



Quality control calibration

What has Fannie Mae learned from the shifting mortgage market over the past few years that can help lenders to better manage their quality risk? A key takeaway is that internal quality control (QC) results that accurately identify and classify defects can strengthen a lender’s entire QC program, improve loan quality, and drive change within the organization. Accuracy is vital for a strong QC program to successfully manage and stabilize loan quality risk and help build resiliency to withstand market volatility.

Ask yourself:

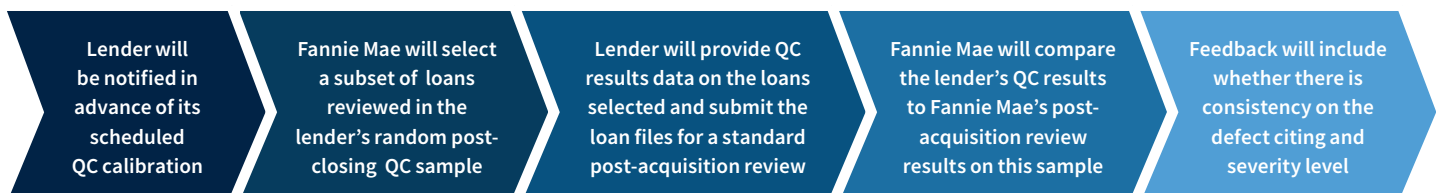
- Do we regularly compare defects identified in our QC results with those cited by our investors to ensure alignment on how loans are evaluated? If our investors are seeing an increased level of defects but we are not, what are we missing and why?
- What criteria are applied when determining the severity of a QC defect, and are they applied consistently throughout the organization?
- Are we confident that our defect rate reporting is reflective of our overall loan quality and is reliable as a key performance indicator?

Fannie Mae’s QC calibration

In QC, calibration is the process of comparing a lender’s own internal QC results to a known measurement, or standard, to confirm the accuracy of the lender’s results. Calibration exercises ensure a lender’s QC tests have not drifted over time and become less accurate. Since mortgage markets are constantly shifting, it’s important to calibrate and compare your QC results against an accepted standard to ensure loan quality and efficiency. For loans delivered to Fannie Mae, the *Selling Guide* is the standard.

In the past, Fannie Mae has performed calibration exercises on an as-needed basis to validate the accuracy of the lender’s internal QC results assessed to *Selling Guide* requirements. Beginning in 2023, Fannie Mae will conduct QC calibrations on a regular basis across a broader segment of our customer base (see [Selling Notice Quality Control Calibrations](#)).

Fannie Mae’s QC calibration will be a standardized process of evaluating the precision and accuracy of a lender’s QC effectiveness. It will be performed by comparing a lender’s completed random post-closing QC results, at the defect level, to Fannie Mae’s post-acquisition QC results on the same sample of loans. Fannie Mae’s calibration initiative is designed to help lenders and their QC teams gain actionable insights and be more effective in managing loan quality risk.





Benefits of Fannie Mae's QC calibration

- Drives industry alignment and supports quality risk management by validating accurate reporting of eligibility violations for participating lenders against the *Selling Guide* standards.
- Increases reliability in self-reporting and reported defect rates.
- Promotes continuous improvement in a lender's QC program through external benchmarking of results.
- Broadens the scope and impact of lender's QC results by increasing the number of reviews from which to assess and compare across all samples. This reinforces the standardization for detecting defects and sharing actionable feedback to enhance their QC programs.

Next steps

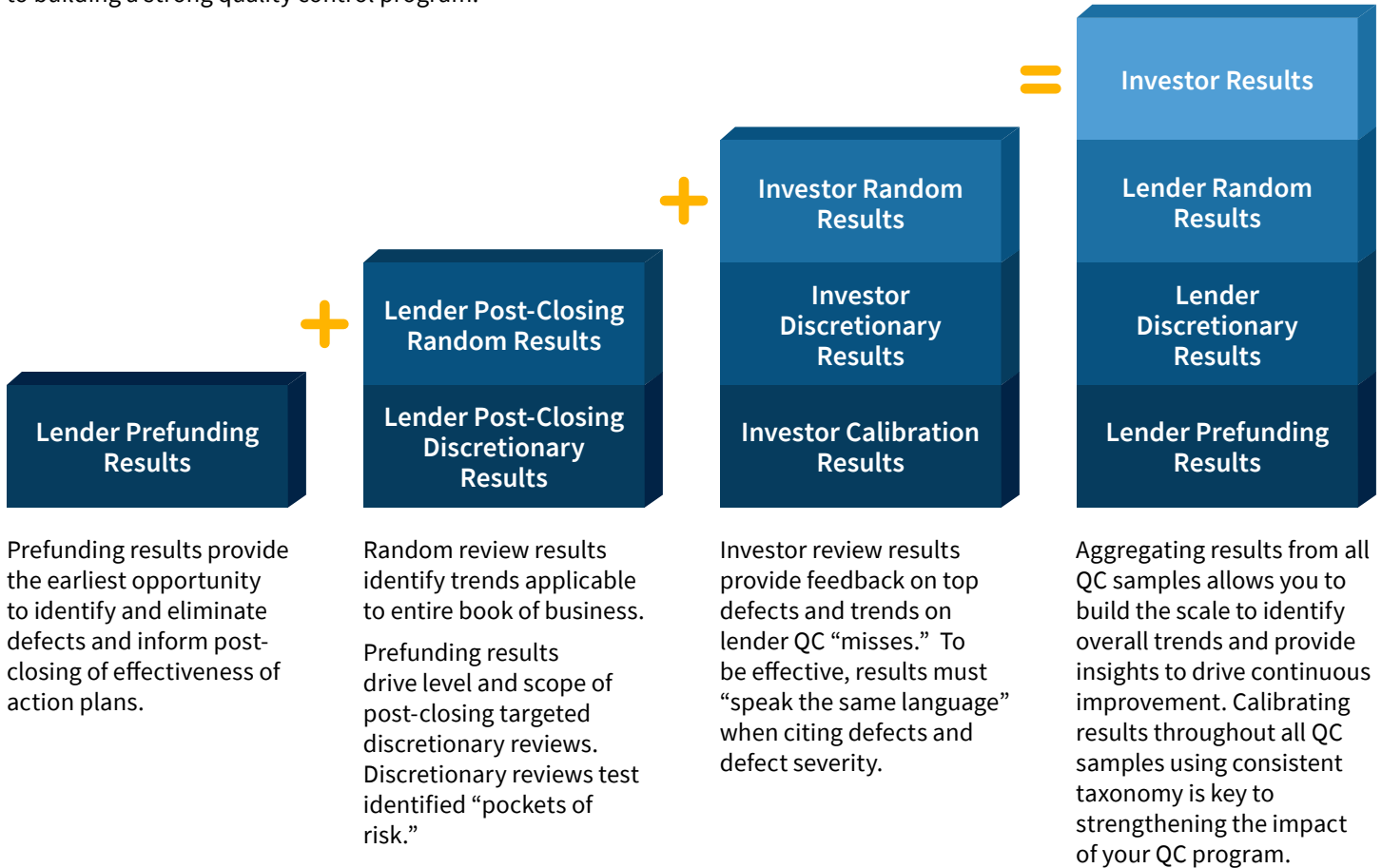
QC calibration is a powerful tool in a lender's QC program that promotes continuous improvement and informs the business whether loan quality is being accurately reflected.

- ✓ Compare your QC results to investor and other internal loan review results:
 - If your QC results are not reflecting an uptick in defects but your investors' results are reflecting such an uptick, it is important to investigate the discrepancy. A calibration exercise is an ideal way to compare two sets of results for the same loans to determine gaps and help identify the reason for any deviations.
- ✓ Evaluate your QC review process and confirm all QC staff are consistently using the same criteria and procedures.
- ✓ Put the building blocks together to get the most from your QC program by using the same defect taxonomy and same defect severity levels. Calibrating results throughout all your QC samples is the foundation to building a strong quality control program.

How do you put the building blocks together to get the most from your QC program?

- Do you use a consistent defect taxonomy for all your reviews?
- Do you assign defect severity consistently?

Calibrating results throughout all your QC samples is the foundation to building a strong quality control program.



Resources

[Selling Notice Quality Control Calibrations](#)

[QC Calibration FAQs](#)

[Selling Guide D1-3-06, Lender Post-Closing Quality Control Reporting, Record Retention, and Audit \(08/07/2019\)](#)

[Loan Defect Taxonomy](#)

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