



Effective quality control action planning

Action planning plays a crucial role in helping lenders improve loan quality. The Fannie Mae *Selling Guide* requires that lenders implement corrective action when defect trends are identified through the quality control (QC) review process. Monthly QC reviews should be used to identify areas of quality risk and implement critical action planning steps that will correct manufacturing gaps and reduce and eliminate defects.

Effective action planning should be a regularly recurring process conducted between QC and production teams. To measure the success of your action planning, implement a structured framework that allows management to compare against goals and targets while also monitoring whether known risks are being mitigated.

Just as not all defects are created equally, neither are all action plans. Recognize that each action plan has advantages and disadvantages, such as costs, time, and level of effort.

Ask yourself:

- Does your QC program currently have a formal action planning process that is kept up-to-date through periodic reviews and leverages the [Fannie Mae action plan template](#)?
- Are outstanding action plans actively managed to drive remediation of observed defects, prevention of recurring defects, and reduction of repurchase risk?
- Do your QC reports reflect an increase in gross or net defects? If so, does your action planning strategy address the following:
 - Are timelines set to track when you expect to see improvements?
 - Has a responsible party for the actions been identified?
 - Do you retest a control after implementation?
- Do you have dedicated action planning stakeholders who represent your key business groups?



QC considerations:

Corrective action vs. Action planning	<ul style="list-style-type: none"> • Corrective action is an action taken to address reoccurrence of specific risks or defect trends. • Action planning is a plan that records the root causes of defects and other factors that can drive decisions on steps to reduce the risk of that defect recurring. <ul style="list-style-type: none"> ◦ Successful action planning is contingent on having effective QC reports and summaries based on your reviews and other inputs. This data provides a basis to attack the top defect drivers and make a real impact on preventing defects, addressing root causes, and thus improving defect rates.
Defect analysis	<ul style="list-style-type: none"> • When evaluating your action plan steps, consider the defects identified in reviews completed by your organization (or QC vendor), investors, and by third parties. • Analysis should include initial (before any corrective actions are taken) significant defects and moderate findings.
Defect incidence and severity	<ul style="list-style-type: none"> • A best practice is to prioritize the most severe (with the most potential financial exposure) and most prevalent defects first. • Combine defects from all severity levels in the same category and continually address the top defect drivers. • An incidence and severity analysis can assist in establishing prioritization. <ul style="list-style-type: none"> ◦ Obtaining management’s buy-in on proposed action plan timelines and severity impacts is critical to the prioritization process.
Action planning to address the root cause	<ul style="list-style-type: none"> • Root cause analysis focuses on understanding the cause of a particular defect by determining who, what, when, and how. <ul style="list-style-type: none"> ◦ <i>Who</i> — the source (individual or department) responsible for originating the identified defect. ◦ <i>What</i> — the condition(s) that contributed to the defect (i.e., new policy, system issue, missing documents, training). ◦ <i>When</i> — at what time in the process did the defect occur? Don’t stop the first time you identify a defect because it could possibly manifest at more than one instance in the loan origination process, such as in origination and underwriting. ◦ <i>How</i> — by what means did the defect occur? (For example, through steps in the credit report review of inquiries; while performing the employment verification; during the appraisal/ Collateral Underwriter® review.)

QC considerations:

Deployment and monitoring

- Determine which QC review processes to deploy from the action plan to mitigate the risk for the defect(s) occurring. For example, leveraging the pre-funding QC review provides the opportunity to target and test the remedy early in the overall QC process.
- Prefunding tests can be augmented with post-closing discretionary reviews to further validate other steps in the manufacturing process did not adversely impact the remediation of a defect. Utilize component reviews to test for a specific item. For example, if a new income calculation program was launched, target samples with specific income types to ensure the calculation program is working effectively and staff is entering data correctly.

Documenting — memorializing the process

- Capture milestone dates in the action plans and identify staff, or action owners responsible for planned actions on established due dates. This is a common missing element that Fannie Mae observes in lenders' action plans.
- Be diligent and thorough in your documentation to establish evidence of your QC action plans for audit purposes.
- Capture data in real time to leverage previous solutions and remediation strategies for similar defects. This can help resolve issues more quickly. It can also provide lenders the opportunity to be proactive in a similar scenario – “if the market shifts, what type of defects did we previously incur in this cycle?”



QC considerations:

General

- Implement an action plan even if the defects or trends do not breach a target defect rate. This allows for more proactive, impactful QC. Managing only to a defect rate could result in recurring defects and certain manufacturing gaps to be overlooked.
- Not every defect requires an action plan; however, monitoring trends across all completed QC reviews may identify an issue that continuously occurs and requires attention.
- Just as not all defects are created equally, neither are all action plans. Recognize that each action plan has advantages and disadvantages, such as costs, time, and level of effort. These factors are important to consider when you are developing remedies for identified defects. Some examples are:
 - System fixes can be costly and take longer to implement. In these instances, a manual workaround might be a better short-term solution.
 - Training action plans can be deployed quickly but could erode over time with staff changes.
- Action plans should be clearly defined with appropriate timelines as well as expected improvement dates (dates when the organization should see material results from the implementation efforts).
- Create a collaborative environment with clearly identified accountability at all necessary steps.
- Examine previous action plans to see what action steps were effective and which might need further refinement.
- When a new product or policy change occurs, implement a new defect type to actively manage any unique associated requirements.
 - This helps the organization's preparedness and allows you to pinpoint where additional focus is needed in the manufacturing process.
 - Allows you to assess the financial risk or impact of the new product/policy change.
- Build in routine updates to management on the status of outstanding action plans so that any necessary adjustments can be made.



Next steps

Effective action planning is a key element of an organization’s QC program, enabling lenders to improve their loan quality and maintain low defect rates. Your QC program is incomplete without a formal process for acting on your QC results.

Remember, no action means no change.

- ✓ Review your current QC action plan to ensure it’s structured and rigorous enough to drive expected changes. Leverage the [Fannie Mae action plan template](#) to drive standardization and memorialization.
- ✓ Measure your action planning effectiveness and success rate for remediating observed defects, preventing recurring defects, and reducing repurchase exposure.
- ✓ Create a dedicated action planning committee with representation from key business groups and stakeholders.

Resources

[Selling Guide D1-1-01, Lender Quality Control Programs, Plans, and Processes \(8/7/2019\)](#)

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

[Fannie Mae action plan template](#)

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