DLS
servicing consultants, llc.
Diligent Loan Solutions

Presenter:

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Quality Control

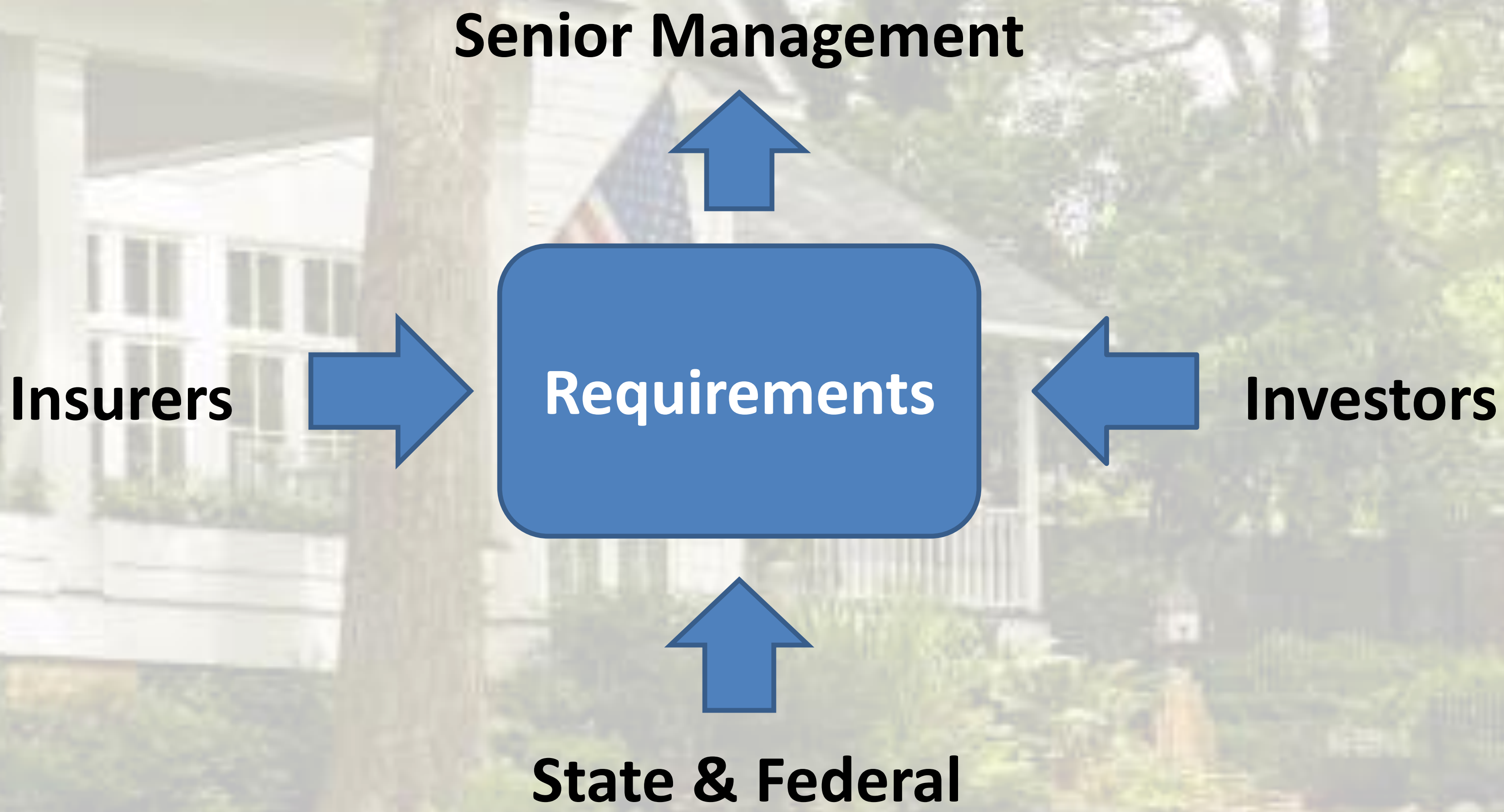
Typical view towards internal QC

- Necessary Evil
- Hope for no findings
- Just get through it so you don't get into trouble with FHA

Well Designed QC Program

- Window for senior management to understand true risk exposure
- Clear separation between servicing and audit team
- Finds misinterpretations and errors before the regulators do
- Front line staff's best friend.

Quality Control



Regulatory Priority

Federal Law

(CFPB or HUD)

State Statutes

Mortgage Documents

Insurer/ Guarantor (FHA, VA, etc.)

Investor (FNMA & FHLMC)

Who Wants What

FHA – "The QC Program must cover all policies and procedures, whether performed by the Mortgagee or outsourced to a contractor, to ensure full compliance with FHA requirements for Loan Administration.

The QC Program must provide the Mortgagee's management with information sufficient to adequately monitor and oversee the Mortgagee's compliance, and measure performance as it relates to the Mortgagee's FHA mortgage activity."

Who Wants What

GSE – Fannie Mae does not require a quality control program for servicing loans. However their guide does state that they review defaulted loan data and will use that information to determine if they need to perform a servicing quality control review/audit.

Similarly Freddie Mac's quality control guidance is focused around originations and fraud avoidance

Who Wants What

Rural Housing – “The purpose of quality control is to monitor and evaluate the integrity of the origination and servicing processes and is customized to the lender’s organization, circumstances and needs.”

Who Wants What

VA – "You must conduct an internal assessment of your servicing activity at least annually. This includes:

- Collecting and maintaining appropriate data on delinquency rates, loss mitigation options, and foreclosure rates to enable you to evaluate the effectiveness of your collection efforts.
- Determining how your VA delinquency and foreclosure rates compare with your own loan portfolio and with rates in reports published by the industry, investors, and others.
- Analyzing significant variances between your foreclosure and delinquency rates and those found in reports and publications, and taking appropriate corrective action. "

What are your risks?

What it all comes down to is – how can you avoid costly mistakes and reduce exposure to losses.

Inside or Out

In-house Servicing or Subserviced

Internal Auditors or Vendor

In House Servicing

- Even the best employees can misinterpret guidelines
- Spikes in volume could lead to overwhelmed staff-too busy to communicate what is not getting done
- Can’t find “bad apples” without proper controls

Subservicing

- Ultimately YOU are responsible for YOUR portfolio and YOU have committed to your investors that you can take back your servicing at any time.
- The QC team MUST be experts in servicing and monitoring your subservicer.

Internal Audit Team

- They CANNOT be trained by the servicing department staff
- Should utilize different technology that that used by servicing to check accuracy

Vendors

Using an out side vendor (at least periodically), provides the following benefits:

- Distant Objectivity
- Variety of experiences due to a variety of clients
- More agency audit opportunities to have learned specific focus of particular audit teams

Target

Agency Concerns

- Pay particular attention to what the Insurer, Investor, States and Federal Auditors care about – i.e. borrower protection, reporting, their potential losses, etc.

Prior Weaknesses

- Focus on areas that have been sited in previous audits by state regulators, internal audits, insurer or GSE auditors. These could be areas where systems are not adequate or personnel training is ongoing.

Risk

- Target areas that could expose the HFA to potential losses – specifically FHA first legal and conveyance deadlines, foreclosure claim processing, collection activities, timely payment of escrow items, loss mitigation calculations and approvals, timely management of payoff satisfactions, etc.

Process

- Audit
- Report to Dept heads
- Rebuttal & ***Corrective Action***
- Auditors final response and report to Senior Management
- If there is no Corrective Action – management SHOULD NOT ACCEPT.

Update the Plan

- The plan should be updated a minimum of every 5 yrs – with items either removed and/or added
- If the audit is having few substantial findings – time for an overhaul – its not doing its job!!!

Thank you from

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