



Strengthen your QC program: quality control plan

We are kicking off a series of articles focused on strengthening core QC governance elements. This series debuts by highlighting frequently missed components in lenders' QC plans and offers actionable insight to improve your QC plan.

A strong quality control (QC) plan is fundamental to an effective and fully integrated QC program. In this *Quality Insider*, we highlight lenders' most frequently missed components in QC plans. A QC plan establishes standards for quality and incorporates strategies for achieving those standards and is the foundation of your quality monitoring program. By reviewing these insights, you can identify potential areas of opportunity to strengthen your existing QC plan.

Ask yourself:

- Has your organization recently reviewed its QC plan?
- Is your QC plan a living document that evolves as your QC program evolves?
- Does your QC plan comply with all sections of the Fannie Mae *Selling Guide* Part D, including recent investor policy changes and the common gaps outlined here?
- Is your QC plan easily accessible and socialized with your QC staff?

The QC plan is a documented set of procedures that explains the activities necessary to meet your organization's QC objectives. The QC plan must be uniquely relevant and customized to your organization. Fannie Mae QC program audits show that many lenders perform the required procedures outlined in the *Selling Guide*, but their processes are not clearly delineated in a QC plan. Think of your QC plan as your loan quality playbook.

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What is Fannie Mae observing?

QC plan does **not** include requirements for:

	Gap / Frequently missing in QC plans	Why Behind the Guide
Defect rate and severity levels	<ul style="list-style-type: none"> • rationale for establishing target defect rate(s). • annual review of the target defect rate. • defined severity levels. <p>Selling Guide D1-1-01</p>	<p>Quality risk has a direct impact on lenders’ financial stability and efforts to support sustainable housing for the borrowers they serve. A well thought out rationale for your target defect rate that is reflective of financial risk exposure is imperative. This target defect rate also lays the foundation for what risk triggers require action plans. Since risks are always evolving, your target defect rate and rationale must be reviewed at least annually.</p> <p>Each lender must define the defect severity levels appropriate to its organization and reporting needs. Loans with defects causing ineligibility for delivery to Fannie Mae or other investors must be assigned the highest level of severity.</p> <p>Note: We expect lenders to set defect rate targets as reasonably low as possible based on prior QC results and on a formal cost–benefit analysis of meeting that target.</p>
Timing	<ul style="list-style-type: none"> • a provision that the entire QC process (selection, reverifications, review, rebuttal, and reporting) be completed within 120 days from the month of the loan closing. • lender to notify Fannie Mae if its QC cycle is in arrears more than one 30-day cycle. • notifying Fannie Mae within 30 days of any misrepresentation or breach of selling warranty. <p>Selling Guide D1-3-01</p>	<p>The 120-day QC cycle requirement is the maximum time frame allowed, and when breached, adds incremental risk by extending the time between discovery and cure of defective processes and/or loans. Lengthening the window to identify any issues and correct the processes that are generating defective outcomes in turn expands the window of potential financial exposure.</p> <p>Prompt communication to management and investors of QC review results, misrepresentation, and breach of selling warranties allows the business to take action as early as possible to remedy defective loans and processes.</p> <p>Failure to document these requirements and notify Fannie Mae may lead to a contractual breach.</p>

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Sampling	<ul style="list-style-type: none"> • use a sampling methodology that complies with Fannie Mae requirements. • include a process to review all third-party originators' files at least once annually. • include required QC reviews on early payment defaults. • document the process to review outsourced vendors' work, including 10% of the files with and without defects. <p>Selling Guide D1-1-02 and D1-3-01</p>	<p>Lenders' sampling strategies often are not documented in QC plans or updated consistently. Outlining this comprehensive strategy allows your organization to know what risk areas are being monitored and which emerging risk areas might require more insight across your pipeline. Keep in mind:</p> <ul style="list-style-type: none"> • Your QC plan must describe the sampling methodology set by your organization (for both random and discretionary). • The loan selection process must be deliberate and appropriate based on the review objective. • Documenting your sample strategy for all selections, including third-party channels (if applicable) and early payment default, ensures these required components are done in compliance with your requirements. <p>Monthly reviews of any QC work performed by a third-party vendor is necessary to verify that the vendor is meeting your requirements for complete and accurate reviews. This requirement to review at least 10% of your vendor's work monthly (rounding up) must be documented in your QC plan. These reviews must include loans with and without defects and must be reported.</p>
Reverifications	<ul style="list-style-type: none"> • include a requirement to pay all necessary fees to obtain reverifications of income, employment, and assets. <p>Selling Guide D1-3-02</p>	<p>Many QC plans are missing a clear directive informing staff (or vendors) that the lender will be responsible for any cost associated with reverifying origination data. Fees are often required to obtain reverifications, which is a critical part of your QC process and supports fraud prevention.</p>
Documentation	<ul style="list-style-type: none"> • include a requirement to obtain a new tri-merge credit report. • include a requirement for validation of the Social Security number when applicable. • Include a process to review the hazard insurance policy and other documentation in the file and confirm there are no indicators that the property is not the borrower's principal residence. • include the review of all closing documentation for accuracy, completeness, and compliance with Fannie Mae requirements. <p>Selling Guide D1-3-02, D1-3-03, and D1-3-05</p>	<p>Collecting and reviewing the necessary origination data and documents is fundamental to strong QC and is a minimum baseline of the QC process. Your QC plan should clearly delineate the process for a comprehensive review of the entire origination file, including closing documents. Be sure to clearly outline standard requirements and processes for these frequently missing elements.</p>

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Collateral risk assessment	<ul style="list-style-type: none"> include a requirement to perform a complete collateral risk assessment as required. <p>Selling Guide D1-3-04</p>	<p>Documenting this requirement in your QC plan establishes that the appraisal is reverified for accuracy and completeness. This confirms that the property meets eligibility requirements.</p> <p>Confirm your QC plan and processes reflect this Fannie Mae policy requirement implemented in May 2021.</p> <div style="background-color: #e0e0e0; padding: 10px; text-align: center;"> <p>Check your QC plan today to ensure this <i>Guide</i> change is documented.</p> </div>
Automated underwriting system	<ul style="list-style-type: none"> indicate loans will be resubmitted to Desktop Underwriter® (DU®) if discrepancies are found to be outside of allowed tolerances. state that analysis will be conducted on any “potential red flag” messages in the DU findings or alerts created by other sources (i.e., credit report, verification documents) to ensure all messages have been addressed. <p>Selling Guide B3-2-10 and D1-3-03</p>	<p>Maintain a QC plan with a well-documented process that outlines how you manage resubmitting loans and reviewing potential red flags. This is critical to representing and warranting that your organization is delivering eligible loans.</p> <p>Discrepancies, alerts, and red flags are indications of inaccurate data. It’s critical that the requirements and expectations for how these scenarios are reconciled are clearly documented in the QC plan.</p>
Corrective actions	<ul style="list-style-type: none"> include defined corrective action procedures. <p>Selling Guide D1-3-06</p>	<p>Fannie Mae requires that lender QC plans clearly define a process of corrective action for identified loan defect patterns. These action plans must be tracked, trended, and monitored for completion and continued adherence. This provides a structured framework for identifying deficiencies in the loan manufacturing process and for remedying those deficiencies and underlying root causes.</p>



Next steps

- ✓ Review your QC plan on a regular basis, and at a minimum annually.
- ✓ When reviewing your QC plan, be sure to leverage Part D of Fannie Mae's *Selling Guide*, as well as Fannie Mae's QC self-assessment worksheet.
- ✓ Assess your organization's change management processes to ensure your QC plan is updated anytime there's a process or policy change that impacts your QC program. If your organization doesn't have a change management process, institute one as soon as possible. This is a critical component of a strong QC program.

Resources

[Selling Guide \(Part D\)](#)

[QC self-assessment worksheet](#) and [Announcement SEL 2010-03](#) (March 29, 2010)

[2021 QC Boot Camp Webcasts - specifically QC fundamentals](#)

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