Inside *Beyond the Guide*

Do you want to strengthen your organization's quality control (QC) program? The third edition of *Beyond the Guide* can help get you there. This recently released manual, designed for mortgage quality control professionals to complement the *Selling Guide*, provides lenders a roadmap for compliance with Fannie Mae's quality control policies.

Beyond the Guide offers hundreds of industry learnings, observations, and best practices collected and refined over the last 12 years. It is an essential tool for QC personnel and also for people who work in the mortgage business, including operations, enterprise risk, change management, fraud prevention, and data management.

This edition provides brand new content around QC strategies and concepts, reintroduces key principals in QC, and provides practical illustrations and examples to help you understand and implement these controls. Whether your QC program is big or small, simple, or complex, *Beyond the Guide* offers valuable information.

Continue reading to review a collection of highlights from *Beyond the Guide*.

Section 1: QC Plans and Processes

The Importance of a QC Plan and Regular Assessments of It

Much as a house has a foundation, a QC program has a plan that underpins its success. The QC plan needs to state the quality objectives and define how to achieve them based on the lender's business model and risk tolerance. The plan should be easy to understand and define controls. Lenders should create a cadence to review the plan to shape it so it remains relevant to the current risk environment and changing business needs.

Defect Rates – Gross vs. Net

A best practice is to track both the gross rate and the net rate with established targets for each. The gross defect rate tells the story of the total risk on a lender's book. The net defect rate tells the story of the defect rate after a lender has completed rebuttal activity on any defects. Though both defect rates are about the same underlying loans, they tell very different stories.

Section 2: Prefunding QC – Because It Drives Change!

Why Prefunding QC is Important

Prefunding QC can effect change before mistakes are final and material impacts are realized, saving lenders both time and money. By utilizing the flexible nature of prefunding, QC can both seek out and target risks on specific loans and in the broader pipeline.

The loan reviews are notably actionable, as closings of ineligible loans can be prevented, and corrections to individual loans can be made. Zooming out, lenders can test large batches of loans with specific characteristics – rental income, for example – to confirm the manufacturing process is sound or that guardrails need to be improved or created.

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Sampling Strategy in Prefunding QC

Beyond the Guide shares strategies to pull risk forward and ensure lenders are dealing with issues prior to closing. By measuring the **defect capture rate**, lenders can understand the effectiveness of their sampling. With minimum loan sampling requirements in place, lenders may wish to rethink their sampling strategy by putting emphasis on one or multiple targeted samples to identify and stamp out high-risk areas of their business. In many cases, samples that generate high numbers of defects are a good thing; it's indicative of an effective sampling strategy that is pulling risk forward.

Section 3: Post-Closing Quality Control

Sampling Strategy in Post-closing QC

Effective QC sampling is fundamental to ensuring your organization has **visibility into quality risk**. This allows you to leverage actionable insights about the effectiveness of your operational controls and make well-informed QC sampling decisions. Markets, staff, and loan profiles change over time, and top defects shift as action plans are implemented to remediate and eliminate top issues. Be attentive to your samples and carefully identify areas of new or potential quality risk.

Reverification Tracking in Post-closing QC

Reverification is the process of obtaining new documentation (not a replica) to verify the accuracy and integrity of the information used to make the lending decision. The reverification process substantiates there were no material changes in the income, employment, assets, and liabilities that affect the eligibility of the loan for sale to Fannie Mae.

Reverifications are a critical control in your organization to help manage fraud risks that evolve as markets evolve. With data from many sources coming in, and with QC deadlines to meet, staying organized is critical to a high reverification success rate. A tracking system can be a simple spreadsheet or a more powerful database; in either case, tracking the return time and party to whom the request was sent can help lenders identify gaps in returned reverifications.

Section 4: Red Flags, Fraud Detection, and Managing Risk Tools

Effective Implementation of Fraud Tools

Effective implementation of automated risk tools requires a thoughtful approach. As the lending process continues to become more automated, the right technology is critical to lenders' success. When utilizing a tool, it is important to understand each tool's strengths and weaknesses and where gaps or blind spots may exist. For example, an undisclosed debt monitoring tool may only be looking at data from one credit bureau, potentially missing liabilities reported to additional bureaus. When a lender decides to bring a tool into the workflow, it is key to ensure it's customized for the company's desired risks.

Section 5: Collateral Risk Assessment for Prefunding and Post-Closing QC

The Four Components of Appraisal Review

Validating the quality of the origination appraisal helps to ensure lenders have an accurate view of quality risk. An effective strategy is to break an appraisal review into four parts: data integrity, comp selection, adjustments, and reconciliation. Using a variety of tools, lenders can begin their QC review by confirming the subject property is described accurately. From there, a review of the comps is warranted to see that the appraiser used the most similar properties available.

Once those two items are validated, a review of the adjustments is required to confirm specific changes to value before, lastly, making sure the most relevant comparables were given the most weight in the analysis. Leverage Form 1033, created by Fannie Mae to help manage collateral risk assessment, to establish the quality of your appraisals and strengthen your post-closing QC.

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Section 6: QC Reporting

Defining Your Audiences for Reporting and Telling the Story

Reporting is a critical element of any QC program, summarizing insights from the multitude of file and data reviews into actionable insights for the organization. The foundation of effective communication is to define and know your audience. The reports lenders create for various audiences – senior management, department managers, the front line, and the back line – should be targeted to deliver role specific insights that are actionable. Reporting must tell stories, the first of which should be a concise description of takeaways for that reporting cycle. Scorecards may be utilized to give more granular looks at teams or specific individuals along with loan types and loan characteristics.

While seemingly simple, all the variables that make up a problem can contribute to over-complicating the overarching issue. Objective analysis of the data available to you – metrics, risk parameters, personnel performance – is critical to defining your problem, which should articulate to stakeholders the scope, current impact, and future consequences of inaction.

Once the problem is in writing and will make sense to key audiences, QC then becomes the facilitator of the action required to solve the problem, while other business stakeholders – operations and technology, for instances – work to solve the problem. As the facilitator, QC personnel can also become challengers and thought leaders to identify issues with potential solutions and by making sure the problem stays in focus.

Section 7: Corrective Action and the Action Plan

Stage One of Action Planning

Lenders combating high defect rates are often missing effective processes related to root cause analysis. *Beyond the Guide* offers best practices implemented by successful mortgage lenders to help them be more effective.

Corrective action is the process of identifying and fixing the root cause of a problem to prevent it from happening again. A key component of corrective action is the action plan. An action plan is a document that lays out the steps required to fix a problem. Stage one of action planning is defining the problem.

Next steps

Beyond the Guide addresses not only the practical application of the *Selling Guide* requirements, but also provides ideas about how to enhance your QC program. Start reading *Beyond the Guide* today and help build a more effective, efficient and nimble QC program.

Resources

Beyond the Guide

Form 1033

Want more Quality Insider?
Get the inside scoop to get the most out of your quality control processes. **Read now ›**

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