



Quality control vendor management – mitigating the risks

Actionable Quality Control (QC) results are key to addressing the loan quality risks potentially affecting your organization. Working with a QC vendor can add a layer of complexity to the overall QC process, and the challenges posed by unprecedented volume and shifting investor requirements have exposed vulnerabilities. Lenders should remain vigilant in effectively managing their service provider to be sure the provider receives the necessary insights to help minimize the risks inherent in the loan manufacturing process.

Ask yourself:

- Is your QC vendor completing the file reviews in a timely manner? Are you holding the QC vendor accountable to the timeline?
- How do you ensure your QC vendor is meeting your expectations in providing timely, accurate, and meaningful review results?
- What oversight functions does your company perform to ensure your QC vendor is completing quality file reviews on your behalf?
- Is your QC vendor requesting all required reverifications (e.g., gift funds, Form 4506-C, and occupancy) and performing the collateral risk assessment?

QC vendors are an extension of your QC staff, not a substitute, and must be monitored on a regular basis. Lenders are responsible for ensuring that internal reviewers have the requisite knowledge and expertise to oversee QC vendor performance. At a minimum, a 10% review of the QC vendor's work (loans cited both with and without defects) is a Fannie Mae *Selling Guide* requirement and cannot be outsourced. Monitoring the quality of your QC vendor's work can help you determine whether your QC vendor is consistently and accurately identifying loan defects that pose potential risks to your organization.

Considerations when engaging a QC vendor

- The lender is in control and accountable for the review results provided by the vendor.
- Ensure your contract specifies the vendor's responsibilities and scope of work.
- Vendors must adhere to the requirements outlined in your QC policies and procedures. Are there ramifications if they do not?
- Confirm that your defect severities and taxonomies are aligned.
- Establish an acceptable concurrence rate (i.e., agreement with vendor review disposition).

Monitor QC vendor performance

- Ensure you are performing the minimum 10% review of the vendor's work and publishing the results monthly.
- Consider developing a scorecard to assist in evaluating the vendor's performance.
- Discuss inaccuracies with the vendor and perform root cause analysis.
- Create an action plan to hold the vendor accountable to correct identified issues.
- Perform a calibration exercise to determine if your vendor is accurately and consistently identifying defects that coincide with your taxonomy.
- Ensure your vendor's severity level definitions are in alignment with your defined levels.
- Hold vendors accountable to the benchmarks outlined in the contract (service level agreements).
- Submit a lender self-report to Fannie Mae, as required, if your QC cycle becomes more than 30 days in arrears. (See *Selling Guide* [D1-3-06](#))

Establish a strong QC vendor relationship

- Schedule recurring engagements – open communication is key.
- Request a dedicated team or contact at the vendor to maintain regular communications and consistency.
- Provide both positive and negative feedback, be collaborative, and be prepared with supporting documentation.
- Share trends (e.g., cited in the 10% review results of the vendor's work or observed in the results of investor reviews).

Reverifications

The reverification process is another critical area of responsibility that QC vendors often perform for lenders and an area where we see performance gaps. Fannie Mae lender reviews often reveal that the lender's QC vendor fails to effectively and consistently reverify loans.

Lenders should ensure this process is working effectively and monitor their QC vendor's success rate in obtaining employment, income, and asset reverifications, as well as tax transcripts.

- Ensure the initial reverification requests are sent early enough in the QC review cycle to maximize success rates. To improve reverification success, lenders should consider requiring multiple reverification outreach attempts if the initial attempt is not successful.
- Implement a reverification log that tracks initial reverification efforts and all subsequent attempts.
- On a regular basis, review the reverification log to ensure that the QC vendor is requesting and receiving the appropriate documents to perform a timely and complete QC review.
- Examine the reverifications obtained by the QC vendor during the review of the QC vendor's work (the 10% "audit the auditor" review) to ensure documentation supports the credit decision.



Next steps

Your QC results are critical in understanding and managing the risks to your organization.

It is imperative that you ensure your QC vendor is accurately performing loan file reviews to produce reliable QC results that you can count on.

When using the services of a QC vendor to perform any portion of your QC process, ask yourself:

- Do we have a regular and open line of communication with our vendor?
- Do we regularly evaluate and assess our vendor's contribution to our organization's overall QC goals?
- Do we perform a minimum of a 10% review of the vendor's work (as required by the *Selling Guide*) to ensure that they are calibrated with our organization's risk appetite? Do we share this feedback with our vendor?

Resources:

- [Risk Self-Assessments: Vendor and Third-Party Oversight](#)
- [Sample Quality Control Vendor Management Documents](#)
- [Your Post-Closing QC Cycle is in Arrears — Now What?](#), *Quality Insider*, 2020
- *Selling Guide* [D1-1-02](#), Lender Quality Control Staffing and Outsourcing of the Quality Control Process
- [Beyond the Guide](#)

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