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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.

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.

used for checking the Limited Denial of Participation (LDP) List to ensure that appraisers have not been disbarred from doing FHA or VA appraisals.

2.6 Remediation of Exception Items

The quality assurance manager and members of senior management must review exception reports. For all deficiencies and violations, memoranda are issued to personnel and supervisors. A reasonable time is allowed for remediation response. Quality control personnel and/or management must follow up to ensure that proper remediation has been completed. [Sample Client] will issue memoranda to appropriate internal departments, branches, and personnel to cure documented minor deficiencies and correct errors, where possible. An incorrect or inconsistent property address, for example, is a minor exception. Major exceptions such as fraudulent VOEs and credit documentation, are noted and trended.

Deficiencies involving third-party service providers will be addressed by appropriate management staff. The quality assurance manager or vendor management department will place the service provider under a watch or pending list and increase “spot” appraisals. [Sample Client] will terminate services of any provider who fails to improve quality standards and/or remediate errors and deficiencies.

2.7 Management Action Plans

Quality control management evaluates deficiency and violation trends and produces trending reports. If no action is taken to remediate observed defects and prevent recurring defects, formal management action plans (MAPs) are initiated to correct issues and provide improvement in policies, processes, controls, security, and other areas.

[Sample Client] maintains a current corrective action plan including continued monitoring of necessary process changes or effects of additional training or other corrective actions.

Section 3 Quality Control Requirements

[Sample Client]'s quality control plan encompasses specific requirements stipulated by government agencies and government-sponsored enterprises (GSEs), as summarized below.

3.1 Fannie Mae Requirements

[Sample Client] is responsible for ensuring the mortgage loans sold to or owned by Fannie Mae meet Fannie Mae's eligibility, underwriting, and servicing requirements.

[Sample Client] complies with Fannie Mae's Lender Quality Control Requirements as outlined in the Fannie Mae Selling Guide, Part D: Ensuring Quality Control (QC), and makes use of tools and guidance offered by Fannie Mae on the [Loan Quality](#) page of its website.

- [Beyond the Guide](#) is a Fannie Mae publication, separate from its Selling Guide, which provides tips to ensure effective quality control and a framework for ensuring quality through the life of a loan.
- [Quality Control Self-Assessment Worksheet](#) is a Fannie Mae tool that helps lenders adhere to the Selling Guide requirements and includes best practices for quality control.
- [Loan Defect Taxonomy](#) is a Fannie Mae reporting tool structured to support an accelerated root cause analysis of loan quality data.
- [Prefunding and Post-Closing QC Requirements Frequently Asked Questions](#) is a Fannie Mae document that provides responses to questions about prefunding and post-closing QC policies.

Additional tools on the Fannie Mae website include best practice samples for file reviews, loan defect categories, and guidance for compliance and performance reviews.

[Sample Client] incorporates relevant Fannie Mae guidance in its quality control plan.

3.1.1 Origination Quality Control

[Sample Client] monitors its compliance with Fannie Mae's requirements through regular QC procedures it establishes and conducts, maintaining adequate QC procedures and systems for the following:

- Ensure that loans comply with applicable federal, state, and local laws and regulations
- Ensure that loans comply with Fannie Mae's Selling Guide, all related contractual terms, and agreements, and are in all respects eligible for delivery to Fannie Mae