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Section 2 Summary

[Sample Client] developed this quality control (QC) policy and procedure guide in accordance with the institution's Enterprise Risk Management Plan and its Compliance Management System, as guidance and reference for developing the operational quality control plan. This guide sets forth the specific methodology under which [Sample Client] conducts quality control reviews across origination and servicing.

[Sample Client]'s quality control program is guided by this document.

2.1 Quality Control Plan

[Sample Client]'s quality control plan establishes, monitors, and re-evaluates various internal components of the company to ensure the highest level of business practices. The quality control plan also sets forth the steps and procedures for dealing with external components of the company, including third-party originators (TPOs) and [third-party service providers](#). Various components of the quality control plan function as an early detection warning system to identify documentation errors, compliance violations, fraud, or misrepresentation by internal or external representatives of the company.

The quality control plan is developed and implemented to comply with specific requirements stipulated by [Sample Client]'s internal credit policies, warehouse and correspondent lenders, insurers, private secondary market conduits, government agencies, and government-sponsored enterprises (GSEs).

The quality control plan also incorporates applicable [consumer protection-related laws and regulations](#) including, but not limited to, the following:

- Bank Secrecy Act (BSA) and Anti-Money Laundering (AML)
- Electronic Signatures in Global and National Commerce (E-Sign) Act
- Equal Credit Opportunity Act (ECOA), Regulation B
- Fair and Accurate Credit Transactions (FACTA), Regulation V
- Fair Credit Reporting Act (FCRA), Regulation V
- Fair Debt Collection Practices Act (FDCPA), Regulation F
- Fair Housing Act (FH Act)
- Flood Disaster Protection Act (FDPA)
- General Data Protection Act (GDPR)
- Gramm-Leach Bliley Act (GLBA)
- Home Mortgage Disclosure Act (HMDA), Regulation C
- Homeowners Protection Act (HPA)

Sampling Methodology	Sampling Requirement
Random Selection	Select a minimum of 10% of non-originated mortgage loans (such as denied or withdrawn) for the audit period. If 10% is less than one loan, then at least one loan is selected.

Sampling Methodology - Servicing

Sampling Methodology	Sampling Requirement
Random Selection	Select at least 10% of the prior period’s activity in accordance with the applicable agency provision for each audit area.

2.4 Risk Ratings of Quality Control Exception Items

Quality control [findings](#) generally fall into several categories that are usually documented in management reports as “risk ratings.” A minimum of three categories are required, with the most severe rating including fraud and/or misrepresentations. Risk ratings can be delineated as follows:

Risk Rating	Description
1	Minor deficiencies, errors, omissions, unsigned forms. The errors are determined to be unintentional, and no remediation is required.
2	Noncompliance with regulations, such as issuance of Loan Estimate more than three days after the application date, and minor or unintentional errors and omissions, which require remediation, such as a missing signature on a W-9 form or a missing officer’s signature on an assignment.
3	A loan that was closed without following the underwriter’s conditions or approved without following the government agency and GSE guidelines. These loans must be rated as a moderate/high level risk because there is no remediation that can make the loan compliant.
4	Misrepresentation by a borrower who provides bogus documentation or false information on the mortgage application or other supporting documents. This type of borrower misrepresentation is for the purposes of obtaining loan approval with full intent to repay.
5	Intentional acts to defraud the lender with no intent to repay the mortgage. Examples include “loan flipping” made possible through a series of bogus transactions and/or fraudulent or overstated

	appraisals. This type of fraud may involve fabricated borrower information and/or sales contracts.
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2.5 Audit Reporting

[Sample Client] ensures all errors, omissions, and noncompliance matters are documented and included on management reports. For all deficiencies and violations, memoranda are issued to personnel and supervisors. Reasonable time is allowed for remediation responses. Quality control personnel and/or management follows up to ensure that proper remediation was completed.

Management reports cover quality control results at a high level by focusing on defects and broad trends that are revealed by the review process, as well as identifying mortgage loans or items that need specific corrective action.

At a minimum, [Sample Client]'s post-closing quality control reports must be produced monthly within 30 days after the month in which the QC review is completed, and must meet all the following criteria:

- Record the final defect rate for the results of the current review period, considering responses and resolution of the initial quality control findings
- Include trending information, issues, and top defects
- Distinguish between defects related to compliance with federal, state, or local laws and regulations and underwriting and eligibility defects
- Report on each type of review, both random and discretionary, and provide results using consistent methodology and terminology across review types
- Include intended corrective actions
- Summarize the results of each individual review type in a comprehensive, summary report of all quality control findings

Trending Reports by Originator or TPO

[Sample Client]'s quality control plan will include the full scope of production by all originators and third-party originators (TPOs). New originators will undergo a quality control review for the first few loans, as deemed appropriate by management. The quality control steps and procedures will include pre-funding spot reviews on a per originator or per TPO basis for a reasonable percentage of production. Management personnel must address and take proper disciplinary action with respect to any originators who demonstrate a pattern of violating any requirement of RESPA, pricing, application steps counseling, or initial consumer disclosure requirements.

Trending Reports by Settlement Agent

Section 4 Pre-Funding Audit Process

[Sample Client] will complete its pre-funding quality control requirement in accordance with the specific practices required by the secondary market agency. The reviews are to be performed after approval, but prior to closing, allowing adequate time for review and suspension if significant findings are discovered. Pre-funding quality control reviews should include an assessment of the underwriting for each loan in accordance with [Sample Client]'s guidelines, and GSE, agency, and investor overlays, as applicable. This section describes the steps generally acceptable to institutional investors.

4.1 Social Security Number Verification

The pre-funding quality control review will determine if the Social Security numbers of all borrowers were validated. File documentation should address identified discrepancies or include explanations. Supporting documentation provided by fax or printed e-mail communication by the borrower should be noted by quality control. Any borrower name or Social Security number listed on the Office of Foreign Asset Control (OFAC) list, the HUD LDP List, or other security list is a red flag that must be investigated and cleared before the loan can be closed. All Social Security number verification and documents must comply with [Sample Client]'s USA PATRIOT Act and FACTA Red Flags Identity Theft policies and procedures.

4.2 Red Flag Detection

[Sample Client]'s pre-funding quality control file reviews must include a step to determine if the requirements of the FACTA Red Flags Identity Theft policies and procedures were met by the underwriting and loan processing departments. Each mortgage application must be examined to ensure that any noted red flags were properly mitigated. If red flags are discovered during the pre-funding review and cannot be mitigated, quality control staff must follow established procedures in the quality control plan for the postponement or cancellation of settlement or escalation to senior management for additional review.

For outsourced quality control, the compliance officer is responsible to ensure [Sample Client]'s quality control administrator monitors the quality control efforts of the service provider and that the red flag monitoring is included in management reports. Any exceptions noted in the quality control findings report require remediation and management response. Corrective action may include acceptable curing options for the borrower file and/or employee training.

4.3 Address Discrepancies

[Sample Client] must ensure that pre-funding quality control monitors whether the company immediately responded to all notices of address discrepancy received from the

Section 6 Non-Originated Audit Process

[Sample Client] performs a review of a sampling of non-originated mortgage loans, such as denied or withdrawn, for the audit period. At a minimum, [Sample Client] will review the following:

- The Loan Estimate (LE) was provided to the applicant at application or within three business days of receipt of the application.
- A revised Loan Estimate (LE) was provided within three business days of receiving information sufficient to establish a valid changed circumstance, or at rate lock, if appropriate.
- A List of Homeownership Counseling Organizations was provided to the applicant at application or within three business days of receipt of the application.
- The Your Home Loan Toolkit Booklet was provided to the applicant in a purchase transaction at application or within three business days of receipt of the application.
- The Notice to The Home Loan Applicant was provided to each applicant at application or within three business days of application.
- A Credit Score Disclosure was provided to each applicant that specifies the credit scores used in setting material terms of the credit granted, extended, or otherwise provided as soon as reasonably practicable after the credit score was obtained, but in any event at or before final action.
- Notice of Incompleteness was provided to the applicant within 30 days of receipt of an incomplete application.
- The applicant's ethnicity and race, sex, marital status, and age were collected on the Demographic Information Addendum
- The file reflects accurate data for HMDA application, transaction, and property reportable data fields.
- The borrower was notified of the action taken within 30 days of receipt of the complete loan application.
- In a loan that was withdrawn, the file documents the circumstance of the withdrawal, including a copy of the written message from the applicant (such as email or written correspondence) or the basic substance of the conversation between the applicant and the loan officer evidencing the withdrawal.
- In a loan that was denied, the file evidences a second-level review was complete, and the file documentation fully supports the reasons for denial, clearly demonstrates fair treatment of the applicants, and shows a good faith effort to consider the entire financial picture of the applicants before denying the credit request.
- In a loan that was denied, the notice of action taken contains the specific reasons for denial, the name and address of the creditor, credit score, and CRA details if the reason for denial was based on the credit score or information obtained from a CRA, or all required disclosure language.

Section 7 Servicing Audit Process

The individuals or department assigned by [Sample Client] for quality control must ensure that loan servicing quality control reviews are performed in compliance with its requirements and those established by the agencies, insurers, guarantors, investors, and federal laws and regulations.

The reviews will be conducted monthly, quarterly, semiannually, and annually as required by agency mandates and/or federal law and regulations.

The findings of the quality control reviews must be reported to senior management and the agencies in the format and timing required by [Sample Client], agencies, or regulation.

Monthly Reviews

[Sample Client] will conduct a quality control review at least monthly.

The review will include mortgages originated by [Sample Client] and by TPOs, if applicable.

The review must include, but should not be limited to, the following items:

- Early payment defaults
- Delinquent loan servicing
- Bankruptcy proceedings
- Loss mitigation and forbearance including delinquent and imminent default loans
- Foreclosures
- Claims reporting
- Investor reporting
- A review of the mortgage insurance certificate to determine if a premium is due for recently purchased loans
- Subservicers' compliance with [Sample Client]'s, agency requirements, and state and federal laws and regulations

Quarterly Reviews

The quality control reviews that must be completed quarterly include, but are not limited to, the following:

- New loans, servicing transfers, and acquisitions
- MIP/PMI billings
- Deficiency judgments
- Customer service

Section 8 Subservicer Audit Process

The process of reviewing subservicers may be performed by [Sample Client] or assigned to a third party in compliance with [Sample Client]'s and agency policies. Regardless of the process, [Sample Client] will maintain records of all reviews to include at least the following:

- Date of the last review
- Date of the current review
- Areas of subservicing operations reviewed
- Identification of the persons performing the review
- Summary results and trending of the last review

8.1 Annual Reviews

As part of the subservicer annual review, [Sample Client] must review, assess, or evaluate the following items/areas:

- An on-site review of the subservicer's facilities is performed
- The overall effectiveness of the subservicer relationship is evaluated, including adherence to contractual Service Level Agreements (SLAs)
- Most recent balance sheet and income statement
- Complete copies of errors and omissions and fidelity bond insurance policies
- Copies of most recent USAP and SASE 16 (former SAS70) audits, if applicable
- Current organizational chart broken down by functional area
- Resumes of senior and key personnel
- All IT systems for loan servicing
- Evidence of FHA, Fannie Mae, or Freddie Mac approval in good standing
- Copies of most recent FHA/VA/RD/Fannie Mae/Freddie Mac field review reports, as applicable
- If applicable, evidence of approval in good standing of the subservicer's primary regulator
- Training programs and training materials
- Privacy policy and policies on the collection and disclosure of personally identifiable information
- Policies and procedures related to record retention
- The subservicer's policies relating to internal controls and security issues
- The subservicer's business resumption contingency planning and testing program