Beyond the Guide

Section 6

QC Reporting

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QC Reporting

Selling Guide D1-1-01, D1-2-01, D1-3-06

QC reporting is the primary way QC aggregates loan-level results to tell the story of how an organization's loan manufacturing process is performing.

The *Selling Guide* states, "QC reports are a *critical* component of the QC program." Prefunding and post-closing reports should reflect review outcomes, provide reliable data that drive manufacturing improvements, and identify potential future challenges for the organization's management. A QC program without effective reporting is like driving without a map. We know where we want to go — QC reporting is the map that helps us get there.

The *Selling Guide* provides minimum reporting requirements for prefunding, post-closing, and vendor review results. Lenders must develop reporting that is effective and actionable, taking into consideration layout, style, format, and any value-added information.

So how *does* a lender determine the format and necessary information to provide high-value reporting? Reports are created using data generated by loan reviews. Aggregating that data results in structured information, which creates stories about loan quality. The stories should then lead to action, which includes communication between teams, changes in processes, and technology upgrades, all of which enable continuous improvement. A well-crafted QC report should not be a listing of the loan-level defects found; it should include key data, important information, solid stories, noteworthy action, and wins. There are three key elements of effective and actionable QC reporting:
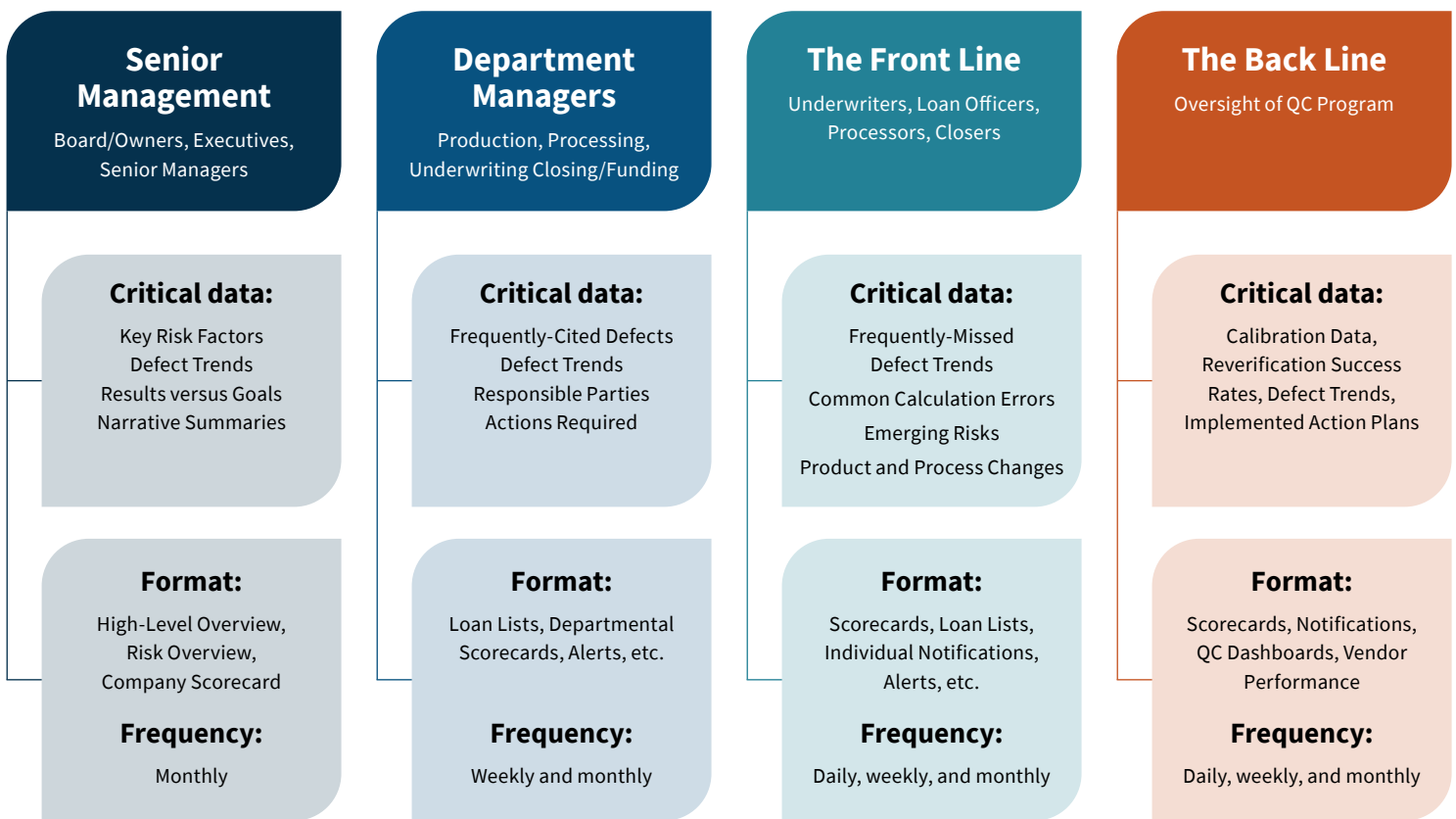
- Define your audiences.
- Create a structure for your audiences.
- Create content that fits into your structures.

We'll explore each of these areas.

Define your audiences

The foundation of effective communication is to define and know the audience. There are necessary elements to all QC reporting, but the information and the level of detail can and should vary based on the focus and needs of the intended audience. Considering *who* is in your various audience groups and *how* they will use the information will inform the design and richness of content as well as reporting frequency.

The image below illustrates how various lender responsibility areas may receive and use business information differently based on their responsibilities and functional need-to-know:

Senior Management	Department Managers	The Front Line	The Back Line
Board/Owners, Executives, Senior Managers	Production, Processing, Underwriting Closing/Funding	Underwriters, Loan Officers, Processors, Closers	Oversight of QC Program
Critical data:	**Critical data:**	**Critical data:**	**Critical data:**
Key Risk Factors Defect Trends Results versus Goals Narrative Summaries	Frequently-Cited Defects Defect Trends Responsible Parties Actions Required	Frequently-Missed Defect Trends Common Calculation Errors Emerging Risks Product and Process Changes	Calibration Data, Reverification Success Rates, Defect Trends, Implemented Action Plans
Format:	**Format:**	**Format:**	**Format:**
High-Level Overview, Risk Overview, Company Scorecard	Loan Lists, Departmental Scorecards, Alerts, etc.	Scorecards, Loan Lists, Individual Notifications, Alerts, etc.	Scorecards, Notifications, QC Dashboards, Vendor Performance
Frequency:	**Frequency:**	**Frequency:**	**Frequency:**
Monthly	Weekly and monthly	Daily, weekly, and monthly	Daily, weekly, and monthly

Senior management – manage the business

These are the leaders that chart the path of the organization at a high level. Senior management is hyper-focused on issues that have a financial impact to the organization, which includes identifying and managing risk exposure.

Critical data

• Actual loan defect rates compared to target defect rates

• Summary narratives

• Financial impact and top risks

• Progress on high-value action plans

• Defect trending

Reports for this audience must be finalized and fully vetted.

Format considerations

QC reports must tell the story beginning with a concise description of the key takeaways for that reporting cycle. Elements can include changes to defect rates, emerging or continuing top defect drivers, trends, and any area requiring management action or focus. Supporting information should identify and predict risk exposure.

Frequency

Monthly reporting cycles are required for this management segment.

Departmental managers – manage execution

Departmental managers oversee the work done by sales, processing, underwriting, closing and funding, third-party originator managers, and other frontline personnel.

Critical data

- Actual loan defect rates compared to target defect rates for the company and by area of responsibility, such as operations centers or underwriting/closing teams

- Summary narratives should have more granularity than senior management narratives

- Operations centers or underwriting/closing results compared to peer results

- Progress details on applicable action plans may also be valued

Format considerations

Since the departmental managers oversee departments and individual employee performance, they require a more tactical look into the QC results. The 'big picture' performance of the organization remains important, but a view into individual business unit and employee performance is required to execute on organizational goals. Preliminary and final reports should include QC scorecards with top defects, defect trends, responsible parties, action plans, loan-level review results, and recommendations.

Frequency

This management segment benefits from having both weekly and monthly reporting.

Frontline employees – execute day-to-day operations

Frontline employees, including underwriters, processors, and closers, perform transactional work required to move a loan through origination to closing. Information critical to a frontline employee is centered around the day-to-day work being done.

Critical data

- Loan-level details with defect narratives

- Comparison to peer team results and goals may be helpful

Format considerations

These reports should keep your frontline staff engaged in their key goals and metrics. Frontline information must be presented with enough granularity for the employees to correct open issues and improve their performance going forward. Loan lists must show work performed and issues identified. Individual QC scorecards should be used to identify areas for improvement, showcase best practices, and celebrate individual and team wins.

Frequency

Frontline employees will benefit from a higher frequency of reporting. A weekly or biweekly reporting cadence keeps individual performance and QC trends at the forefront of employees' minds.

QC team – execute trusted testing

Because QC employees validate transactional work, the information they need is similar to what's needed by frontline employees. Internal QC employees need to be aware of results, such as reverification success trends, calibration disconnects, and possible instances of suspected misrepresentation to ensure consistent, actionable information is maintained and delivered to management.

Critical data

- Accuracy or concurrence rates
- Reverification success rates
- Defect trends
- Calibration results

Format consideration:

QC scorecards work well with internal employees to ensure accuracy and accountability in the QC process. Since accuracy of QC testing drives trust in the function, this reporting must focus on the quality of the loan file review by tracking concur rates, uncited defects from management testing, and audit results from investor or internal audit reviews.
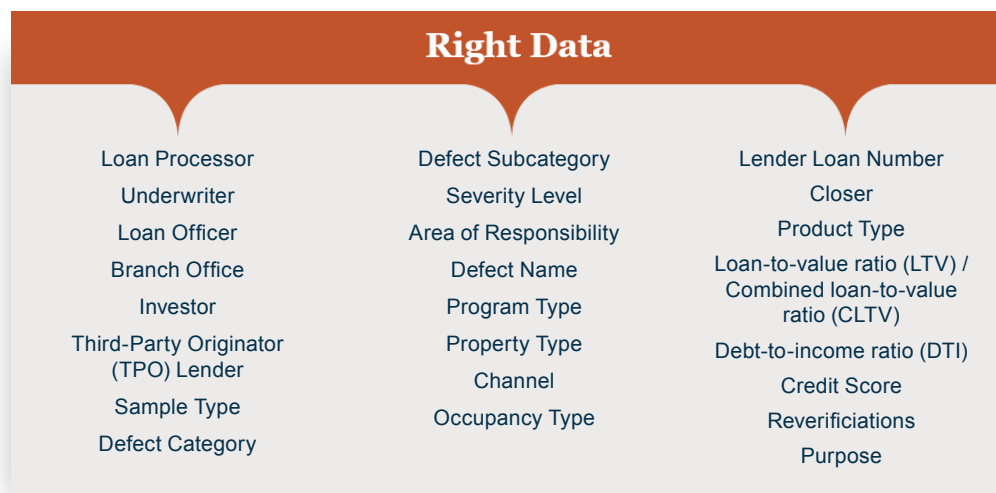
Note: Reporting on the accuracy of QC testing is vital whether QC reviews are internal or outsourced. In addition to being a required element of the monthly QC report, including outsourced QC accuracy rates demonstrates transparency and assures management that accountability for quality is the responsibility of everyone.

Frequency

As with frontline employees, frequent granular reporting is desirable.

Creating a structure for your audiences

The most important aspect of QC reporting is that it is useful for management evaluation and monitoring of mortgage loan production quality. The best way to ensure the final format meets these criteria is to collaborate with the report stakeholders. Collaboration provides an excellent opportunity to build reporting that meets business needs and achieve buy-in from all levels of management. Creating an effective report format for the end user is a matter of understanding the basic requirements, the informational needs of the business area, and preferences of display (e.g., visual versus narrative).

Right Data

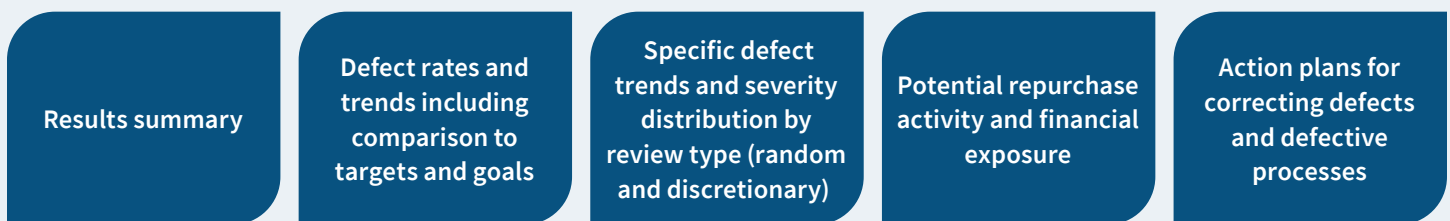|		
Loan Processor	Defect Subcategory	Lender Loan Number
Underwriter	Severity Level	Closer
Loan Officer	Area of Responsibility	Product Type
Branch Office	Defect Name	Loan-to-value ratio (LTV) / Combined loan-to-value ratio (CLTV)
Investor	Program Type	
Third-Party Originator (TPO) Lender	Property Type	Debt-to-income ratio (DTI)
Sample Type	Channel	Credit Score
Defect Category	Occupancy Type	Reverificiations
		Purpose

The table below gives examples of metrics your various audiences may find relevant. Given the amount of data, information, stories, actions, and wins you will include, your report for senior management may be a mere two pages while your report for your front and back lines may be filled with dense, granular information with page numbers in the double digits.

Metric = monthly defect rate

Selling Guide requirement: Reflect the final defect rate for the results of the current review period (taking into account responses and resolution of the initial QC findings).

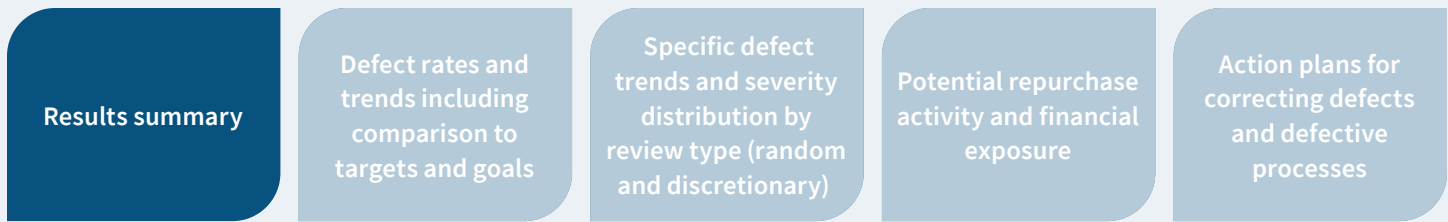| Senior management	Department management	Front/Back line
• Total company gross and net defect rates • Defect trending by credit and compliance with comparison to targets • If applicable, channel investor breakdowns	• Total company gross and net defect rates • Defect trending by credit and compliance with comparison to targets • If applicable, channel/investor breakdown • Business unit defect trends • Area of responsibility (processing, underwriting, closing) • Loan-level detail • Business unit stack-ranking	• Total company gross and net defect rates • Business unit defect rates and trends • Area of responsibility defect rates and trends (processing, underwriting, closing) • Individual defect rates and trends • Individual stack ranking • Loan-level detail for reporting period

As illustrated above, the presentation of data can differ for each segment of the report depending on the audience. Different reporting elements and information can impact not only the granularity of the report, but also the size of the document. Executive-level reporting may contain a few pages with key metrics and action plans while department managers and internal QC reporting may have multiple pages filled with very detailed information.

Create content that fits into your structures

Results summary	Defect rates and trends including comparison to targets and goals	Specific defect trends and severity distribution by review type (random and discretionary)	Potential repurchase activity and financial exposure	Action plans for correcting defects and defective processes

Common components exist to form a consistent reporting foundation no matter your audit type. These must exist in each QC report, whether prefunding or post-closing, random or discretionary. Consistency across reports enables each user to digest the information more easily and communicates key takeaways.

Results summary

| Results summary | Defect rates and trends including comparison to targets and goals | Specific defect trends and severity distribution by review type (random and discretionary) | Potential repurchase activity and financial exposure | Action plans for correcting defects and defective processes |

The purpose of a summary is to provide readers with the proper context, including the review purpose, selection reasons, and the description of sample chosen. The summary includes what, when, and why loans were selected – information that supports decision-making about manufacturing quality and employee performance. This description puts the information in context and confirms the sample meets internal and investor requirements, such as a 10% sample size or a statistical sample in the post-closing random review.

Random summary example:

Post-closing random sample

420 loans were reviewed out of 3,960 loans funded in the retail channel. This represents 10.61% of the funded loans. 22 loans were reviewed out of 152 loans funded in the wholesale channel. This represents 14.47% of the funded loans. The overall sample is 10.75% of January fundings.

Retail random sample			
Loan type	Loans funded	QC sample	QC sample %
Conventional	1760	180	10.23%
FHA	550	50	9.09%
VA	370	50	13.51%
Portfolio	1280	140	10.94%
Other	0	0	0.00%
Total	3960	420	10.61%

Wholesale random sample			
Loan type	Loans funded	QC sample	QC sample %
Conventional	125	15	12.00%
FHA	5	2	40.00%
VA	20	5	25.00%
Portfolio	2	0	0.00%
Other	0	0	0.00%
Total	152	22	14.47%

The loans selected for review are clearly stated with the underlying funding numbers included. Management can quickly confirm the sample meets the 10% standard. Additionally, a comparison of the funding loan types/channels against the random samples can help confirm the selections are truly random, as the random sample represents the entire book of business.

Discretionary summary example:

As important as it is to describe the random sample, it is even more important for the discretionary sample because it is dynamic. It can change from month to month as pockets of risks are actively reviewed or as action plan effectiveness is measured. Using tables or narratives, the WHY and strategy behind each discretionary sample should be clearly stated. A visual can facilitate assessment of the results. Explaining the purpose of the strategy drives understanding of the sampling approach.

Post-closing discretionary sample

- Full-file reviews for recently hired mortgage loan originators (MLOs), underwriters, new brokers, and brokers on watch for emerging risk in the retail and wholesale channels.

- Two new brokers have been approved for delivery and will continue to have all loans reviewed in post-closing for the next six months or until 20 satisfactory reviews have been completed.

- Four brokers on watch for emerging risk will continue to have all loans reviewed in post-closing until further notice.

- Prior QC results for appraisals with elevated Collateral Underwriter® (CU®) risk scores drove appraisal selections

to test effectiveness of CU training conducted in January and February.

- A self-employment income calculation tool was implemented in March. A targeted/component review of loans using the new tool were chosen to confirm the tool's effectiveness.

- New verbal verification of employment (VVOE) process implemented four months ago has shown defects in prefunding reviews. Testing in post-closing to track improvement after rollout adjustments.

Retail discretionary									
Audit description	Review count	Gross critical defects		Net critical defects		Gross mod defects		Net mod defects	
		#	%	#	%	#	%	#	%
Second home purchases with gifts	4	1	25.00%	0	0.00%	2	50.00%	1	25.00%
New MLOs	38	3	7.89%	1	2.63%	4	10.53%	2	5.26%
New underwriters	25	5	20.00%	0	0.00%	3	12.00%	1	4.00%
Component - self-employed calcs	25	7	28.00%	2	8.00%	2	8.00%	0	0.00%
Appraisals with CU scores > 4	16	3	18.75%	0	0.00%	4	25.00%	1	6.25%
Component - new VVOE process	40	2	5.00%	0	0.00%	3	7.50%	2	5.00%

Wholesale discretionary									
Audit description	Review count	Gross critical defects		Net critical defects		Gross mod defects		Net mod defects	
		#	%	#	%	#	%	#	%
Brokers on watch	5	2	40.00%	1	20.00%	2	40.00%	2	40.00%
New brokers	27	3	11.11%	1	3.70%	1	3.70%	0	0.00%
New wholesale (W/S) underwriters	10	1	10.00%	0	0.00%	1	10.00%	1	10.00%
Component - self-employed calcs	24	2	8.33%	0	0.00%	2	8.33%	1	4.17%
Appraisals with CU scores > 4	16	1	6.25%	0	0.00%	3	18.75%	1	6.25%
Component - new VVOE process	40	3	7.50%	0	0.00%	4	10.00%	0	0.00%

Displaying the loan counts and defects by discretionary audit description provides information to determine whether the risk hypothesis was accurate, the sampling strategy should change, and/or action should be taken.
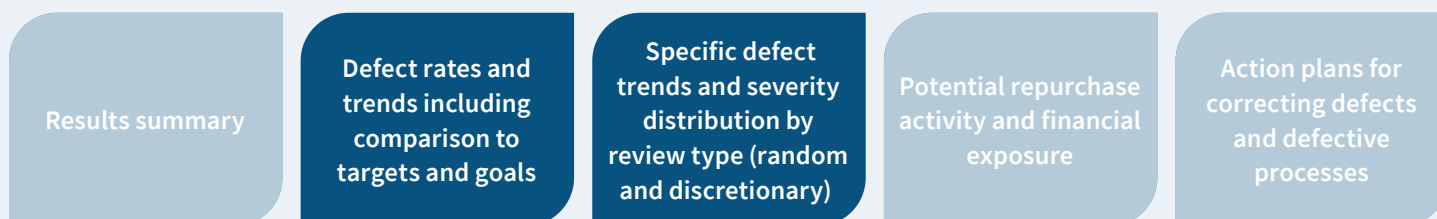
Finding the "so what" of discretionary reviews

Discretionary and targeted review results should be reported by each audit description so action can be tailored to each sampling reason. If all types of discretionary reviews are lumped into a single group with a single defect rate, the insight desired from the specific sampling strategy will be lost. If high-risk loans are grouped in with new broker and recently hired loan officer loans, the risks identified from each sample may not be readily apparent and opportunities for improvement could be lost.

Wholesale discretionary										Commentary
Audit description	Review count	Gross critical defects		Net critical defects		Gross mod defects		Net mod defects		
		#	%	#	%	#	%	#	%	
Brokers on watch	5	2	40.00%	1	20.00%	2	40.00%	2	40.00%	ABC broker continues to have critical defects. Escalate to risk comm.
New brokers	27	3	11.11%	1	3.70%	1	3.70%	0	0.00%	No trending by new brokers observed. Maintain sampling.
New wholesale (W/S) underwriters	10	1	10.00%	0	0.00%	1	10.00%	1	10.00%	No trending by new underwriters observed. Maintain sampling.
Component - self-employed calcs	24	2	8.33%	0	0.00%	2	8.33%	1	4.17%	Defects reduced from prior month. Maintain sampling for three mos.
Appraisals with CU scores > 4	16	1	6.25%	0	0.00%	3	18.75%	1	6.25%	Defects reduced since CU training noted. Maintain sampling for three mos.
Component - new VVOE process	40	3	7.50%	0	0.00%	4	10.00%	0	0.00%	Defects reduced from prior month. Maintain sampling for three mos.

Notice how simple highlighted commentary can help the reader quickly identify what discretionary results require action.

Defect tracking and trending – rates, goals, and categories

Results summary	Defect rates and trends including comparison to targets and goals	Specific defect trends and severity distribution by review type (random and discretionary)	Potential repurchase activity and financial exposure	Action plans for correcting defects and defective processes

Two key concepts of effective reporting are tracking and trending. These concepts are not exclusive to defect rates or types but should be applied to all QC data. Building and maintaining a broad spectrum of data provides QC a rich warehouse of data that can support powerful reporting. The terms tracking and trending are frequently used interchangeably, but they are two distinct actions.

Defect tracking

This is the process of selecting specific metrics and attributes to monitor. Defect attributes include defect severity, category, subcategory, name, and individual defect rates within a sample. It can also be helpful to track certain loan attributes including loan purpose, product, loan to value (LTV) ratio, debt to income (DTI) ratio, and credit scores (among many others). A richer base of tracked data provides information to analyze and understand defects, which supports root cause identification and action planning to address the issues.

Defect trending

This is the process of looking at defect categories, severities, and rates over time to gain insight into the overall defect rates, types, and severities of the issues identified. Trending reveals if issues are decreasing or if there are emerging defects and risks to the organization.

For example, if the target defect rate is 3% and actual defect rate trending has remained at or below 3% over the past six months, the trend might be interpreted to be favorable. However, if within that 3%, the defect subcategory driving these defects is concentrated in self-employed income calculation and has increased from 0.75% to 2.75% over that same six-month period, the trend should be interpreted as an emerging problem that requires action.

Defect tracking and trending comes in many different formats and views. It is important to know what the audience needs to see when presenting defect and trending results. Consider the examples below. These trending examples provide various views to help managers absorb the relevant information.

Defect category trending example
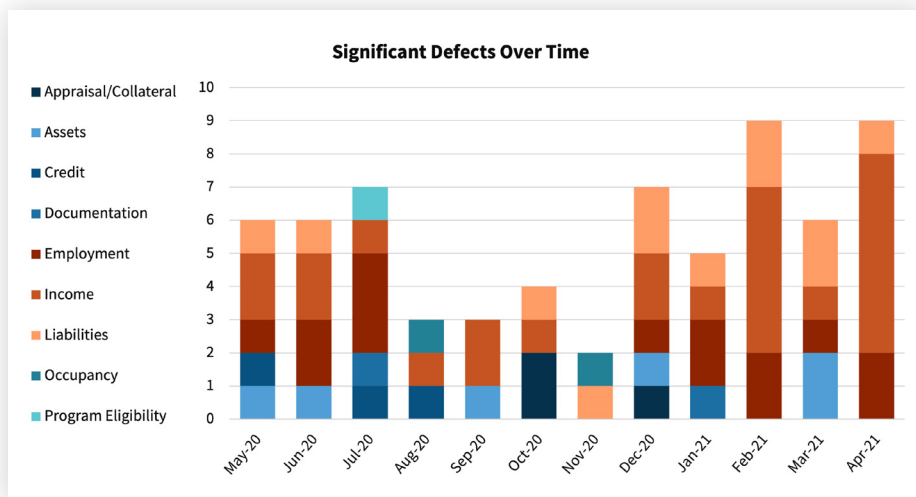
This bar chart identifies defect categories at a high level and then assigns a color to the issue, so it is easily trended across time. A view like this gives a quick snapshot of the overall monthly defect trend with enough granularity at the defect category level to identify areas of concern. For instance, this example shows **Income** is a rising defect category.

Defect rate trending against targets example

Total Defect Rate Trends (Discretionary and Targeted)
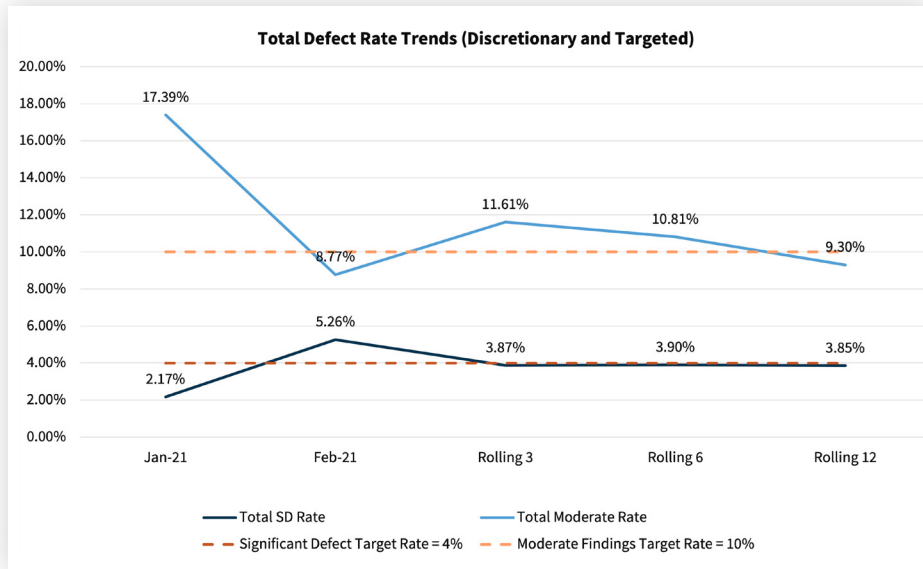
A line graph is useful for trending metrics' movement over time. In this example, the significant and moderate defect rates are displayed against target defect rates. It highlights when targets are breached and whether trending is acceptable. This style of presentation can be used for many different trends such as overall gross and net defect rates or even individual defect trends if sufficient data is available.

Defect name by severity example

February Defect Trends by Severity
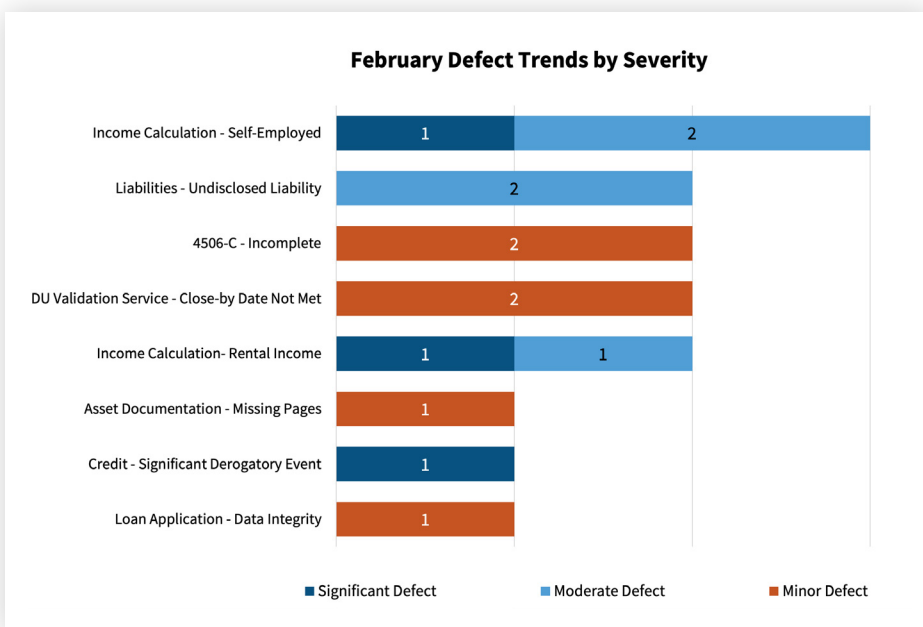
This illustration shows defects by frequency and severity. This allows management to determine what processes should be assessed based on the number of defects and the associated risk. In this example, **4506-C – Incomplete** and **Liabilities – Undisclosed Liability** have the same frequency of occurrence, but since **Undisclosed Liability** has a higher severity, this defect should be reviewed first for process gaps.

Potential repurchase activity and financial exposure

| Results summary | Defect rates and trends including comparison to targets and goals | Specific defect trends and severity distribution by review type (random and discretionary) | Potential repurchase activity and financial exposure | Action plans for correcting defects and defective processes |
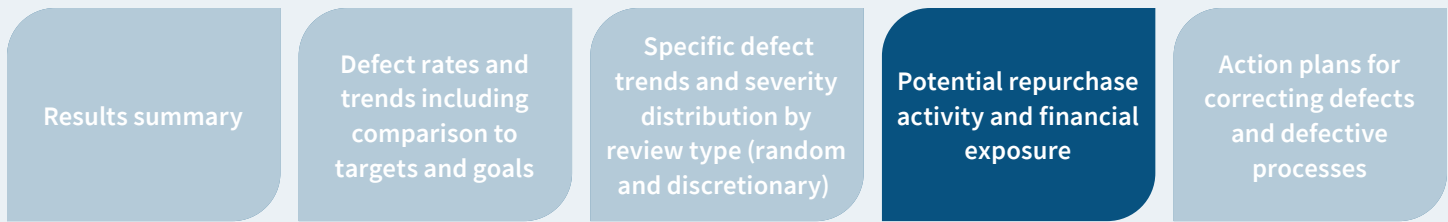
Providing a visual example of the risk of eligibility defects in the monthly QC reporting provides management with a way to tabulate the cost of poor quality. Much of QC reporting is focused on defect rates, so it can be easy to lose sight of the costs associated with a defect. Adding a simple table to the first page of the monthly reports can help call attention to the dollar cost associated with the defects.

Significant defects and financial exposure example

Origination month: February	# Final significant defects	% Final significant defects	Total loan amount of SDs	Estimated potential $ loss	Self-reported to investor
Post-closing random sample	**1**	**1.61%**	**$225,183**	**$45,288**	**1**
Conventional	1	1.92%	$225,183	$47,288	1
FHA	0	0.00%	$-	$-	0
VA	0	0.00%	$-	$-	0
USDA	0	0.00%	$-	$-	0
Retail	1	3.23%	$225,183	$47,288	1
Wholesale	0	0.00%	$-	$-	0
Correspondent	0	0.00%	$-	$-	0
Post-closing discretionary sample	**3**	**5.26%**	**$768,963**	**$161,486**	**3**
Discretionary full-file	2	5.13%	$426,825	$89,633	2
Targeted sample	1	5.56%	$342,158	$71,853	1
Other reviews					
Compliance / denied loan reviews	1	4.35%	$-	$-	0
Early payment default review	0	0.00%	$-	$-	0
Total estimated financial loss from self-reports				**$208,775**	**3**

This table reflects the final significant defects that were not remediated and require self-reporting to the applicable investor. A factor for determining estimated loss can be derived through historical and current market costs of repurchasing, holding, and selling at a discount. This factor can be determined through consultation with a lender's finance or capital markets teams. This is an effective method of translating QC defect rates into financial exposure. For this example, the average potential loss is about 21 basis points.

Action plans for defects and processes

| Results summary | Defect rates and trends including comparison to targets and goals | Specific defect trends and severity distribution by review type (random and discretionary) | Potential repurchase activity and financial exposure | Action plans for correcting defects and defective processes |
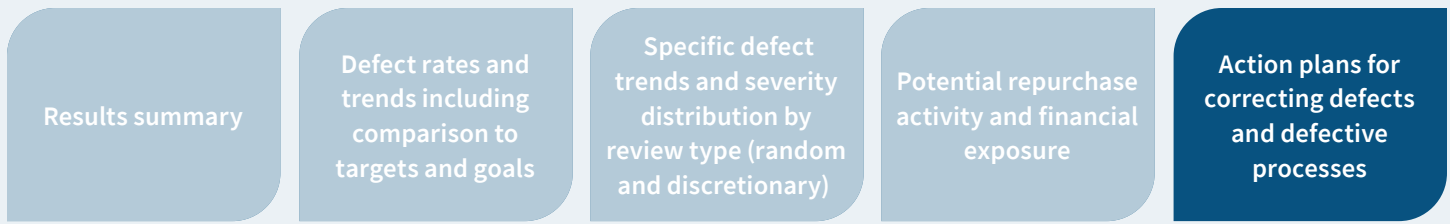
Action planning is a critical function of the QC reporting process and must be part of the monthly reporting. Hold monthly meetings to discuss the status of action plans and remediation actions and to confirm that you are achieving measurable progress. Action plans can be easy to start, but often fail without proper follow-through. Fannie Mae considers action planning to be a critical component for achieving quality, and we have numerous resources dedicated to the topic.

Post-closing action plan example

1- DEFINE PROBLEM TO BE SOLVED						**2 - ASSESS ROOT CAUSE(S)**		**3 - DESIGN SOLUTIONS**			**4 - ESTABLISH AND EXECUTE SOLUTIONS**			
Issue Number	Define Problem	Priority	Status	Date Opened	Defects Observed		Root Cause		Area Responsible for Solution	Solution Owner(s)	Solution(s)	Priority	Status	Solution Implementation Target Date	Target Metric(s)
					Internal Reports	Investor Reports									
1	37% of significant asset defects are related to gift funds	High	In Progress	5/15/22	Yes	Yes	80% of the gift fund defects did not document the transfer at closing	Deficient staff training regarding new policies/procedure	Training Department	C.Brown	Training for all Closers/Funders	High	In Progress	7/10/22	100% of impacted staff attend training and pass a knowledge test with 95% accuracy
								Missing or vague at close conditions related to gift funds	Underwriting	B.T.Builder	Update "At Closing" Gift Fund condition to reflect updated requirements.	High	In Progress	8/1/22	Prefunding sample defect rate < 1% of all asset defects
								No checks in place to prevent loans from funding with open *At Close* conditions	Closing	M.Mouse	Second-level review to prevent loans from advancing until systemic control is active	High	In Progress	7/10/22	100% of at closing conditions cleared prior to funding
								No checks in place to prevent loans from funding with open *At Close* conditions	IT	D. Explorer	System enhancement to prevent loans from funding that contain open "At Closing" conditions	High	In Progress	8/1/22	100% of at closing conditions cleared prior to funding
							15% of the gift fund defects did not document donor ability	Processor cleared *At Close* condition without proper authority				Low	Not Started		
								Missing or vague at close conditions related to gift funds				Low	Not Started		
								Internal guideline gap regarding donor ability requirements				Low	Not Started		
							5% of the gift fund defects are due to ineligible gift donor	Internal guideline gap regarding eligible donor criteria				Low	Not Started		

This example provides a detailed defect and remediation path to monitor and evaluate action plan steps. Examples of key elements include defect(s) needing action, status and status dates, root cause, planned action, action owner(s), success measures, and validation/retesting plan. It also highlights plans that are past due to ensure appropriate management attention. Refer to *Beyond the Guide* Section 7, Corrective Action and the Action Plan.

Bringing it all together

By combining the foundational skills of audience identification, tracking, and trending QC data to create actionable information and disseminating the right information at the right time, QC reporting becomes a critical tool to manage quality and risk. Below are examples that incorporate all the elements of creating QC reporting designed to meet the needs of each department and management level.

Senior management report examples

Prefunding executive summary example

Scope:
- The purpose of the prefunding sample is to identify any company or investor eligibility issues prior to closing. Prefunding samples are selected daily from loans with a clear-to-close status. All significant defects are corrected prior to closing. Results are analyzed for trends and may result in an action plan.

Prefunding Sample:
- Full file reviews are selected based on the following high-risk characteristics: Investment properties, Loans with DTI> 43%, High-risk fraud score, TPO lenders, on watch list, Underwriters hired within 90 days, and Underwriters on an action plan.
- Component targeted reviews were sampled with the following characteristics: Self-employed borrower, and loans triggered by the UDM tool.
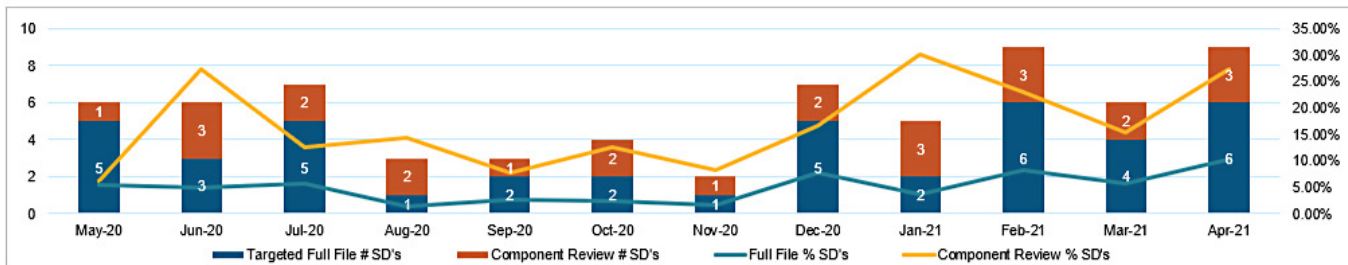
Prefunding Sample	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	Rolling 3	Rolling 6	Rolling 12
Total Closed Loans	483	326	486	417	405	465	348	354	310	395	391	319	1105	2117	4699
Loans Reviewed	106	72	104	89	86	101	74	76	66	85	84	70	239	455	1013
Targeted Full File	90	61	88	75	73	85	62	64	56	72	71	59	202	384	856
Component Reviews	16	11	16	14	13	16	12	12	10	13	13	11	37	71	157
Targeted Full File															
# Significant Defects	5	3	5	1	2	2	1	5	2	6	4	6	16	24	42
% Significant Defects	5.56%	4.92%	5.68%	1.33%	2.74%	2.35%	1.61%	7.81%	3.57%	8.33%	5.63%	10.17%	7.92%	6.25%	4.91%
# Moderate Defects	3	3	12	8	11	4	12	6	7	4	6	8	18	43	84
% Moderate Defects	3.33%	4.92%	13.64%	10.67%	15.07%	4.71%	19.35%	9.38%	12.50%	5.56%	8.45%	13.56%	8.91%	11.20%	9.81%
Component Review															
# Significant Defects	1	3	2	2	1	2	1	2	3	3	2	3	8	14	25
% Significant Defects	6.25%	27.27%	12.50%	14.29%	7.69%	12.50%	8.33%	16.67%	30.00%	23.08%	15.38%	27.27%	21.62%	19.72%	15.92%

This prefunding senior management summary report contains audit description, sampling logic, current month's loan counts by funding, full-file and component sampling, and gross defect rates by review type. Additional elements are still necessary, but much of the required elements are displayed on one page.

Prefunding executive summary example
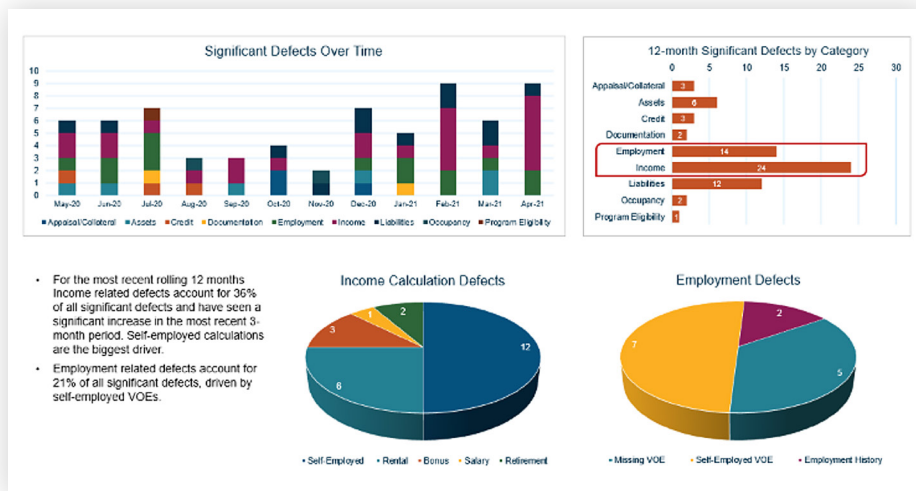
This report example strikes a good balance, including defect trending and key learnings that identify areas requiring an action plan. These are senior management reports so the format should be concise, but some granularity is important.

Post-closing executive summary example

This post-closing report example contains elements of an executive summary for both random and discretionary reviews, including a comprehensive summary of the results from each sample with review types and defect classifications. Also included are gross and net defect rates, a description of sampling methods (10% or statistical), and a breakout between compliance and underwriting / eligibility defects.

This example also includes a best practice that displays estimated loss based on repurchase risks.

Post-closing executive summary report sample

Post-Closing Executive Summary Report Sample – Random Summary
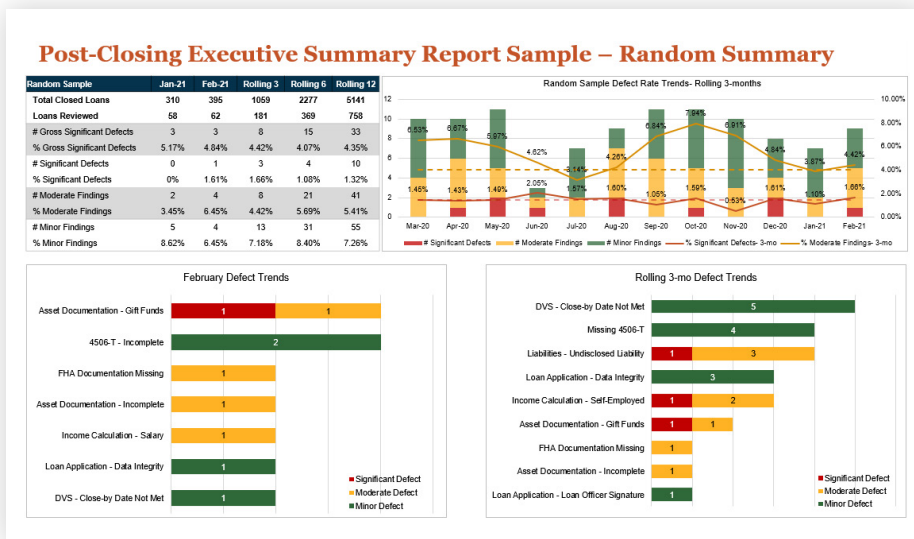
This random review summary includes a table of closed and reviewed loans with the number and percentage of defects for each severity level (upper left). Both the table and line graph are options for identifying defect trends over time.

The bottom left graph provides monthly tracking, and the bottom right graph shows three-month trending. Defect categories are clear, easily understood, and helpful for root cause analysis.

Departmental management report examples

Departmental management report – defect trends example
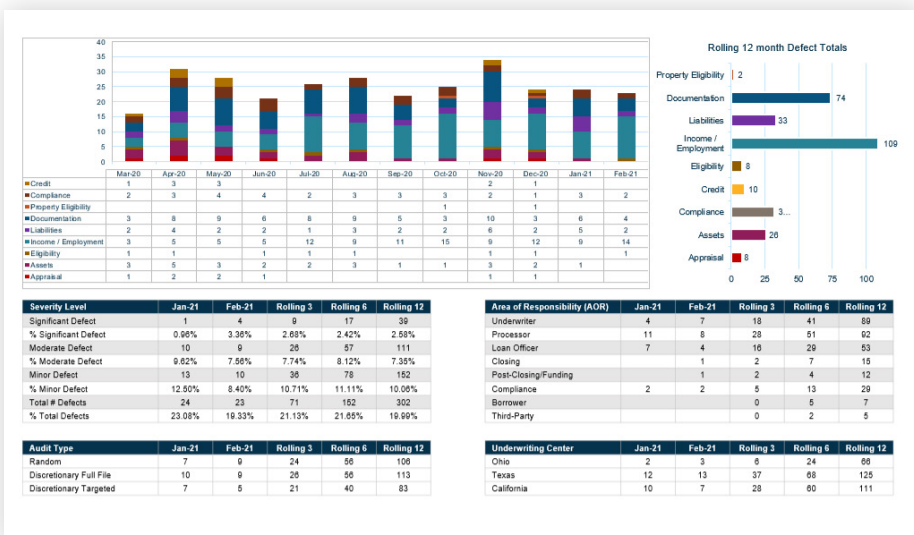
This example illustrates how to look deeper into defect trends. The large graph on the top left is one example of pulling together trends at the defect category level. Monthly changes by category are visible in the 12-month view. The graph in the upper right shows the defect categories by count. Because these reports are designed to get to the root cause, graphing by the high-level category is just your starting point. Use this information to know where to dig deeper. The bottom tables provide more detail in a condensed table format, but still show trends over time.

Departmental management report – stack-ranking example

Underwriter Results

	Underwriter 1	Underwriter 2	Underwriter 3	Underwriter 4	Underwriter 5	Underwriter 6	Underwriter 7	Underwriter 8	Underwriter 9	Underwriter 10
■ % of Loans with Elg Vilo	5%	1%	8%	6%	6%	4%	11%	12%	11%	4%
■ % of loans with Findings	10%	10%	23%	13%	13%	11%	18%	12%	17%	10%

■ % of Loans with Elg Vilo ■ % of loans with Findings
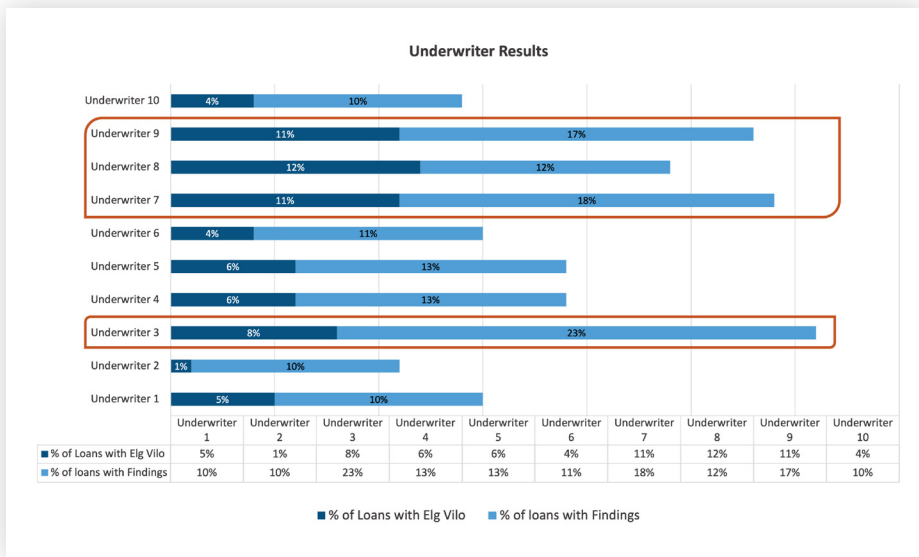
This is an example of results by underwriter, but can be leveraged for displaying other parties including brokers, correspondent lenders, processors, and loan officers.

In this example, underwriters 3, 7, 8, and 9 have higher significant defect percentages. By stacking those defects alongside the moderate findings, it is clear that a few underwriters are sticking out. This type of display highlights where there might be training opportunities. This data can also be used to adjust some targeted sampling in prefunding or post-closing discretionary reviews.
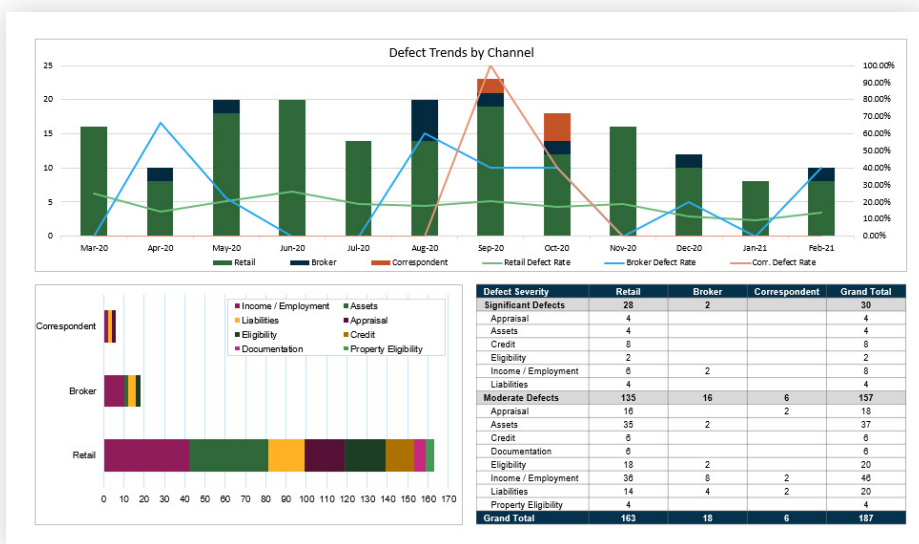
Departmental management report – defect trends example

Defect Trends by Channel

■ Retail ■ Broker ■ Correspondent — Retail Defect Rate — Broker Defect Rate — Corr. Defect Rate

■ Income / Employment ■ Assets ■ Liabilities ■ Appraisal ■ Eligibility ■ Credit ■ Documentation ■ Property Eligibility

Defect Severity	Retail	Broker	Correspondent	Grand Total
Significant Defects	**28**	**2**		**30**
Appraisal	4			4
Assets	4			4
Credit	8			8
Eligibility	2			2
Income / Employment	6	2		8
Liabilities	4			4
Moderate Defects	**135**	**16**	**6**	**157**
Appraisal	16	2		18
Assets	35	2		37
Credit	6			6
Documentation	6			6
Eligibility	18	2		20
Income / Employment	36	8	2	46
Liabilities	14	4	2	20
Property Eligibility	4			4
Grand Total	**163**	**18**	**6**	**187**

This example expands on the previous example by providing different cuts of data focusing on different origination channels. Other considerations for different cuts might be …

- loan purpose
- occupancy
- property type
- DTI, LTV, or credit score
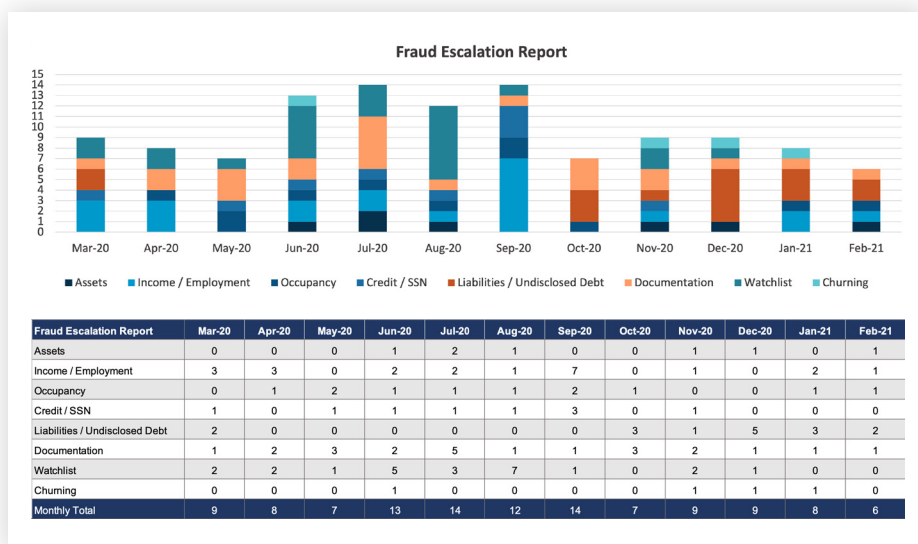- self-employed borrowers
- or any combination of these data points

Departmental management report – loan level example

Closing Month	Sample	Loan Number	Area of Responsibility	Program Type	Channel	Defect Severity	Defect Category	Defect Description	Resolution
February-21	Random	456789103	Closing/Funding	Conventional	Retail	Significant Defect	Asset Documentation	Assets from the sale of borrower's prior residence was used as a source of the down payment. Prior to funding condition requested final CD from sale of home. Loan file did not include final CD. Missing document was requested and obtained from the borrower.	Resolved
February-21	Random	489789130	Underwriter	Conventional	Correspondent	Significant Defect	Income Calculation	The underwriter calculated the borrower's salary as $4300 per month. Post close QC calculated borrower's income as $3900 per month. Updated DTI exceeds AUS tolerance of 3%. Underwriting re-ran AUS with updated income and received an Approve/Eligible recommendation.	Resolved
February-21	Random	456789123	Underwriter	FHA	Retail	Significant Defect	Asset Documentation	The borrower received gift funds of $5,000, however, the gift fund documentation was not found in the loan file. When removing the gift funds from assets, borrower is short funds to close.	Unresolved
February-21	Discretionary	495315863	Underwriter	Conventional	Wholesale	Significant Defect	Income Calculation	The underwriter calculated the borrower's self-employed income as $8300 per month. Post close QC calculated the borrower's income as $7565 per month. Updated DTI exceeds 50%.	Unresolved
February-21	Discretionary	491325485	Borrower	Conventional	Retail	Significant Defect	Liability Eligibility	Undisclosed auto loan showing on post close QC credit report in the amount of $385 from Honda Financial. Borrower provided evidence they treaded in old car and old car loan removed from monthly liabilities. Updated DTI less that 3% tolerance.	Resolved
February-21	Discretionary	482256872	Underwriter	Conventional	Retail	Significant Defect	Credit Eligibility	Underwriting credit report reflected a Chapter 7 BK for borrower. 7 years had not elapsed since the BK was discharged.	Unresolved
February-21	Targeted	488663207	Underwriter	Conventional	Wholesale	Significant Defect	Income Calculation	The underwriter calculated rental income on property 123 Main St. to be $1180 per month. QC auditor calculated the rental income to $590. As a result, the calculated DTI is 63%.	Unresolved

This example contains loan-level summary data that departmental management can use for both action planning and developing individual scorecards. Including all gross significant defects and the resolution status of each loan, along with notes on how the loan was remedied, is a best practice. Providing this in a spreadsheet can also allow managers to sort the data as needed.

Consider weekly distribution for this reporting. Providing this data more frequently supports real-time feedback, faster resolutions, accelerated reporting timelines, and potentially reduced errors sooner.

Departmental management report – fraud summary example

Fraud Escalation Report

Fraud Escalation Report	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21
Assets	0	0	0	1	2	1	0	0	1	1	0	1
Income / Employment	3	3	0	2	2	1	7	0	1	0	2	1
Occupancy	0	1	2	1	1	1	2	1	0	0	1	1
Credit / SSN	1	0	1	1	1	1	3	0	1	0	0	0
Liabilities / Undisclosed Debt	2	0	0	0	0	0	0	3	1	5	3	2
Documentation	1	2	3	2	5	1	1	3	2	1	1	1
Watchlist	2	2	1	5	3	7	1	0	2	1	0	0
Churning	0	0	0	1	0	0	0	0	1	1	1	0
Monthly Total	9	8	7	13	14	12	14	7	9	9	8	6

Tracking and trending loans with confirmed or suspected fraud is a highly effective way to detect fraud patterns and identify areas of emerging fraud risks. This example provides month-over-month trending data of loans escalated to the fraud department, including the 3-month, 6-month, 12-month breakout. These categories are examples – lenders should define them based on organizational preference and need. Additional data points to track and trend include the third-party originator, loan officer, borrower, real estate professional, and geographic area.

Front-line reporting examples

Front-line report summary example
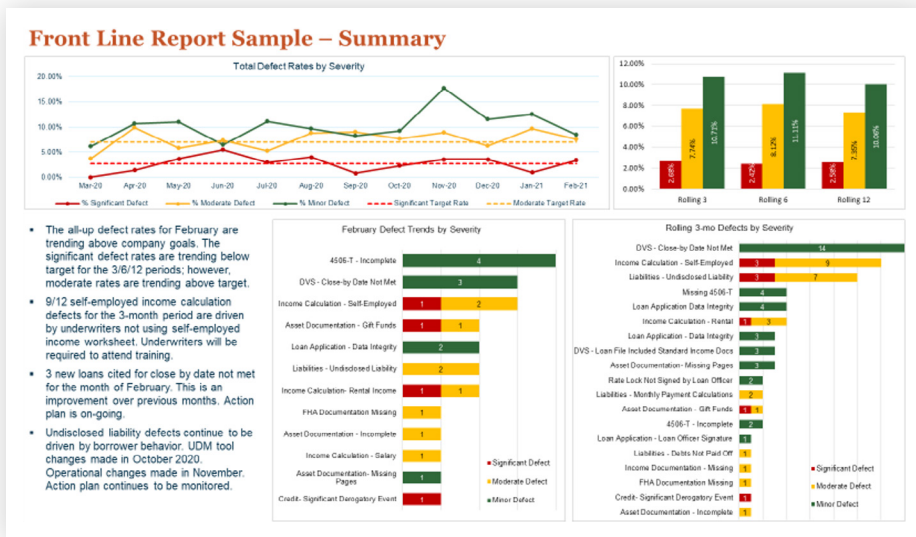
This is an example of a one-page summary with some data points that are frequently observed and can be important for front-line staff. In addition to the defect rate and defect category trends, it provides a summary of key highlights or top defects, and possible drivers. This insight can help front-line employees compare their personal results with other employees' results, which can promote conversation or highlight training opportunities not otherwise visible in the loan-level data.

Front-line report peer stack-ranking example
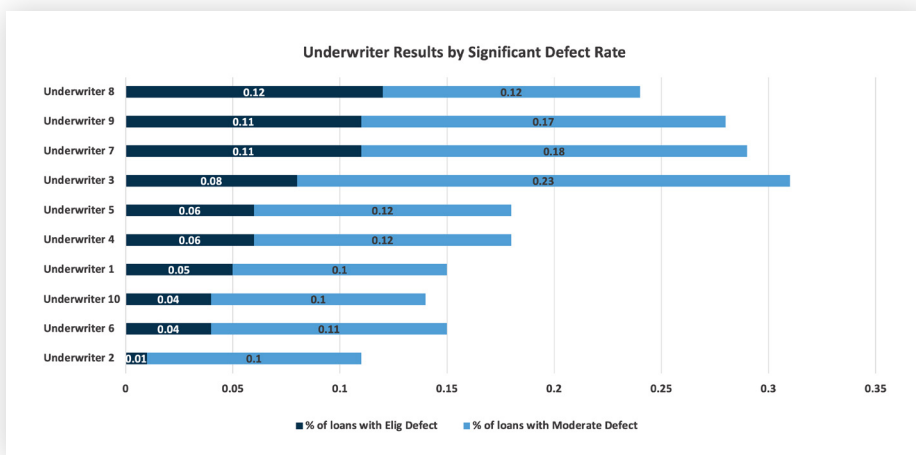
This stack-ranking chart has dual benefits of allowing employees to see where they rank among peers and driving a desire for improved performance. As with previous examples of stack-ranking reports, these can be used for counterparties in third-party origination channels, origination, QC, or other operational functions.

Miscellaneous reports

Post-closing vendor review example

- Quality Control reviews all loans with a significant defect and 10% of the remaining loans from both the Random and Discretionary sample reviewed by post-close QC vendor. Loans are selected for review the month following vendor completion.
- Vendor reviews were completed timely and issued all reverifications as required.

	Dec-20		Jan-21		Feb-21		Rolling 3-month	
Vendor Review Sample	113		104		119		336	
Lender Sample Review	14		23		15		52	
% Reviewed	12.39%		22.12%		12.61%		15.48%	
Vendor Ratings	Vendor	Concur	Vendor	Concur	Vendor	Concur	Vendor	Concur
Significant	6	4	9	9	7	6	22	19
Moderate	3	2	6	2	1	2	10	6
Minor	3	3	4	3	3	3	10	9
No Defect	2	2	4	4	4	3	10	9
Overall Concur Rate	79%		78%		93%		83%	

- 86% of the significant defects for the most recent 3 months where lender concurred. 3 loans cited with defects.
  - 2 loans cited with defects related to income calculation
  - 1 loan cited with defect related to miscalculation of borrower's monthly liabilities
- 3 moderate defects cited for the rolling 3-months are related to income calculation issues.
  - 2 for miscalculation of self employed income
  - 1 cited for miscalculation of rental income

Lenders choosing to outsource their QC reviews to a vendor must produce a monthly report. This report should reflect the result of QC's review of a sample of the vendor reviews.

This example displays the minimum required elements in an easy-to-digest table that can drive lender action when trends of unacceptable accuracy are observed.

Reverification tracking example

Miscellaneous Samples – Reverification Tracking

Reverification Tracking	February 2021					Rolling 3-month				
	Ordered	Received	Response Rate	Discrepancy	Discrepancy Rate	Ordered	Received	Response Rate	Discrepancy	Discrepancy Rate
Asset Documentation	184	152	82.61%	4	2.63%	389	303	77.89%	9	2.97%
Gift Letters	13	9	69.23%	1	11.11%	27	22	81.48%	5	22.73%
Income Documentation	196	187	95.41%	11	5.88%	553	514	92.95%	18	3.50%
Employment	190	175	92.11%	2	1.14%	537	494	91.99%	13	2.63%
IRS Transcripts	87	83	95.40%	3	3.61%	235	224	95.32%	13	5.80%
Credit Reports	101	101	100.00%	0	0.00%	286	286	100.00%	1	0.35%
Field Reviews	11	11	100.00%	1	9.09%	29	29	100.00%	4	13.79%

Reverifications with Discrepancies:
- **Asset Documentation:** Assets not supported (3); Account does not belong to borrower (1)
- **Gift Letters:** Donor did not sign gift letter
- **Income Documentation:** Income not supported (9); Income statements fraudulent (2)
- **Employment:** Borrower no longer employed (1); Borrower job title inaccurate (1)
- **IRS Transcripts:** IRS code 10 reject (3)
- **Field Reviews:** Value not supported

QC must track all reverifications sent, but many benefits can be realized by providing monthly summaries of reverification results. This example displays numbers of reverifications sent by categories, response rates, and discrepancies. This can be valuable information for identifying irregularities in expected success rates. When broken down by loan officers or operations centers, it may identify outliers that reveal emerging concerns.

Self-report tracking

Lenders are responsible to self-report loans that do not meet the *Selling Guide* requirements. This process can fall to various areas within a lender's organization, but it is critically important to make sure self-reporting obligations do not fall through the cracks. Below is an example of self-reporting tracking. For this report, the dates are key and additional commentary may be necessary if there are delays in the process.

Self-reporting tracking						
Loan number	Investor	Defect date	Self-report deadline	Self-reporting responsible party	Completed date	Comments
45U704	Fannie Mae	12/30/20	1/31/21	Business Unit	Open	Business unit has not self-reported per investor guidelines and is unresponsive to requests. Escalated to Executive Vice President (EVP) - Risk for additional action.
12C456	Fannie Mae	1/31/21	2/28/21	EVP Risk	2/15/21	None
45B555	Freddie Mac	2/28/21	3/31/21	Business Unit		Business unit continuing to remediate. Follow up at deadline.

Final considerations

- Examine the format of your current reporting and ask yourself these questions:
  - Do our QC management reports target the different audiences within our organization?
  - Do the reports provide appropriate detail for each audience?
  - Are we identifying defects and addressing the root causes?
  - Are we implementing action plans to prevent the defects from occurring in the future?
- Discuss the reporting formats with each of the management teams to confirm they are getting actionable insights. If not, do not be afraid to ask for their assistance in designing new reports.

Resources

D1-3-06 Lender Post-Closing Quality Control Reporting Requirements

Reverification Tracker

Action Plan Template

Sample QC Vendor Management Documents

D1-1-01 Lender Quality Control Programs, Plans, and Processes

D1-2-01 Lender Prefunding Quality Control Review Process

D1-1-02 Lender Quality Control Staffing and Outsourcing of the Quality Control Process