



Assess your quality control to maximize resources and efficiencies

With loan origination volumes at record levels, employees working at or near capacity, and margins further compressing, it's imperative that your quality control (QC) program operate efficiently and effectively. Done right, a strong QC process can help reduce your organization's risk exposure and create cost savings. This is particularly important as origination volumes eventually stabilize and the market potentially shifts to higher interest rates.

Ask yourself:

- When was the last time your organization holistically evaluated your QC program and reverification procedures?
- Are you capturing QC review issues, ensuring you're maximizing return on investment?
- Are there better methods you could use to enhance loan quality while potentially reducing QC costs?

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Tips for an efficient QC program

To get the most out of your QC program, assess what you're already doing and how to build on it. Consider these suggestions:

QC sampling

- **Prefunding selection sample:** While we require some full file reviews in prefunding QC, we also recommend a targeted discretionary sample. This allows for the selections to focus on loans with higher risk characteristics, as well as loan transactions that may contain risks unique to your overall production or product profile. *Note: A 10% random sample for prefunding reviews is not required per the Selling Guide. However, you should be selecting a meaningful number of loan files to assess your risk.*
- **Post-closing random selection sample:** Based on your volume and risk appetite, you may want to consider using a statistically valid sampling method. This approach may result in a smaller sample size than the standard 10 percent method of sampling while still providing results that are statistically valid and actionable. *Note: The larger the volume, the greater the impact. See Selling Guide [D1-3-01](#) for statistical sampling requirements.*
- **Discretionary sample selection** (prefunding and post-closing): A calculated selection strategy is critical.
 - Focus on higher-risk profiles, such as loans with elevated debt-to-income (DTI) and high loan-to-value (LTV) ratios or certain income types.
 - Examine the quality and performance of a new

product, employee, branch office, or channel.

- Sample files to confirm if an implemented action plan is working. Has the action taken corrected the issue?

QC discretionary review types

- **Component reviews** focus on a specific element of a loan file such as income calculation, collateral quality, or liabilities. This review type will only analyze that individual component and not the entire loan file.
 - Enables QC to review a larger sample of loans while reducing reverification costs, review time, and QC vendor per-file costs.
 - If you use a QC vendor, consider performing component discretionary review in-house to potentially reduce full-file review costs and increase efficiency.
- **Targeted reviews** focus on selecting loans with profiles or attributes that have a greater likelihood of having a defect. Having data and a strategy to identify riskier loans is crucial to the effectiveness of the QC review.
 - Determine which defects typically result in the costliest repurchase scenarios and identify loans with those characteristics for review.
 - Collect profile data on loans with top defects from your QC results and investor reviews. Analyze key data points to develop a defined profile selection strategy. Create an action plan and test it for effectiveness.
 - Develop a scorecard for originations, operations, and third-party originations to assist in your target selections. Your scorecard can highlight areas of concern for further review.

QC reverification strategy

- Actively track and manage reverification success rates. Examine all reverification types for outliers.
- Leverage free data sources when reverifications are inconclusive or when additional due diligence is needed

(e.g., internet search engines, public records, and social media).

- Maximize Desktop Underwriter® Validation Service execution rates to reduce QC reverification costs. Consider performing a discretionary sample review focused on determining the accuracy of the information in the vendor reports.

QC process management

- Missing documents can result in significant resource inefficiencies. Reinforce with operations management the importance of adequate staff training and processes to ensure all documents are in the file at the time of the QC review.
 - Can your loan origination system help correct or prevent missing document issues?
- Solicit feedback from all stakeholders to identify and remediate unnecessary bottlenecks or workarounds.
- Ensure your prefunding and post-closing reviews are calibrated. Use the same defect taxonomy and severities in both functions. This allows for more consistent QC feedback to improve defect detection and prevention.
- Complete a time study to identify defect remediation costs and determine if certain defects need to be corrected. Focus on the highest severity defects, or those that are most costly to cure.

QC vendor management

- Complete a thorough analysis of your QC vendor contract. Look for service charges that are above and beyond investor requirements (e.g., obtaining reverifications on loans that successfully used data validation).
- Complete portions of QC components in-house (e.g., selections, reverifications, obtaining transcripts, component review).
- Negotiate reduced pricing on partial component reviews.

- Review your discretionary sample size. (Is it appropriate, and does it address the key risks to your organization? Are you selecting the most effective sample or simply the same sample month-after-month with no findings?)
- Perform the required 10% vendor review. By monitoring their performance, you can ensure defects are being cited accurately.

Efficiency tools

- **Collateral Underwriter® (CU®):** See Fannie Mae [Lender Letter LL-2021-01](#) for more CU QC tips and requirements.
 - Prefunding – Target higher-LTV loans or loans with quality flags where value or eligibility could be impacted.
 - Post-closing – Identify and target highest-risk appraisals for a more comprehensive review.
- **QC reporting:** Use data visualization, analytics software tools, and third-party applications to improve QC reporting and trend analysis.
 - Data mining tools: Use data analysis tools (e.g., PowerBI, Tableau, and Google Charts) to search across multiple data sources to identify potential fraud, performance measures, specific defect trending, and other unknown areas of risk.
 - Analyzing data with a fresh perspective can reveal trends not previously identified through standard reporting.
- **Third-party tools:** Given the cost of third-party tools, ensure your organization is leveraging them effectively.
 - Perform a cost/benefit analysis of your risk tools to ensure the end results are worth the investment.
 - Be strategic. Use fee-based tools on targeted QC reviews with certain risk parameters to maximize the cost benefit (e.g., focus debt-monitoring services on loans with a DTI ratio above 40%).

- **Staff training:** Leverage free investor and industry trainings to help staff stay current on quality control trends, loan quality, and anti-fraud (e.g., [Loan Quality Learning Center](#)).

Next steps

A lender's QC function can significantly contribute to a strong culture of compliance, business profitability, and long-term organizational success when operating efficiently and effectively. Essentially, optimized quality control could pay for itself:

- Review your QC processes holistically to identify opportunities or areas to maximize budget and resources.
- Strategically target QC loan reviews to maximize existing tools and resources.
- Ensure resolution of QC gaps are timely, actionable, and aligned with your risk appetite.

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