicers responsibilities.

The following quality control steps will be completed for responsibilities performed by the Company (the issuer):

1. Ensure that withdrawn funds from P&I custodial account were performed by the issuer.
2. Ensure that accounting reports and certifications to Ginnie Mae were signed by issuer.
3. Ensure that checks paid to security holders are signed by issuer.
4. Ensure that withdrawal of funds from central P&I custodial account for payment of all book-entry securities and Ginnie Mae guaranty fee were authorized by the issuer.
5. Ensure that the remittance advice to security holders was signed by issuer.
6. Ensure that the guaranty fee in the central P&I custodial account was funded to enable ACH debit.
7. Ensure that a register is maintained of security holders.
8. Ensure that withdrawal of funds from central P&I custodial account for payment to security holders and payment of Ginnie Mae guaranty fee is authorized by the issuer (Ginnie Mae II additional responsibility).

10.2 Monitoring of the Servicer's Responsibilities

The following quality control steps will be completed to ensure compliance to the responsibilities performed by the servicer:

1. Ensure that P&I and escrow amounts were collected by the servicer.
2. Ensure that funds into P&I and escrow custodial accounts were deposited by the servicer.

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Ginnie Mae Issuer, Servicing/Subservicing
Monitoring
Monitoring of the Servicer's Responsibilities



3. Ensure that funds from escrow custodial accounts were withdrawn by the servicer.
4. Ensure that funds for advances to security holders were supplied by the servicer.
5. Ensure the servicer is able to absorb losses on foreclosures not covered by FHA, VA, RD, or PIH settlements.
6. Ensure the servicer has prepared and submitted accounting reports to Ginnie Mae and RPB data to the RPB contractor.
7. Ensure the servicer has prepared and sent checks to security holders that are paid by check.
8. Ensure the servicer has prepared and sent remittance advice to security holders.
9. Ensure the servicer has reported the monthly guaranty fees via GinnieNET.
10. Ensure the servicer has performed accounting and monitoring functions of participations related to HECM loans (additional responsibilities for Ginnie Mae II MBS).

Quality and Assurance Control

Federal Home Loan Bank's (FHLB) Mortgage Partnership Finance Program (MPF)
Quality Control Program Requirements



Chapter 11 Federal Home Loan Bank's (FHLB) Mortgage Partnership Finance Program (MPF)

Following are RHF's guidelines to ensure that it complies with MPF quality control program requirements.

11.1 Quality Control Program Requirements

RHF will comply with the requirements of the Federal Home Loan Bank's Mortgage Partnership Finance Program as a Participating Financial Institution (PFI). RHF will maintain a quality control program for mortgages it originates and services under the MPF Program in order to maintain its eligibility as a PFI.

The quality control system will ensure that mortgages conform to the MPF Program's policies, are of a quality acceptable to the MPF Bank and other institutional investors, comply with insurer and guarantor requirements, and meet specific requirements of the MPF Program.

RHF's quality control program will be designed to fit the specifics of its operating environment and monitor and evaluate the individual components of its organization. The structure of the program will take into account

- the size and structure of RHF;
- the qualifications of the staff;
- the geographic areas of operations;
- the branch structure;
- the volume and types of mortgages originated;
- the origination sources used; and
- any significant changes in the product lines, origination sources, or production processes.

RHF's quality control program will

- be documented in writing;
- establish a methodology for identifying, categorizing, and measuring defects and trends against an established target defect rate;
- include processes for performing pre- and post-closing quality control reviews;
- provide standard quality control procedures for all personnel involved with or impacted by the quality control process;
- provide for the independence of the post-closing quality control process from the mortgage origination, processing, and underwriting departments;

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Federal Home Loan Bank's (FHLB) Mortgage Partnership Finance Program (MPF)
Use of Third-Party Quality Control Services



- have the capacity to monitor and evaluate the overall quality of mortgage production on a regular and timely basis;
- include procedures for the review of defaulted mortgages, including
 - Early Payment Default (EPD) loans; and
 - High Level Concern (HLC) loans;
- provide procedures to ensure that sample selection and file reviews are completed on a timely basis—pre-closing quality control reviews must be completed before the loan closing);
- provide reports of findings directly to senior management; and
- comply with the specific requirements of the origination guide regarding sample selection, reverification, file review, and reporting.

Any combination of pre-closing or post-closing quality control reviews may be used based upon RHF's specific operations and needs.

When notified of an MPF or investor quality control review, RHF will provide a copy of all applicable documents listed on MPF's Documentation Checklist (attached to the request) and deliver them to MPF by the due date in the notification, in accordance with MPF's document submission requirements.

RHF acknowledges that the MPF Program has adopted Ability to Repay and safe harbor qualified mortgage requirements for all mortgages with loan application dates on or after January 10, 2014. These requirements have been incorporated into the MPF Origination Guide and Underwriting Guide chapters where appropriate. Although the MPF Program has not announced changes to QC requirements, RHF will comply with the origination and underwriting changes announced in PFI Notice 2014-1 and adjust its QC process accordingly.

11.2 Use of Third-Party Quality Control Services

RHF may utilize third-party quality control services for all or a portion of its quality control program. As such, RHF will

- determine that the services performed comply with the MPF Program's requirements;
- determine that the vendor maintains a quality control program with established minimum skill set and expertise requirement for staff performing reviews;
- determine that the vendor has written policies and procedures detailing its review methodologies, include selections and identifications of defects and trends; and

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Federal Home Loan Bank's (FHLB) Mortgage Partnership Finance Program (MPF)
Quality Standards and Measures



- oversee and evaluate the performance of the third-party quality control provider on a regular basis.

RHF must also review third-party quality control findings and take the same corrective actions that would be taken if the findings were made by its own staff.

11.3 Quality Standards and Measures

At a minimum, RHF must identify any mortgages with a defect (defined as a mortgage not in compliance with the MPF Guides or other related contractual terms and agreements) and establish a methodology by which all mortgages with identified defects can be categorized based on the severity of the defect. RHF must define the severity levels that are appropriate for its organization and reporting needs. However, the highest level of severity must be assigned to those mortgages with defects resulting in the mortgage not being eligible as delivered under the MPF Program.

RHF will establish post-closing target defect rates for its organization, reflecting its quality standards and goals. The establishment of a target defect rate is based on RHF's post-closing random QC sample and enables RHF to regularly evaluate and measure progress in meeting its mortgage quality standards. Different target defect rates will be established for different severity levels.

A target defect rate must be established that is as reasonably low as possible. Once the targets are set, performance against the targets must be measured at least quarterly and reported to management. The target defect rates must be evaluated and if necessary reset at least annually. RHF must document the rationale for establishing the target rates.

11.4 Sample Selection

RHF will follow the program guidelines which require that any PFI with an annual origination volume exceeding 5,000 home mortgages may utilize a statistical sampling method to determine sample size. This method must be designed to achieve a 95% level of confidence. If a valid statistical sampling method is not utilized, the sampling selection procedures below must be used. A PFI with an annual origination volume under 5,000 home mortgages must use the following sample selection procedures:

- Select for review at least 10% of one of the following origination populations:

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Federal Home Loan Bank's (FHLB) Mortgage Partnership Finance Program (MPF) Sample Selection



- Total annual home mortgage production
- Total annual secondary market home mortgage production
- Total annual MPF Program originations
- Time its sampling procedures so that every home mortgage within the selected population has a chance of being selected for review prior to loan closing.
- Provide the authority to quality control personnel to conduct additional reviews at their discretion.
- Any mortgage excluded from the sample selection process is not eligible for sale to the MPF Bank.

RHF will warrant that for each 12-month period, the pre-closing and post-closing samples selected are representative of the full scope of production and products. The full scope of RHF's product line and origination process includes home mortgages sampled from

- all product lines;
- all states of operations;
- each branch office;
- each third party involved in the origination process; and
- each loan with high-risk attributes (e.g., high loan-to-value (LTV) ratios, lower credit scores, manufactured homes or cash-out refinance mortgages, early payment defaults (EPD), and high level concern (HLC) loans).

11.4.1 Pre-closing Quality Control Sample

RHF will time its pre-closing sample selection

- so that every home mortgage within the selected population has a chance of being selected for review; and
- to allow adequate time for the completion of the pre-closing reviews in order to properly inform origination personnel so that data and documentation corrections are documented and made before the closing date.

Personnel who perform the pre-closing quality control review of loans should have the level of authority necessary to prevent loans from closing until all identified deficiencies are cured.

RHF's sample selection process will include both random sampling and the targeted sampling of loans with the characteristics of loans that were found to have defects in previous pre-closing and post-closing quality control reviews in order to prevent the repetition of data and documentation errors.

RHF's pre-closing quality control sampling methodology will include the following:

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Federal Home Loan Bank's (FHLB) Mortgage Partnership Finance Program (MPF) Sample Selection



- Loans with high-risk attributes such as, but not limited to, the following:
 - LTV ratios >90%
 - A primary credit score less than 660
 - Self-employed borrowers
 - Limited cash-out refinances
 - Cash-out refinances
 - High debt-to-income ratios
- Loans originated by brokers and correspondents
- Loans secured by all property types including 3–4 units, condominiums, and manufactured housing
- Loans originated or processed by newly hired loan officers, processors, appraisers, other personnel, or third parties involved in the loan origination process
- Loans underwritten by all underwriters
- Loans with complex income calculations
- Loans to be secured by properties located in areas with high delinquency rates or areas experiencing rapid increases or decreases in property values
- Loans requiring the use of nonstandard processing or underwriting guidelines

11.4.2 Post-closing Quality Control Sample

RHF may utilize a statistical sampling method to determine sample size. This method must be designed to achieve a 95% level of confidence. If a valid statistical sampling method is not utilized, the sampling selection procedures below must be used:

- Select for review at least 10% of one of the following origination populations:
 - Total annual home mortgage production
 - Total annual secondary market home mortgage production
 - Total annual MPF Program originations
- Time the sampling procedures so that every home mortgage within the selected population has a chance of being selected for review within 30 days of its closing date.
- Provide the authority to quality control personnel to conduct additional reviews at their discretion.

Post-closing quality control samples must not exclude loans that underwent a pre-closing quality control review. If a loan chosen for post-closing quality control review underwent a pre-closing quality control review, RHF must meet the following requirements:

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Federal Home Loan Bank's (FHLB) Mortgage Partnership Finance Program (MPF) Early Payment Default (EPD) Mortgages



- Examine the pre-closing quality control review report and verify that all deficiencies from that review were cured prior to closing.
- Reverify only the items required to be reverified per the [reverification requirements](#) that were not satisfactorily validated, verified, or cured as a result of the pre-closing quality control review.

11.5 Early Payment Default (EPD) Mortgages

An Early Payment Default (EPD) mortgage is defined in the MPF Servicing Guide. The quality control review of each conventional mortgage that becomes an EPD, even if the mortgage has subsequently been brought current is required and the quality control review must be initiated by RHF within 60 calendar days after the date the loan reaches EPD status.

The scope of all EPD quality control reviews must include reverification of income and employment, sources of funds, and credit reports. A review appraisal, in the form of a new appraisal or field inspection, must also be conducted for reverification and review appraisal requirements.

EPD quality control review reports must be submitted annually rather than individually upon completion. All of the EPD quality control review reports completed in the calendar year must be submitted annually to the MPF Bank as part of the annual eligibility certification process for annual eligibility certification requirements. RHF's quality control review of EPD loans may be used in the fulfillment of the high-risk attributes sample selection requirements.

11.6 High Level Concern (HLC) Mortgages

When a conventional mortgage is determined by RHF to be a High Level Concern (HLC) mortgage as defined in the MPF Servicing Guide, RHF must conduct a comprehensive quality control review of the HLC Mortgage. The results of the review must be received by the MPF Provider within the time frame set forth in the Servicing Guide and prior to the submission of the Calculation of Realized Loss (Gain) following the disposition of the REO or liquidation of the mortgage.

The individual HLC mortgage quality control review report, all reverifications, the review appraisal, and a copy of the mortgage file must be sent to the MPF Provider under the cover of the High Level Concern (HLC) Mortgage Notification. The scope of all HLC mortgage quality control reviews must include reverification of income and employment, sources of funds, and credit reports. A review appraisal, in the form of a

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Federal Home Loan Bank's (FHLB) Mortgage Partnership Finance Program (MPF) Origination Documents to Review



new appraisal or field inspection, must also be conducted for reverification and review appraisal requirements.

RHF's quality control review of HLC loans may be used in the fulfillment of the high-risk attributes sample selection requirements of MPF Origination Guide Chapter 28.4.

11.7 Origination Documents to Review

RHF is required to compare the following origination documents with the reverification received during its quality control review:

- Uniform Residential Loan Application
- Credit documentation
- Employment and income documentation
- Sources of funds documentation
- Appraisal documentation
- Sales contract
- Uniform Underwriting and Transmittal Summary and/or applicable DU/LP output certificate

11.7.1 Verifications of Employment and Income

Original documentation verifying employment and income will include the following:

- Verification of employment and income forms
- Paystubs
- Salary vouchers
- W-2 forms
- Tax returns
- Financial statements
- Compensation award letters
- Other documents supporting income

RHF will reverify all documentation of income used in the original underwriting process. Confirmations must be obtained as to the validity of the documents by sending the issuers copies of the original verification documentation with a request for validation. Regardless of the sources of a borrower's income, RHF must obtain two completed and signed IRS Forms 4506-T from each borrower:

- One at the time of loan application
- One at loan closing

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Federal Home Loan Bank's (FHLB) Mortgage Partnership Finance Program (MPF) Origination Documents to Review



If tax return transcripts were not obtained prior to closing, RHF must obtain the tax return transcripts from the IRS (or designee) using the Form 4506-T signed at closing for all mortgages it selects for a quality control review regardless of the type of income documentation provided in the mortgage file. RHF will maintain the IRS tax return transcripts in the mortgage file.

An oral reverification of all borrowers' employment will be conducted. The receipt of an oral reverification must be documented in writing. The written documentation must state the following:

- Name of RHF's employee making the contact
- Name of borrower's employer
- Name and title of the person contacted at the employer
- Date of the conversation
- Whether or not the information in the original verification was accurate and, if not, disclose the nature of the inaccuracy

If the employer does not provide reverification of a borrower's income, the loan file will be documented with a copy of the reverification request and a notation that states the date the information was requested, and that it was not returned by the employer. Reverification procedures will be supplemented with alternative information sources available on the Internet, maintained by state or local licensing authorities, and other third parties that may be used if the employer does not provide the requested reverification.

This documentation will be retained in the mortgage file or in RHF's quality control records.

11.7.2 Source of Funds

Original documentation verifying the sources of funds used for the down payment, closing costs, reserves, and prepaid items will include the following:

- Verification of deposit forms
- Depository account statements
- Stock or security account statements
- Gift fund letters or equivalent
- A signed settlement statement, Closing Disclosure, or other evidence of conveyance and transfer of funds if a sale of assets was involved

RHF will reverify all verifications of sources of funds used in the original underwriting process. Confirmations will be obtained as to the validity of the

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Federal Home Loan Bank's (FHLB) Mortgage Partnership Finance Program (MPF) Origination Documents to Review



documents, by sending the issuers copies of the original verification documentation with a request for validation.

The reverification of the source of funds will be in writing. A verbal reverification is acceptable provided it is in writing. The written documentation will state the following:

- Name of RHF's employee making the contact
- Name and title of the person contacted at the institution
- Date of the conversation
- Whether or not the information in the original verification was accurate and; if not, disclose the nature of the inaccuracy
- Name of the institution

In rare cases, the reverification of asset information directly from a borrower's financial institution may not be possible. If the reverification of asset information cannot be obtained from the financial institution for some unforeseen reason, RHF will document its attempt in its quality control records with a copy of the reverification request and a notation that states the date the information was requested, and that it was not returned by the financial institution.

This documentation will be retained in the mortgage file or in RHF's quality control records. If necessary, RHF will pay any fee that the financial institution charges to provide the reverification. The necessity of paying a fee is not considered a reason to not obtain the required reverification.

11.7.3 Credit Reports

For all of the loans selected for post-closing quality control review, a new Residential Mortgage Credit Report (RMCR) or a two- or three-repository merged in-file credit report is required to be secured.

New in-file credit reports containing information from one or more of the national credit repositories must be obtained for the balance of the mortgages in the quality control sample. The new credit report should be obtained from a reporting agency other than the original reporting agency. The new and original reports should be compared for discrepancies. The documentation must be retained in the mortgage file.

11.7.4 Review Appraisals

For 1 out of 10 mortgages in the post-closing quality control random sample, aside from the 3–4 unit properties, a review appraisal is required to be obtained for loans in the random sample that have an appraisal and must meet these requirements:

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Federal Home Loan Bank's (FHLB) Mortgage Partnership Finance Program (MPF) Origination Documents to Review



- Be either a new appraisal or a field inspection. Field inspections must be written on one of the following forms, based on the property type:
 - One-Unit Residential Appraisal Field Review Report (FNMA Form 2000/FHLMC Form 1032)
 - Two- to Four-Unit Residential Appraisal Field Review Report (FNMA Form 2000A/FHLMC Form 1072)
- Be performed by a qualified appraiser independent of the original appraiser or appraisal firm.
- Establish value and marketability as of the date of the original appraisal. Values and marketability as of the date of the quality control review are not acceptable.
- Be utilized to determine the quality of the original appraisal.

A field review report must include at minimum

- photographs of mortgaged property (front, back, and street scene), the comparable sales used in the appraisal under review, and any additional comparable sales used in the field review report (clear and detailed copied, digital, or electronically imaged photographs are acceptable) and all addenda and explanations;
- a location map that shows the location of the subject property and of all comparable sales included in the appraisal report under review and any additional comparable sales provided by the review appraiser; and
- a review of the accuracy of the factual data in the original appraisal report.

A desk review of the original appraisal for each of the remaining mortgages in the post-closing quality control sample must be performed. The related documentation must be retained in the mortgage file.

11.7.5 Verification of Excluded Parties

The pre- and post-closing QC reviews must confirm that no companies or individuals involved in the mortgage transaction, directly or as a manager or supervisor, are on the HUD Limited Denial of Participation (LDP) List prior to delivery of the loan under the MPF Program. RHF must notify their MPF Bank or MPF Provider immediately if any individual or company involved in the mortgage transaction was listed in the HUD LDP List at the time of delivery.

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Federal Home Loan Bank's (FHLB) Mortgage Partnership Finance Program (MPF)
Pre-closing Data Verification



11.8 Pre-closing Data Verification

RHF's pre-closing quality control process will include validation or verification of the following data and documents after the final loan approval and before the loan closing:

- Data entered into Desktop Underwriter (DU) or Loan Prospector (LP).
- Presence of all documentation required by the loan's Desktop Underwriter (DU) or Loan Prospector (LP) feedback certificate.
- Borrower identity.
- Borrower Social Security numbers or Individual Taxpayer Identification Number/ITIN.
- Calculation of income used to qualify the borrowers.
- Calculation of sufficient assets needed to close or meet reserve requirements.
- Appraisal or other property valuation data.
- The conditions of closing established by RHF's underwriter are or will be able to be satisfied.
- Documentation of adequate mortgage insurance coverage by an eligible mortgage insurer.
- Condominium project documentation:
 - RHF must also ensure that it has retained, in the mortgage file, the condominium project documentation needed to support the warranty that the project meets the MPF Program's eligibility criteria.
 - For units in condominium projects that were approved through Fannie Mae's Condo Project Manager™ (CPM™), it is recommended that the company validates that the mortgage file has been documented with the CPM™ decision and verify that the loan has been identified with the correct project review type code in the ULDD file.

If all borrowers' employment has not yet been verbally verified as required and the verbal verification would be completed within the required timeline, RHF may complete the verbal verification of employment during the pre-closing quality control review.

Data verification may be obtained either directly from the information source, for example, the Social Security Administration, IRS, employer, financial institution, or reliable third parties.

Quality and Assurance Control

Federal Home Loan Bank's (FHLB) Mortgage Partnership Finance Program (MPF)
Closing Documents Review



11.9 Closing Documents Review

RHF QC plan is required to review closing documents to ensure the information therein is accurate, complete, internally consistent, and consistent with other documents in the mortgage file.

The mortgage file must be examined to verify that the conditions of closing established by the underwriter were satisfied and that the information on the settlement statement complied with the closing instructions. RHF is required to include examination of the following closing documents in its quality control review where applicable:

- Notes and riders
- Security instruments, riders, and assignments
- Mortgage insurance certificate (MIC) or policy or Loan Guaranty Certificate (LGC)
- Modification or assumption agreement
- Title binder or final title insurance policy (both if available) or other evidence of title
- Plat or survey
- Settlement statements (HUD-1, Closing Disclosure, or equivalent)
- Final Truth-in-Lending disclosure, if applicable
- Leasehold estate documents
- Other documents required by applicable laws
- Hazard insurance policy or certificate
- Flood insurance policy or certificate
- Underwriter's approval and any conditions of closing
- Closing instructions
- Property eligibility documentation
- Condominium project determination, if applicable

11.10 Reporting Requirements

RHF's quality control program must require that all quality control activities be fully documented in writing and be reviewed by management on a monthly basis. The outcomes of quality control reviews must be reported in writing directly to senior management within 90 days of sample selection. The reporting process must also include communicating defects to the parties responsible for resolving the defects and documenting the resolution of the defects.

Quality and Assurance Control

Federal Home Loan Bank's (FHLB) Mortgage Partnership Finance Program (MPF)
Retention of Quality Control Records



Pre-closing quality control reports must include the descriptions of the sample selection, defect trending information, and a summary of the results into one report.

Post-closing quality control reports must include the following:

- Final defect rate for the results of the current review period
- Trending information including issues and top defects
- A separation of defects related to compliance with federal, state, or local laws and regulations and underwriting and eligibility defects
- Reporting on each type of review (random and targeted), but with consistent methodology and terminology across both review types
- Intended corrective actions
- Summary of the results of each individual review type into a comprehensive, summary report of all quality control findings

RHF must meticulously analyze findings impacting the investment quality or eligibility of mortgages and institute any necessary remedial actions.

RHF is required to inform the MPF Provider in writing within 30 days of determination that a quality control finding adversely affects the investment quality or eligibility of a mortgage sold to the MPF Bank. Any incident of suspected fraud or false representation must be reported to the MPF Provider immediately. Prior to notifying the MPF Provider of such items, RHF must conduct the appropriate due diligence to determine whether a reasonable basis exists to conclude that false representation or suspected fraud may have occurred. The MPF Bank may demand purchase, repurchase, and/or reimbursement by the PFI when the borrowers or any other party to the mortgage transaction has been found to have made false representations relating to such transaction, whether or not the PFI was a party to or had knowledge of such fraud or false representations. The MPF Provider reserves the right to increase the sampling size or to impose other quality control review requirements on a case-by-case basis.

In addition, RHF must report to the MPF Provider all instances of the suspicious activity, as defined under the Financial Crimes Enforcement Network (FinCEN) anti-money laundering and Bank Secrecy Act (BSA) regulations, related to mortgages sold and serviced under all MPF Program products.

11.11 Retention of Quality Control Records

RHF must retain all records of its quality control findings, together with substantiation of any remedial action taken, for a minimum of three years from the

Quality and Assurance Control

Federal Home Loan Bank's (FHLB) Mortgage
Partnership Finance Program (MPF)
Retention of Quality Control Records



date of the completion of the quality control review. These records will be made available to the MPF Bank or MPF Provider upon request and will be included in information provided to a new servicer if a transfer of servicing occurs.

Chapter 12 USDA Rural Development Program

As a condition of lender approval, the United States Department of Agriculture (USDA) requires RHF to have a quality control plan for monitoring loan production. This quality control plan will include pre-funding and post-closing quality control procedures to ensure that USDA loans are originated in compliance with USDA guidelines.

12.1 Basics of USDA Quality Control Plan

RHF will have a quality control plan for USDA loans that meets the following basic elements:

- The plan must be in writing outlining policies and procedures along with any forms and checklists used in the process.
- Employees must operate independently of loan origination.
- Employees must be trained on USDA guidelines and have access to handbooks and other information provided by USDA for its approved lenders.
- RHF may contract out the quality control function and will adequately monitor the performance of the third-party contractor.
- RHF will have procedures to report noncompliance to the highest level of management. This reporting to senior management may be monthly or on a quarterly basis.
- RHF will have procedures to report noncompliance or suspected misrepresentation to the appropriate regulatory authorities.
- RHF's quality control plan will set time frames for review and follow-up procedures.
- RHF's quality control plan will have procedures in place to monitor any third-party originators.
- RHF's quality control plan will include a consistent process to sample, select, and review SFHGLP loans.
- RHF's quality control plan will include a review of loans processed through automated underwriting using the Guaranteed Underwriting System (GUS).

12.2 Fraud Detection and Prevention

RHF will ensure that it has adequate operational quality control procedures in place to help detect and effectively prevent mortgage fraud.

Quality and Assurance Control

USDA Rural Development Program
Fraud Detection and Prevention



RHF's pre-funding quality control practices and post-funding quality program will address updating company policies and procedures when fraud is discovered.

When RHF becomes aware of fraud, it will report the findings surrounding the discovery to the National Office, including the following information:

- The name, e-mail address, and telephone number of the company point of contact of the case reported
- Indicate if the fraud involves origination or servicing
- Indicate the originating lender (underwriting lender) and/or servicing lender, as applicable
- Include RHF's lender's taxing identification number and [Sample Company]'s loan number
- Agency borrower identification
- Property address including city, state, and zip code
- Detailed description of findings
- Identify the mortgage broker, loan officer, appraiser, closing agent, real estate agents, as applicable

Chapter 13 Best Practices—Post-funding QC General Procedures

13.1 URLA Signatures/Completion

The Uniform Residential Loan Application (URLA) contains an acknowledgment statement whereby the borrowers authorize the lender to carry out the post-closing quality control audit. In this regard, RHF does not require any separate documents or verbal permission. For the purposes of the QC audit, however, the URLA is reviewed for completeness and to determine whether or not there are any discrepancies. Information contained in the URLA is reviewed and compared to other file documents just as an underwriter would perform the task in rendering the credit decision.

13.2 Verifications and Other Signature Forms

QC includes a review of every document which contains a borrower signature and looks for consistency of signatures of all borrowers cross-checked throughout the entire file contents. Below are listed the areas of concern:

- Verifications that are hand carried not mailed
- Borrower's only current address reference is a P.O. Box number
- Multiple Social Security numbers, particularly on previous years' W-2 tax forms
- Misspelling of company names, titles, and forms not completed by Human Resources
- Similar type fonts on numerous documents
- Additional numbers squeezed into sections of forms
- Discrepancies between the amount of check and bank encoded number
- Variances in totals or other amounts on bank statements
- Variances in totals or other amounts on income documentation provided
- Variances in donor signatures on check or gift form
- Company or business name resembles borrower's name

13.3 Truth in Lending and Compliance Forms

The following is a list of potential areas to investigate in compliance forms:

- Good Faith Estimate and/or the Truth in Lending were not issued within three days of submission of the loan application for loan applications taken prior to October 3, 2015.

- Loan Estimate was not issued within three days of submission of new loan applications effective on or after October 3, 2015.
- Appropriate redisclosure was made, if applicable, under the requirements of the Mortgage Disclosure Improvement Act (MDIA).
- The URLA was either not signed by the borrowers or by the loan officer.
- Notice to Applicants, Servicing Disclosure, Homeowners Fact Sheet, and/or the Borrower Notification did not contain all signatures.
- VA Rate Disclosure, VA Assumption Notice, or the Structural Defects Letter was not signed (VA only).

13.4 HUD Settlement Statement/Closing Disclosure

RHF must ensure that closing costs were within the required tolerance levels indicated on the Good Faith Estimate/Loan Estimate compared to the HUD-1/Closing Disclosure. When completing an audit, the reviewer will check to see whether or not the borrower's funds required at closing were within the same range as the verified assets. If these funds cannot be substantiated, then QC will look at the "paper trail" of funds to determine whether the cash on hand was actually verified and if it appeared that the funds were from acceptable sources.

Other areas addressed during the file review include: seller concessions (whether the payouts exceeded limitations), excess charges imposed by the seller, fee waivers, undercharging fees, and the like.

Auditors should look for improprieties and cash advances designed to get the borrower into the property regardless of the cost. All charges, fees, and service costs must be consistent and in line with industry standards.

The following checklist can be utilized in reviewing the HUD Settlement Statement/Closing Disclosure:

1. The sales price matches the Earnest Money Contract.
2. The loan amount agrees with the note.
3. The fees levied are identical to those on the closing instructions.
4. MIP is properly delineated and matches the HUD-1/Closing Disclosure.
5. Fees charged should be within required tolerance of Good Faith Estimate/Loan Estimate items.
6. The borrower is not charged any fees not allowed by FHA or VA.
7. Per diem interest is calculated correctly.
8. Seller concessions permissible and consistent with sales contract.

Quality and Assurance Control

Best Practices—Post-funding QC General
 Procedures
 Review of Loan Documents



9. All parties have signed the HUD/Closing Disclosure and names and addresses are correct.
10. SRP disclosed in Section 800 and noted POC (if brokered).

13.5 Review of Loan Documents

<u>Table 13 - 1</u>	
Document	Variables
Note	<ul style="list-style-type: none"> • Note is the correct form; loan amount and rate are correct • ARM information is correct • Note signed by borrowers and note is witnessed
Assignment, if applicable	<ul style="list-style-type: none"> • Assignment reflects correct chain of title • Signed and witnessed by senior officer
Mortgage/ Deed of Trust	<ul style="list-style-type: none"> • Loan amount and rate match note • Property legal description matches title report • All riders correct and signed by all parties • Signed by all parties and notarized • Document has been recorded
Title Report or Commitment	<ul style="list-style-type: none"> • Correct property address and legal description • Flood Certificate has correct lender number and ALTA matches plot plan • Endorsements indicated and exceptions removed • Insurance equal to/greater than loan; policy is dated on or after closing
HUD Settlement/ Closing Disclosure	<ul style="list-style-type: none"> • Borrowers' and sellers' names/addresses, date and closing agent correct • Signed and certified by closing agent and all parties • Loan information matches closing instructions • Escrow correct and matches initial disclosure
Truth in Lending	<ul style="list-style-type: none"> • Correct program and amortization; correct payment schedule and amounts • Final TIL/Closing Disclosure matches figures on note; APR within tolerance • Initial TIL/Loan Estimate issued within three days of application; counter-offer redisclosed
W-9 Tax Form	<ul style="list-style-type: none"> • Signed form for each borrower with correct SSN • Tax information matches HUD; correct notice to tax service

Quality and Assurance Control

Best Practices—Post-funding QC General
Procedures
Title Certification and Report



Plot Plan Flood Certificate	<ul style="list-style-type: none">• No discrepancies on plot plan; certified by licensed surveyor• Flood Certificate is complete and has correct lender ID number
Hazard and Flood Insurance	<ul style="list-style-type: none">• Property address and borrower name; correct coverage and amounts• U/W condition met re: binder vs. first year paid
Commitment Letter/ Closing Instructions	<ul style="list-style-type: none">• All U/W conditions satisfied• All closing conditions satisfied
Mortgage Insurance	<ul style="list-style-type: none">• Evidence FHA Mortgage Insurance Premium (MIP) was paid within 15 days• MI Certification contains correct name, address, and loan amount• Conditions were satisfied

13.6 Title Certification and Report

Title commitments/policies record the uninterrupted chain of title on a piece of property noting any/all liens, encroachments that have been dually recorded. Title reports can answer most problems but occasionally some should be referred to counsel/attorney. Some of these unresolved issues are the following:

- Outstanding surface rights
- Unlocated pipelines
- No or inadequate actual access
- Resurveying and redescribing two or smaller tracts as one larger tract
- Changes in owners or their status
- Maintenance and encroachment easements, licenses, and agreements
- Express insurance or general releases of liability is called for on single-family residences whenever one or more of the following conditions exist:
 - Building encroaches into utility easement by no more than 50%
 - Building encroaches into plat or restriction building line by 10% maximum
 - Building encroachment into plat or building line for more than four years

Title commitments also record the disposition of mineral rights and with respect to royalty rights determine whether the owner is “participating” or “nonparticipating.” For our purposes, the issue of “ownership” is important since it traces a clear “chain

of title.” Generally, it is QC’s responsibility to ensure that the legal description matches that on the deed of trust and measures whether or not the particular exceptions are acceptable.

13.7 Hazard Insurance

Hazard Insurance binders and policies are reviewed in conjunction with the requirements stipulated on the borrower’s commitment letter and closing instructions. QC pays particular attention to these five items:

1. Address matches the deed of trust/mortgage
2. Amount covers the replacement value of the improvements (or amount permitted by state law)
3. Property address and borrowers’ names are correct
4. Proof of paid receipt in file (or disbursement is reflected on HUD-1/Closing Disclosure)
5. Payee clause properly reflects name of lender and successors or assigns

13.8 Property Appraisals: Desk Review

The appraisal must be the correct format for the loan program and/or investor and all required addenda and photographs included in the file. Generally, the appraisal will consist of any one of the following:

- The Uniform Residential Appraisal Report
 - FNMA 1004 (One family)
 - FNMA 1025 (One- to four-family investment)
 - FNMA 1073 (Condominium/PUD)
 - FNMA 2055/2075 (Desktop Underwriter)
 - FHLMC 70/72/465 (Collateral Assessment)
 - FHLMC 2070 (Loan Prospector)
- Addenda
 - FNMA 216 (Operating Income Statement—Addenda)
 - FNMA 1007 (Single-Family Rent Schedule—Addenda)
 - Location map of the subject and the surrounding comps
 - Photos of the front and rear of the subject and street scene
 - Addenda and Appraiser's Statement, signatures, license number

Regardless of loan type (CONV, FHA, VA), the following must be noted:

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Analysis of the Field Review Appraisal



- Street address and property description match deed of trust.
- Neighborhood section contains no adverse unexplained comments.
- The predominant value is not exceeded on high LTV loans or is within acceptable tolerance on lower LTV loans.
- The property meets the “highest and best use.”
- The “site” section references to zoning, public roads, well/septic, flood zone are properly explained by appraiser or documented in the file.
- The “improvements/room list” matches Page 2 of the URAR.
- The comparable sales must be a reasonable distance from the subject and if they are outside the subject’s subdivision explanation must be given.
- Two data sources must be listed.
- Adjustments are within 15% and gross adjustments within 25%.
- Comps are less than 12 months old.
- Excessive adjustments are explained in the Comments section.
- Appraisal completed and/or reviewed by approved state-licensed appraiser.

13.9 Analysis of the Field Review Appraisal

The full review of loans for quality control will require a Fannie Mae 2000 Review Appraisal. The contents of the review appraisal include subject photographs and street scene. QC will review the appraiser's statements as follows:

- Reviewer stated the description of the site and improvements were accurate.
- Reviewer stated that the report’s zoning and market conditions were accurate.
- Reviewer stated the comps were truly comparable and best ones available.
- Reviewer stated the facts, specific data, and/or sources were accurate.

13.10 Plot Plan or Survey

The survey is a schematic drawing showing the property in lot form, the placement of building lines and easements, and the disposition of wood decks, concrete decks, and swimming pools. This information should match the title commitment. The survey incorporates the following:

- Property description
- East-west-north-south compass and exterior perimeter
- Listing of easements and building lines
- Reference to possible encroachments

- Flood zone determination
- Surveyor's stamp, certificate, and name
- Borrower's name and address

The QC plan should provide for a thorough review of the plot plan or survey for any discrepancies with respect to the loan file documentation.

13.11 Flood and Environmental

The physical disposition of the property and its relationship to a 100-year flood plain demarcated by FEMA determines whether the property is in a special flood hazard area and flood insurance is required. If an area is low-lying and prone to flooding, near a beachfront, or on the bank of a river or stream, and has been designed as a flood zone beginning with A or V (SFHA), flood insurance is required and the payment should be shown on the HUD-1/Closing Disclosure. The flood zone designation is platted by the surveyor/surveying company and is likewise referenced by the appraiser. An Elevation Certificate almost universally supports flood insurance. All these fees are recorded on the settlement statement and are collected/paid for at closing by the borrowers.

13.12 Review and Reverification of Borrower Funds

Quality control should recalculate funds and determine if the borrower had enough cash reserves and down payment to close the loan. Review of documents should evidence any bogus documentation, hidden second mortgages, and other fraudulent depository records, contracts, or gift letters.

QC will look for these red flags:

- "Squeezed numbers" on documents
- Canceled check encoding numbers should match amount of the check
- Changes or discrepancies in names of account holders
- Changes or discrepancies in account numbers or transaction dates
- Transaction total amounts do not match transaction detail amounts
- No explanation of large deposit or receipts as per commitment letter
- Unusually large gifts by nonfamily member that may be second mortgage
- Bogus account statements that appear to be legitimate but may have been computer-generated by the borrower or other party with intent to defraud

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Review and Reverification of Borrower
Credit/Obligations



QC will compare the original file documents to any notations made by the depository institution for returned verifications. QC will pursue further investigations if the source of funds is suspect or dubious or discrepant documentation is found in the file.

13.13 Review and Reverification of Borrower Credit/Obligations

The QC file review must look for consistent credit histories with reasonable explanations for any slow pays and delinquencies. In review of the original credit documents, the auditor will compare the SSN and all borrower information, including addresses to the credit reports. Desktop Underwriter, Loan Prospector, and automated underwriting loans which include credit reports are accordingly compared to the original file documents and/or other credit and obligations information. The new credit report, either merged, tri-merge, or RMCR is compared for discrepancies, increases in debt, obvious closing of loans which were originally shown as an "inquiry," and significant reduction in the borrower's FICO or credit score. Borrower misrepresentation may be evidenced through comparative review of file credit obligation documents, credit card statements, bank statements, and the original credit report.

Below is a checklist for reviewing the new credit report:

- Names, current addresses, previous addresses, employment, age, number of dependents, and SSN match the original credit report and file documents.
- Inquiries are explained as not a current or potential personal debt.
- Significant reduction in credit score.
- Large increases in credit balances.
- Existing property liens to be satisfied at closing showing as current.
- Significant increase in number of new accounts opened.

13.14 Reverification of Borrower Income

QC focuses in on two key areas when examining mortgagors' salaries: misrepresentation of employment, and misrepresentation of income. QC will "red flag" the following scenarios:

- Business name/employer incorporates all/some of borrower's name.
- Spouses who work for the same small company.
- Altered income figures on official documents.
- VOEs sent to an individual—not to Human Resources.

- An employee works at a company not known in the area.
- The W-2s reveal a year-end dollar amount that ends in even numbers.
- Paystubs indicate minimal or missing tax withholding amounts.
- The occupation listed on the loan application, Verification of Employment, and/or 1040 is different.
- The wages earned are not consistent with the job title.
- The wages on current paystubs are not consistent with previous years' W-2 amount from the same employer.
- Borrowers' Social Security numbers are invalid.
- The FICA amounts on the W-2s and the FICA tables do not match.
- The employer is using an invalid Employer ID number.
- QC typically reviews the entire credit package to assess qualification.

13.15 Risk Ratings of QC Exception Items

Quality control findings generally fall into several categories that are usually documented in management reports as “risk ratings.” A minimum of three categories are required, with the most severe rating including fraud and/or misrepresentations. Risk levels can be delineated as follows:

- Risk Level 1:** Minor deficiencies, errors, omissions, unsigned forms. The errors are generally unintentional and no remediation is required.
- Risk Level 2:** Noncompliance with regulations (>3 days issuance of TIL/Loan Estimate) and minor or unintentional errors and omissions, but those which generally require remediation, such as a signature needed on a W-9 form or missing officer's signature on an assignment.
- Risk Level 3:** A loan that was closed without following the underwriter's conditions or approved without following the investor's guidelines. These loans are generally rated as a moderate/high level risk because there is no remediation that can make the loan compliant.
- Risk Level 4:** Misrepresentation by borrower by providing bogus documentation or false information on the mortgage application or other supporting documents. This type of borrower misrepresentation is for the purposes of obtaining loan approval—with full intent to repay.

Risk Level 5: Intentional acts to defraud the lender with no intent to repay the mortgage. Examples include “loan flipping” made possible through a series of bogus transactions and/or fraudulent or overstated appraisals. This type of fraud may involve fabricated borrower information and/or sales contracts.

13.16 Documenting Exception Items

RHF will ensure that all errors, omissions, noncompliance with investor guidelines, or underwriter conditions are documented and included on management reports.

Examples of discrepancies and QC exceptions include the following:

- Incorrect or incomplete HUD-1/Closing Disclosure forms
- Undisclosed yield spread premiums
- Impermissible settlement charges to borrower
- Significant discrepancies on reverification
- Related party transactions
- Unusual liens or encumbrances
- Tenant-occupied properties
- False Social Security numbers
- Bogus funds or income documentation
- False SSN, borrower, or employer information
- Bogus sales contracts
- Overstated appraisal valuations
- Closing a loan without meeting underwriting conditions
- Dubious HUD-1/Closing Disclosure or pending agreements from prior realty sale

13.17 Remediation of Exception Items

Exception reports must be reviewed by the quality assurance manager and members of senior management. For all deficiencies and violations, memoranda are issued to personnel and supervisors. A reasonable time period for remediation response is allowed. Quality control personnel and/or management must follow up to ensure that proper remediation has been completed. The company will issue memoranda to appropriate internal departments, branches, and personnel to cure document minor deficiencies and correct errors, where possible. Incorrect or inconsistent property

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Trending Reports by Originator or TPO



addresses, for example, is a minor exception. Major exceptions (fraudulent VOEs and credit documentation) are noted and trended.

Deficiencies involving third-party service providers will be addressed by appropriate management staff. The company's quality assurance manager or vendor management department will place the service provider under a watch or pending list and increase "spot" appraisals. The company will terminate services of any provider who fails to improve quality standards and/or remediate errors and deficiencies.

13.18 Trending Reports by Originator or TPO

Quality control will include the full scope of production by all originators and third-party originators (TPOs). New originators will undergo a quality control review for the first few loans, as deemed appropriate by management. The quality control steps and procedures will include pre-funding spots on a per originator or per TPO basis for a reasonable percentage of production. Originators who demonstrate a repeated pattern of any violation of RESPA, pricing, application steps counseling, and initial consumer disclosure are to be addressed by management personnel with proper disciplinary action taken.

13.19 Trending Reports by Settlement Agent

The QC steps and responsibilities include trending the deficiency items and compliance violations by settlement agent. All closed files that are reviewed must include a detailed review of the RESPA documents and a line-by-line analysis of the HUD Settlement Statement/Closing Disclosure to ensure compliance with HUD and RESPA regulations. Any trends that are noted for errors on an ongoing basis by settlement agent must be brought to the attention of senior management. The company is responsible for directing settlement agents to correct inadequacies and quality standards.

13.20 Trending Reports by Property Appraiser

QC auditors will trend and categorize all exceptions found according to property appraiser and the name of the individual licensed appraiser. It is the responsibility of senior management to ensure that appraisers are properly certified, licensed, and meet HUD standards and requirements. The FHA Connection must be used for

checking the LDP list to ensure that appraisers have not been disbarred from doing FHA or VA appraisals.

13.21 Agency/Investor Penalties

RHF recognizes that quality control seeks to uncover findings, which, if left uncorrected, subject the company to penalties. Such fines may apply to infractions in any of the following areas:

- Prohibited referral fees
- Misrepresented HUD's net worth
- False information submissions
- ECOA or Fair Housing Act violations
- RESPA violations
- Property over-valuations
- Knowledge of fraudulent activities
- Ineligible property financing
- Violation RESPA Section 8 anti-kickback rules
- MIP late submissions

Chapter 14 Best Practices for Expanded Quality Control

Outlined within this chapter are best practices that should be considered by RHF to implement quality assurance steps that are beyond the GSE, agency, or investor guidelines.

14.1 Control Point #1—QC Plan Elements

Management should first make sure the company and staff are clear on why QC is necessary and they have the experience to identify issues. Effective QC

- tells RHF that it correctly originated a specific loan, ensures all mistakes are captured (severity and accountability should not be debated at this stage);
- determines if the credit decision was correct and monitors the loan quality of the company's entire book of business and exposure to repurchase risk;
- is one of the primary tools to drive improvement in the loan origination process and effective management of third-party originations;
- alerts management as to whether the company's policies and procedures are being followed, if its staff needs training, and if pre-funding controls are working;
- confirms the effectiveness of any previous remediation efforts; and
- distinguishes random sampling from discretionary or targeted sampling. Random sampling provides statements about entire populations of loans. Discretionary or targeted sampling is used to test suspected high-risk or adverse populations. It should almost always include first and early payment defaults, and will likely have higher finding rates than random samples.

14.2 Control Point #2—Internal and Third-Party Data and Fraud Tools

RHF should utilize data and fraud tools to ensure that loan application data is validated as early as possible in the origination process to catch errors and/or identify intentionally misrepresented information:

- By using third-party or internal tools, RHF can spot bad data beginning at the point of application.
- RHF should compare loan application data to their origination, servicing, or other customer databases to identify issues such as multiple applications, occupancy concerns, or erroneous or fraudulent Social Security numbers.

- Loan officers should be trained to be a vital part of the data-gathering and validation process and are encouraged to ask the borrower for additional information when appropriate.
- RHF considers the proper use of data validation tools that can reduce its exposure to adverse selection, misrepresentation, and fraud.

14.3 Control Point #3—Underwriting and Eligibility

RHF expects underwriters to be responsible for making credit decisions on the data presented and also ensure the file information is accurate and complete. Underwriters should be fully empowered to act on red flags and stop or delay processing if all required documents are not in the file. The following considerations may be applied by staff underwriters:

- An underwriter's role is not only to ensure the validity of individual pieces of information but also to make a decision considering all information in the file.
- The underwriter should take a big picture view of inconsistent data and ask broad questions.
- The underwriter should ask if each critical data element makes sense and utilize a good red flag checklist.
- If a data element looks erroneous or inconsistent, it may need more support.
- The Desktop Underwriter or automated underwriting output is only one step in the underwriting process. AU recommendations are only as good as the accuracy of the underlying data.
- RHF should consider integrating a document control with its automated underwriting system. Often, one missing document triggers a red flag or the need for more documents.
- Avoid, whenever possible, collecting documentation at closing as there is little or no time to review for inconsistencies and such documents cannot be included in a pre-funding QC review.
- When a property value is questionable, often there is a tendency to just ask the appraiser for another comparable that supports the value. Before doing this, the underwriter should clearly identify what it is about the existing comparables that makes the value suspect and state why the additional comparable may or will overcome the issue.
- Sound underwriting requires having the right information from independent sources to validate data or statements. An explanation letter alone may not be sufficient. For example, asking the borrower for a statement that they intend to occupy a property does not necessarily resolve an occupancy question.

- RHF should consider that scorecards that objectively evaluate an underwriter's assessment of a file have proven to be an effective feedback and training tool.

14.4 Control Point #4—Pre-funding Quality Control

RHF should strengthen its pre-funding quality control (PFQC) where feasible to prevent closing loans with defects:

- PFQC should evaluate all origination channels while targeting specific risk concerns such as incomplete asset documentation, income calculation errors, or manual workarounds.
- RHF should not permit PFQC to be performed by someone with a vested interest in a loan closing or other origination activities.
- RHF should implement independent oversight of PFQC results.
- PFQC steps should include the evaluation of the whole file, not just the raw data, and the review should be performed after final underwriting approval, but before closing.
- There should be separate reporting for PFQC activities, which should include results from data validation tools and provide feedback to individuals and units that have a role in the origination process including underwriters, appraisers, loan officers, processors, branches, and third-party originators.
- RHF's PFQC program should allow problems to be corrected before closing, but PFQC personnel should also have authority to stop loans from closing.
- Pre-funding review methodology should mirror post-closing QC and inform post-closing QC of possible areas of investigation. There should be active sharing of information and data between the two functions.
- Post-closing QC results should drive pre-funding QC targeting and there should be a mix of random and discretionary selection of loans for a full file review before closing.
- PFQC should be a series of defined activities embedded into the loan process and expectations should be set for production staff and the borrower that QC activities are necessary steps that may add additional time to the closing date. Notifying production staff of loans that are selected for pre-funding reviews should be considered so that borrowers can be made aware of the potential for delays in the closing date.
- A brief sample of effective PFQC activities include: 4506 transcript before underwriting; appraisal, red flag checklist, clearing of antifraud alerts prior to approval, and proof of liquidation of assets that are to be the source of funds for closing.

14.5 Control Point #5—Pre-closing Document Review

RHF should implement stricter controls during closing and dedicate resources to provide an independent QC review of the closing package. The closer's checklist should include the following questions:

- Do you have the right property?
- Do you have the right parties?
- Does the title information align with the loan information?
- Is cash back to the borrower excessive for the transaction? Are other parties getting money disbursed to them who should not be?
- Will the borrowers pay more money at closing than verified or disclosed?
- Has the sales contract changed since completion of underwriting? If so, the loan should be stopped and sent back for underwriting.
- Is occupancy type coded correctly for the loan program?
- Are insurance elements correct? Do you have MI? Does the homeowner's policy match the transaction? Is flood insurance required and adequate coverage provided?

Other important considerations include the following:

- Many things can occur just before closing that result in changes in the loan amount, such as payoff differences or a change in the down payment. These require redrawing the closing documents or possibly reunderwriting the loan.
- Sometimes payoff amounts on refinances are larger than estimated. Does the borrower need to bring funds to closing and were those funds verified?
- Review the HUD-1/Closing Disclosure thoroughly. Review the seller side of the HUD-1/Closing Disclosure just as thoroughly as the buyer's.
- Changes may occur at many points during processing of a loan that might alter the terms of the transaction. Never assume underwriting is aware of a change. Always inform and secure the necessary approvals.
- Closing is time sensitive and pressure filled. Provide the PFQC auditor with sufficient time to make an accurate assessment as well as the authority to stop or delay closing to get it right.
- Limiting items to be collected at closing may help reduce errors.

14.6 Control Point #6—Reporting

Management should ensure that QC steps include robust reporting and utilize reports as the mechanism for communicating with those directly involved or overseeing the loan origination process:

Quality and Assurance Control

Best Practices for Expanded Quality Control
Control Point #7—Action Plan for
Remediation/Correction of Errors



- Effective reporting leads to improved quality and loss prevention.
- Thorough loan level reviews are the foundation for reporting. However, QC reports that provide only loan-level information and do not evaluate the entire origination process are not effective tools for management action.
- QC reports should have trending information to be of utmost value.
- Effective reporting compiles loan review data into meaningful information that can lead to continuous improvement and fewer defects.
- Effective reports measure the quality of originations, evaluate performance against requirements and goals, confirm compliance with policy and procedures, address the effectiveness of controls, identify actionable items, track the effectiveness of action taken, feed individual compensation and performance, and predict risk exposure.
- Reporting is typically unique to credit culture, defect rate goals, and specific risks, including those reflected in their products, origination channels, third-party partners, and geographical markets.
- QC auditors or vendors should take the lead in report design to provide meaningful information for all levels of employees up to senior management and the board of directors, if applicable.
- RHF considers reporting as the venue to help understand the severity of findings and to distinguish between compliance and credit findings. Therefore, these should be reported and assessed separately.
- RHF should develop expanded reports that consider the personnel involved in the loan manufacturing process and their needs specific to quality.

14.7 Control Point #7—Action Plan for Remediation/Correction of Errors

If no action is taken to remediate observed defects and prevent recurring defects, then repurchase and other risks will persist and improvement/resolution cannot be expected. Without a formal process for acting on QC results, RHF's QC program would be incomplete and ineffective.

The action plan should assist in the following remediation:

- Identify the root cause of each defect. For example, was income calculated incorrectly due to a lack of understanding of the right calculation components, or was it due to a flaw in the calculation process itself?
- With each defect, should a specific individual be part of the remedial action? Untrained staff or staff and third parties who intentionally misrepresent information create a significant source of defects that must be addressed.

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Best Practices for Expanded Quality Control Control Point #8—Record Retention



- If a specific individual is the issue, one-on-one training may be appropriate. If the issue occurs more broadly among staff, classroom training should be a part of systematic changes to address the root cause.
- Were there indications that a specific process, policy, control, or system was flawed? Look first for the possibility of system-wide changes in controls, processes, or policy to fix the issues.
- Provide loan quality performance scorecards to each origination channel and origination unit (branch, region etc.).
- Provide loan quality performance scorecards to each individual in the origination process, including loan officer, processor, underwriter, appraiser, closer, and funder. These scorecards should affect both performance review and compensation for that individual.
- Include guidance on how to prevent quality issues in procedure manuals.
- Business line managers should report to quality control on the remediation action taken.
- Quality control should test and report on the effectiveness of remedial actions. To measure effectiveness of remedial actions, continued discretionary additional QC reviews should be performed until the error is under a defined defect rate for at least three months.
- Senior management should evaluate the effectiveness of the remedial actions and direct changes if the actions are not working. Management actions should be documented.

14.8 Control Point #8—Record Retention

Because of the varying requirements for record retentions among agencies and investors, RHF shall generally follow the most conservative requirement. All borrower files, QC review checklists, QC reverifications, QC reporting and corrective action tracking will be retained for a minimum of three years from the date of the last action performed on the file.

Chapter 15 Best Practices—Quality Control Reports

Listed below are various reports that may be utilized by RHF:

- **Mortgage sample selection documentation**

This report shows which mortgage files were selected for quality control review and how they were selected. Including a breakdown of branch or loan program selections rather than just a summary of the number of selected loans allowed for additional trending analysis.

- **Individual mortgage file report**

This report is written by the quality control reviewer and contains the findings of the quality control review of a specific mortgage.

- **Summary report of individual findings**

Prepared on a regular basis and summarizes the findings of the individual mortgage file reports, helping to identify trends, fraud, or other problem areas. Freddie Mac advises preparing the report weekly or monthly.

- **Reporting of quality control findings to affected areas**

Provided to the department heads of those areas directly concerned with the individual findings. The department heads should be asked to provide comments, recommendations, or explanations.

- **Regular report of quality control findings to senior management**

Presented to management on a regular basis (monthly or quarterly); the report contains the summary report of individual findings plus the responses from the affected department managers.

- **Management's response to quality control findings**

Includes recommendations and explanations of the steps the company intends to take to resolve any problems.

- **Special problems report**

Prepared and given to management immediately when fraud, willful misrepresentation, or other serious origination problems are discovered during the quality control review. The report states the facts of the special problem and

Quality and Assurance Control

Best Practices—Quality Control Reports
Control Point #8—Record Retention



includes copies of any evidence that will assist management's understanding of the problem.

- **Corrective actions status report**

Tracks the company's progress in implementing management's plans for corrective actions.

- **Report to investors, mortgage insurers, or government agencies**

Presents serious findings to the investor, mortgage insurer, or government agency. Freddie Mac requires notification within 30 days of determination that a finding affects the investment quality or eligibility of a mortgage sold to Freddie Mac.

- **Tracking, trending, and special reports**

Trend reports track the historical quality of the originations; includes other reports such as branch office reports, reports of targeted reviews, mortgage service provider reports, and fair lending reports.

Chapter 16 Appendix

The following sample worksheets may be used in conjunction with performing a pre- or post-funding quality control review. The first checklist is a cover page which may be used for each review. Each checklist may be printed simply by selecting the appropriate page range.

16.1 Cover Page

Cover Page		
QUALITY CONTROL WORKSHEET		
Loan Number: _____	Investor: _____	Loan Type: _____
Borrower: _____	Co-borrower: _____	
Address: _____	City: _____	State: ____ ZIP: _____
Closing Date: _____	Due Date: _____	Loan Status: _____
Selection Reason:	()	Random
Date of Review: _____	()	Targeted
Reviewer: _____	()	Discretionary
	()	EPD
	()	
	()	
	()	
	()	Other

Quality and Assurance Control

Appendix

Pre-funding Checklist



16.2 Pre-funding Checklist

Pre-funding Checklist											
								YES/N O	EXCEPTION S		
LOAN INFORMATION											
Loan Number:											
Borrower Name:											
Property Address:											
Mailing Address:											
Loan Type:	<input type="checkbox"/>	CONV	<input type="checkbox"/>	FH A	<input type="checkbox"/>	VA	<input type="checkbox"/>	USD A	<input type="checkbox"/>	MPF	
Loan Amount:											
Loan Term:	Lien Type			<input type="checkbox"/>	1st	<input type="checkbox"/>	2nd				
Closing Date:					Funding Date:						
Rescission Date:					First Payment Date:						
INTEREST RATE INFORMATION											
Interest Rate:	Amortization:		<input type="checkbox"/> FIXED		<input type="checkbox"/> ARM		<input type="checkbox"/> BALLOON				
Lock Expiration Date:											
Verify Lock Expiration Date is good through funding:								<input type="checkbox"/> YES		<input type="checkbox"/> NO	
HELOC INFORMATION											
HELOC: <input type="checkbox"/> Yes <input type="checkbox"/> No		Initial Draw:					Line Limit:				
Draw Period:		Amortization Period:			Annual Fee:		<input type="checkbox"/> Yes <input type="checkbox"/> No				
ADJUSTABLE RATE MORTGAGE (ARM) INFORMATION											
ARM Type:					Margin:		Index:				
Cap Structure:											
Floor:					Ceiling:						
First Adjustment Date:											
Subsequent Adjustment:											
Maturity Date:											
PREPAYMENT PENALTY INFORMATION											
Prepayment Penalty:				<input type="checkbox"/> YES				<input type="checkbox"/> NO			

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Pre-funding Checklist



Pre-funding Checklist			
		YES/N O	EXCEPTION S
Prepayment Penalty Term:		Prepayment Penalty Fee:	
CLOSING AGENT INFORMATION			
Closing Agent Name:			
Contact Name:			
Closing Agent Address:			
E-mail Address:			
Phone:		Fax:	
E-mail Address for Closing Package, if different:			
	Verify Receipt of the following documents:		
	• Insured Closing Protection Letter		
	• Wiring Instructions		
	• E&O insurance, if applicable		
	• Name of closing agent appears on approved list		
TITLE COMPANY INFORMATION			
Name of Title Insurance Company (Underwriter):			
Title Insurance Company Address:			
Title Commitment Date:			
	Valid for 90 days:		
Trustee Information:			
	POA:		
	POA Approved:		
	Survey Date:		
	Verify receipt of the following documents:		
	• Updated Title Commitment		
	• All parties appear and are correctly vested		
	• All schedules are attached with chain of title		
	• Verify no exceptions to title appear and all liens are being paid off with this loan or have been cleared from title (this includes, but is		

Quality and Assurance Control

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Pre-funding Checklist



Pre-funding Checklist			
		YES/N O	EXCEPTION S
	not limited to, taxes, judgments, assessments, levies, unrecorded easements, deeds of trust, and leases)		
	UCC-1 has been filed, if applicable		
HAZARD INSURANCE INFORMATION			
Hazard Insurance Company Name:			
Policy Effective Date:		Policy Expiration Date:	
	Impounds collected		
	• Policy Paid POC through expiration		
	• Collected at closing		
Verify the following information on the policy matches the LOS:			
	• Borrowers Names		
	• Property Address		
Verify the following information appears on the policy and is acceptable:			
	• Dwelling Coverage		
	• Premium		
	• Deductible		
	• Loan Number and mortgage clause appear		
	• HO6 Policy, if applicable		
	• Blanket Policy, if applicable		
	• Walls-in coverage, if applicable		
FLOOD INSURANCE INFORMATION			
Flood Insurance Company Name			
Policy Effective Date:		Expiration Date:	
	Impounds collected:		
	Policy paid POC through expiration		
	Collected at closing		
Verify the following information on the policy matches the LOS:			
	• Borrowers Names		
	• Property Address		
	• Flood Zone		

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Pre-funding Checklist



Pre-funding Checklist		
	YES/N O	EXCEPTION S
Verify the following information appears on the policy and is acceptable:		
• Dwelling Coverage		
• Premium		
• Deductible		
• Loan Number and mortgage clause appear		
Verify the dwelling coverage does not exceed the maximum coverage amount of \$250,000		
PROPERTY TAXES INFORMATION		
Verify the following information:		
• Impounds collected are accurate or impound waiver has been established		
• Past due taxes or taxes due within 60 days of closing have been collected on the HUD/Closing Disclosure (CD)		
REGULATORY CRITERIA VALIDATION		
Application Date:		
Initial Disclosures Sent Timely		
MDIA Waiting Period Met		
HPML Indicator/Flag is set		
Escrows Collected per HPML Flag		
Appraisal and other written valuations delivered to borrower		
Fees collected on HUD/CD per last disclosed GFE		
ATR/QM Indicator/Flag set		
FRAUD VALIDATION		
Fraud Report ordered and validated		
Validate the following information on all documents in file and fraud report:		
• Borrowers Names		
• Social Security number		
• Property or mailing address		
• Employer name		
FUNDING REQUIREMENTS		
Closing conditions have been received		

Quality and Assurance Control

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Pre-funding Checklist



Pre-funding Checklist		
	YES/ NO	EXCEPTION S
Copy of executed Note, Mortgage/DOT with applicable riders, and Rescission received		
Copy of executed HUD/CD received and matches approved HUD/CD		

Quality and Assurance Control

Appendix

Post-funding Checklist



16.3 Post-funding Checklist

Post-funding Checklist			
LOAN #		YES/NO	EXCEPTIONS
GENERAL			
	SSN is consistent throughout loan data and loan file		
	Approval conditions met		
	URLA properly signed		
	Signatures are consistent throughout all forms		
REGULATORY COMPLIANCE			
	Initial disclosures sent timely		
	MDIA rule met if redisclosure required		
	Required disclosures signed by all parties		
CREDIT			
	New tri-merge credit report is obtained		
	Debts are reverified		
	Credit histories are reverified		
	Red flags addressed and properly documented		
	Loan meets eligibility requirements		
EMPLOYMENT			
	Employment was revalidated		
	Income was revalidated		
	VVOE was obtained within 10 days of closing		
	All income documentation was reverified		
	IRS 4506T form was properly obtained and executed		
	IRS tax transcript was obtained and information was validated		
	Self-employment was reverified, including a check of licensing requirements		
	Red flags addressed and properly documented		
ASSETS			
	Assets to close and cover reserve requirements were revalidated		
	Asset documentation was reverified		
	Gift letter has been reverified		
	Gift funds have been reverified.		
	Occupancy was verified		

Quality and Assurance Control

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Post-funding Checklist



Post-funding Checklist			
LOAN #		YES/NO	EXCEPTIONS
	Reviewer stated the description of the site and improvements were accurate		
	Reviewer stated that the report's zoning and market conditions were accurate		
	Reviewer stated the comps were truly comparable and best ones available		
	Reviewer stated the facts, specific data, and/or sources were accurate		
PLOT PLAN/SURVEY			
	Incorporates the following:		
	• Property description		
	• East-west-north-south compass and exterior perimeter		
	• Listing of easements and building lines		
	• Reference to possible encroachments		
	• Flood zone determination		
	• Surveyor's stamp, certificate, and name		
	• Borrower's name and address		
	• 100-yr flood plain demarcated		
	• Flood zone designation is platted or elevation certificate obtained		
AUS			
	AUS data integrity was validated		
	AUS verification messages/approval conditions satisfied		
	Confirm that all conditions in the AUS findings or recommendation report were resolved and documented		
	Approval messages are adequately documented		
	Manually underwritten loans meet agency eligibility requirements and guidelines		
	Ineligible conditions verified as permitted under Master Agreement with investor		
Review of Legal Documents			
Note			
	Note is the correct form; borrowers' names, loan amount, and rate are correct		

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Post-funding Checklist



Post-funding Checklist			
LOAN #		YES/NO	EXCEPTIONS
	ARM information is correct		
	Note signed by borrowers and note is witnessed		
Assignment			
	Assignment reflects correct chain of title		
	Signed and witnessed by senior officer		
Mortgage/Deed of Trust			
	Loan amount and rate match note		
	Property legal description matches title report		
	All riders correct and signed by all parties		
	Signed by all parties and notarized		
	Document has been recorded		
Title Report or Commitment			
	Correct property address and legal description		
	Flood Certificate has correct lender number and ALTA matches plot plan		
	Endorsements indicated and exceptions removed		
	Insurance equal to/greater than loan; policy is dated on or after closing		
HUD Settlement/Closing Disclosure			
	Borrowers' and sellers' names/addresses, date and closing agent correct		
	Signed and certified by closing agent and all parties		
	Loan information and fees match closing instructions		
	HUD/CD Escrow correct and matches initial disclosure		
	Sales price matches the Earnest Money Contract		
	Loan amount agrees with the note		
	MIP is properly delineated		
	Fees charged are within tolerance of initial disclosures		
	Borrower is not charged unallowable fees		
	Per diem interest is calculated correctly		
	Seller concessions permissible and consistent with sales contract		
	SRP disclosed in Section 800 and noted POC (if brokered)		

Quality and Assurance Control

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Post-funding Checklist



Post-funding Checklist		
LOAN #	YES/NO	EXCEPTIONS
Truth in Lending		
Correct program and amortization; correct payment schedule and amounts		
Final TIL/Closing Disclosure matches figures on note; APR within tolerance		
Initial TIL/Loan Estimate issued within three days of application; counter-offer redisclosed		
W-9 Tax Form		
Signed form for each borrower with correct SSN		
Tax information matches HUD/CD; correct notice to tax service		
Plot Plan/Flood Certificate		
No discrepancies on plot plan; certified by licensed surveyor		
Flood Certificate is complete and has correct lender ID number		
Hazard Insurance		
Property address and borrower name; correct coverage and amounts		
U/W condition met re: binder vs. first year paid		
Address matches the deed of trust/mortgage		
Amount covers the replacement value of the improvements (or amount permitted by state law)		
Proof of paid receipt in file (or disbursement is reflected on HUD-1/CD)		
Payee clause properly reflects name of lender and successors or assigns		
Commitment Letter/Closing Instruction		
All U/W conditions satisfied		
All closing conditions satisfied		
Mortgage Insurance		
Evidence FHA Mortgage Insurance Premium (MIP) was paid within 15 days		
MI Certification contains correct name, address, and loan amount		
Conditions were satisfied		

Quality and Assurance Control

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Post-funding Checklist

