

# MPF® Program Quality Control Plan Requirements

March 2024



# About this Material

This material is based on the current information in the **MPF<sup>®</sup> Program Guide** as of the date of training. It should not be used in place of the MPF Program Guide. The MPF Guides are the governing documents and control in the event of discrepancies between the information in this presentation and the MPF Guides. The official version of the MPF Guides are available at [www.fhlbmpf.com](http://www.fhlbmpf.com) and through AllRegs<sup>®</sup>.

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# Agenda

**General Quality Control Plan Requirements**

**Pre-Closing QC Plan Requirements**

**Post-Closing QC Plan Requirements**

**Post-Closing Verifications**



# General Quality Control Plan Requirements

# Quality Control Plans

**Your organization is responsible for developing and maintaining a QC plan that meets MPF Program requirements**

- **Must state your QC philosophy and plan objectives.**
- **Includes the risks you intend to measure, monitor, and manage.**
- **Must outline the methods for identifying, categorizing, and measuring loan defects and trends against a targeted defect rate.**

- **Each Federal Home Loan Bank reviews QC plans on a periodic basis**
- **If any loan is repurchased under the MPF Xtra<sup>®</sup> product, a QC plan review and a review of sampled pre/post-closing files is required by Fannie Mae\*.**

\*Reviews are performed by the MPF Program QC staff.

# General Requirements

- QC plans must be in writing.
- QC procedures must exist for everyone involved or impacted by the QC process.
- Performance records of both pre- and post-closing QC reviews should be maintained.
- Complete QC performance and remediation records must be retained for no less than **3 years**.



**Note:** The general requirements listed in the presentation are not all-inclusive. Please refer to the **MPF Program Guide Chapter 8** for more details.

# General Requirements

- Outline how the post-closing QC process is kept independent of the origination, processing and underwriting departments.
- Include the selection process for the sampling of both **random** and **targeted** loans.
- Include procedures for Early Payment Defaults (EPDs)



# Early Payment Defaults

## An EPD is defined as:

- a. A conventional loan that becomes delinquent within the first 12 months of the borrower's first payment and subsequently becomes 90 days past due within the first 14 months.
- b. A conventional loan that becomes delinquent within the first 6 months of the borrower's first payment and subsequently becomes 90 days past due within the first 9 months.
- c. A conventional loan that becomes delinquent within the first 9 months of the borrower's first payment and subsequently becomes 90 days past due within the first 12 months.

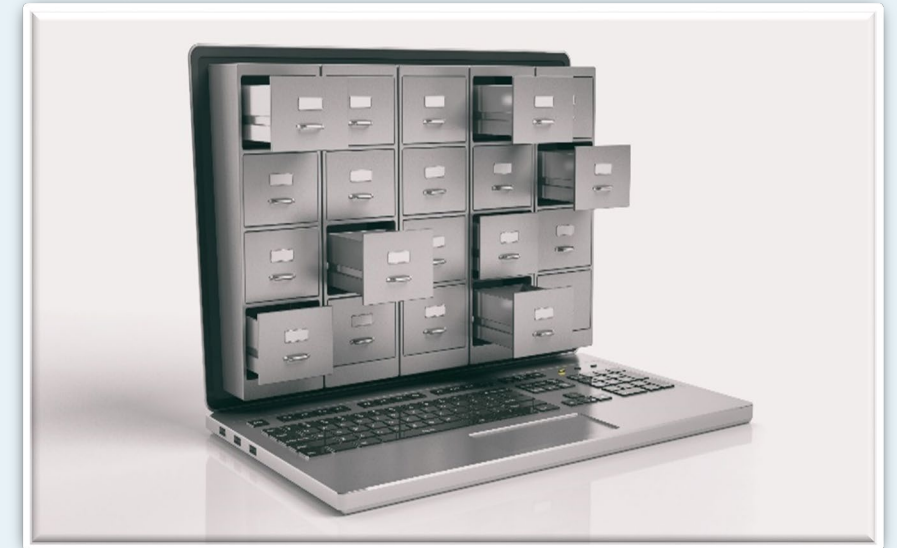
**The answer is a.**





# General Plan Requirements

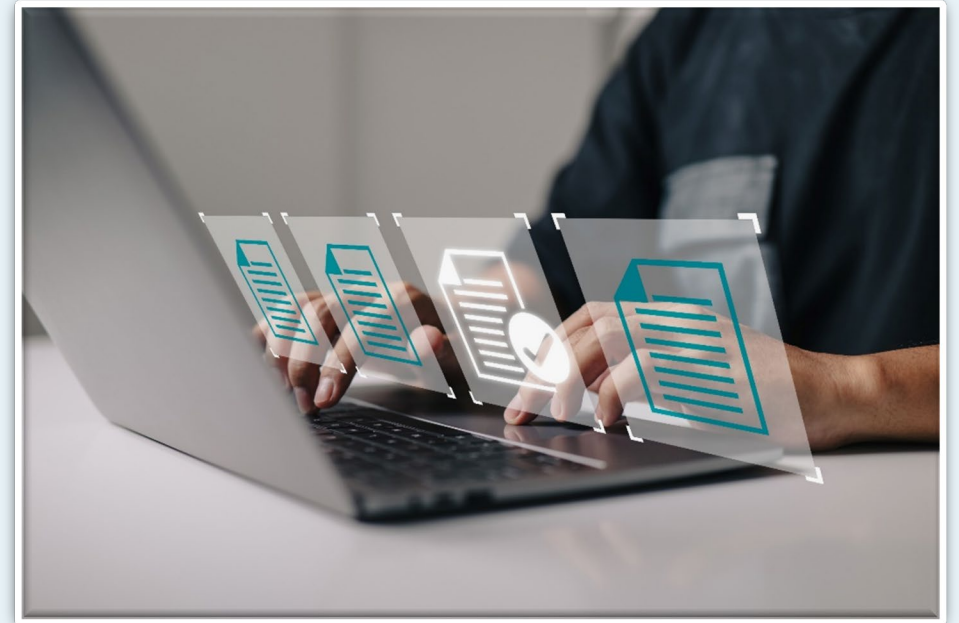
- **Plans must include a process for maintaining QC files, records, and reports**
  - Loan files reviewed
  - All related documentation and remediation details
  - Document where the records are housed
- **Written procedures must exist for reporting review results/findings**
  - Outline the components included in the reports
  - Distribution of the findings (to whom and how often)
  - Timing requirements to resolve issues
- **If applicable, include a process for reviewing all QC work performed by vendors.**



# Identifying Defects

Plans must include the process for sampling loans through both a **targeted** and **random** selection process

- If multiple origination channels exist (i.e., retail, correspondent, or third-party originations), sampling procedures must be included for each channel.
- Loans originated under all MPF products (if applicable).
- Loans underwritten manually and with an AUS.



# Loan Defect Severity

## True or False?

The MPF Program's defect severity levels must be used for all QC plans.

**False.** Defect severity levels may be designed to reflect each organization's reporting needs.

**Important:** In all cases, the highest level of severity must be reserved for loans that are not eligible for delivery to the MPF Program.

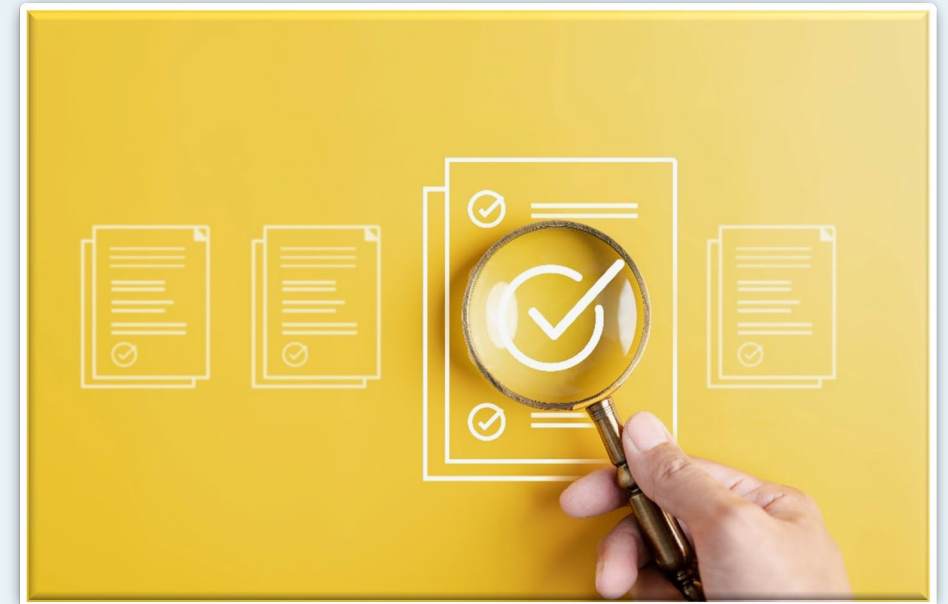
- At a minimum, any loan with a defect must be identified.
- All loans with defects must be categorized based on the severity of the defect.

# Pre-Closing QC Plan Requirements

# Pre-Closing Sample File Selection

**Your pre-closing QC process should operate independently of your loan production department, if practical**

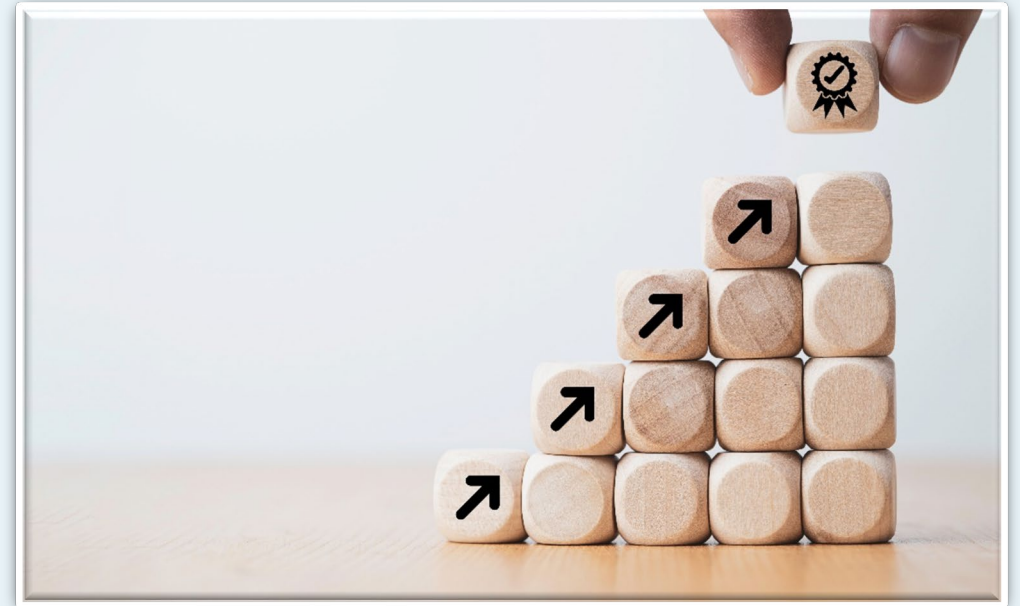
- Pre-closing reviews should be performed by individuals who were not involved with the processing and underwriting of the loan.
- Your QC plan should contain the requirements for full reviews of loan files that include the analysis of all data and documents.
- Selection methodologies must be periodically re-evaluated to accommodate results from prior reviews.
- Changes to your selection method may also result from new product offerings, staff or business partner changes, etc.



# Pre-Closing QC Requirements

The following information about pre-closing reviews should be outlined in your QC plan:

- **Timing** of your pre-closing reviews
- Your loan **selection** process
- The **verification process** for data and documents
- **Reporting** details



# Timing

## Sampling must be timed to allow for:

- Every loan within the selected population to have a chance of being selected for review.
- Adequate time for the completion of the pre-closing reviews so origination personnel has time to make corrections before closing.
- For each 12-month period, all samples (both pre- and post-closing) must represent the full scope of your production and products.



# Sample Selection Process

The sampling selection process should include random and targeted loans

Can you name some loan characteristics that must be included in your selection sampling methodology?

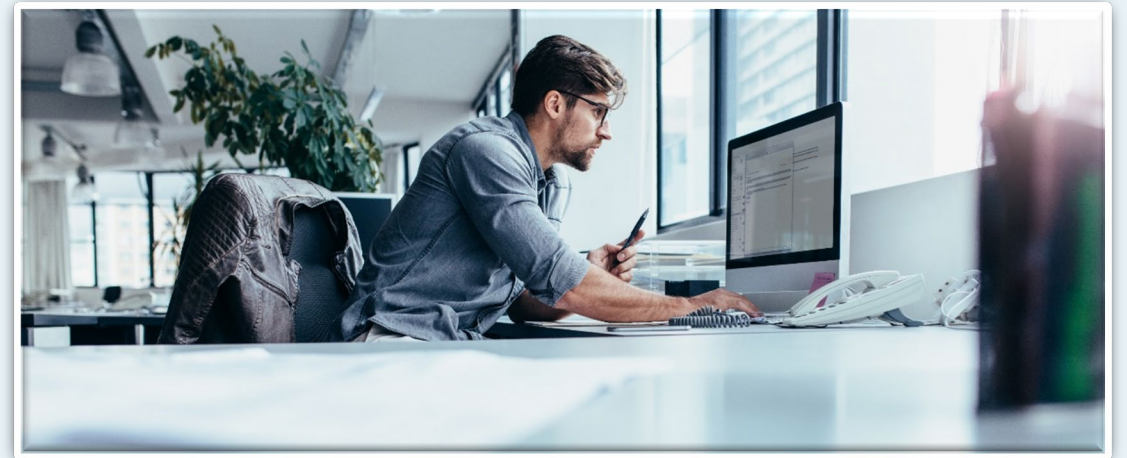
## Targeted File Examples

- **Loans with multiple layers of credit risk**
  - Loan-to-values over 90%, credit scores below 660, self-employed, cash-out refinances, high debt-to-income ratios
- Loans secured by all property types (condos, PUDs, 2-4-unit properties)
- Loans handled by new hires, appraisers or other personnel involved with the loan process
- Loans underwritten by all underwriters
- Complex income calculations or less common underwriting scenarios



# Pre-Closing Verifications

**Pre-closing QC reviews should be conducted after final loan approval or at the very least, be completed when there is sufficient documentation in the file to verify all loan data and documentation.**



# Pre-Closing Verifications

**Information needed to be reviewed should include (and is not limited to) the following:**

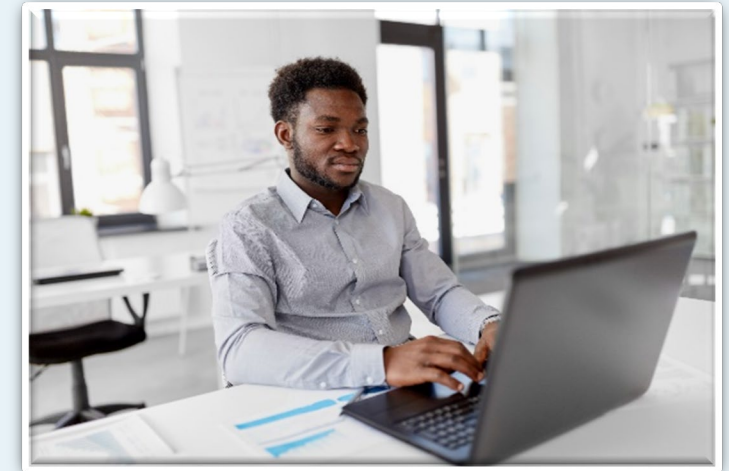
- Make certain that data entered in DU or LPA is accurate
- Confirm all documentation required in the AUS feedback is present
- Is the borrower's identity verified?
- Verify the borrower's SSN or ITIN
- Is all required employment documentation present\*?
- Is the qualifying income calculated correctly?
- Are the assets verified and do they satisfy funds to close and reserve requirements?

*\*A verbal verification of employment (VOE) may be performed during the pre-closing review when the review occurs just before the closing date.*

# Pre-Closing Verifications (continued)

- Review the appraisal.
- Watch for any closing conditions set by the underwriter.
- If there's mortgage insurance on the loan, document that it is adequate, and coverage is in place.
- If the property is a condominium, ensure it meets the project eligibility and has been reviewed according to the applicable review type. Confirm that the documentation is present to support the review type and decision.

*As a reminder, pre-closing reviews must be performed by personnel other than those with a vested interest in the closing and at a minimum, be conducted by individuals who not be involved with the processing and underwriting decision of the loan being reviewed.*



# Pre-Closing Reporting

Your QC Plan must include information about your internal process for reporting loan defects identified during the pre-closing review process

- Monthly reports to senior management
- Reporting defects to parties responsible for resolving the issues
- Document how defects were resolved

**At a minimum, the reports must include:**

- A description of the sample selection
- Any trending defect information

**NOTE:** all pre-closing QC findings should be summarized into one report.

# Post-Closing QC Plan Requirements

# Post-Closing QC Plan Requirements

**Post-closing QC reviews must include both random and targeted samples**

**Random samples may be chosen by either:**

- **A statistical sampling method/model\***
- **A percentage of loans closed**

**The selected method must be specified in your QC plan**

**Post-closing QC reviews also require the review of closing documents to ensure the information is accurate, complete, consistent and compliant.**

\*Please refer to the MPF Program Guide for more details about statistical sampling requirements.



# Post-Closing Random Sampling

When randomly sampling a percentage of closed loans, at least 10% should be selected.

The 10% sampling pool can come from of any of these categories:

- Total mortgage production
- Total secondary market production
- Total MPF Program production/deliveries



# Post-Closing Random Sampling

Number of Loans Closed During the Month	Requirements
10 or more	<p>Randomly sample 10% of the closed loan files by the last day of the following month.</p> <p><b>Example:</b> 16 loans were delivered in February. Randomly select 2 loans and complete the reviews by March 31.</p>
Less than 10	<p>Reviews may be deferred* for up to 3 months until 10 loans are closed but after 3 consecutive months, at least one file must be reviewed by the last day of the following month.</p> <p><b>Example:</b> There were 5 loans delivered in December, 3 loans in January, and 1 loan in February. Select 1 file for review by March 31.</p> <p><b>Example:</b> There were 5 loans delivered in December, 3 loans in January, and 9 loans in February. Select 10% (2 loans) and complete the reviews by March 31.</p>

\*If sampling is done over the extended 90-day period, notify your MPF Bank if the sampling cycle will be in arrears for any reason.



# Post-Closing Defects Rates

Plans must establish a post-closing *target defect rate* that reflects your organization's quality standards and goals

- Based on your post-closing **random** QC samples.
- **At a minimum, a target defect rate must be established for the highest level of severity.**
- **Target defect rates are optional (but recommended) for:**
  - Lower severity level post-closing reviews
  - Pre-closing QC reviews
  - Targeted QC reviews

## Target Defect Rate Reminders

- Target defect rate(s) should be set as low as possible.
- They should be measured at least quarterly
- Must be evaluated and if necessary, re-set annually.

# Post-Closing Targeted Samples

- There should be a process outlined in your plan for selecting targeted post-closing loan samples.
- The sampling should consider risks that may be present during the **origination and closing** process.
- The process must be reviewed regularly and when necessary, adjusted to ensure that the sample selected, including sample size, is appropriate.
- Loans selected for post-closing targeted QC reviews must concentrate on areas that have a higher potential for errors, misrepresentations and fraud.
- **Many of the same characteristics noted in the pre-closing targeted sampling methodology apply to post-closing reviews.**



# True or False?

**Post-closing samples may exclude loans that underwent a pre-closing QC review.**

**False.**

**If a loan is chosen that was subject to a pre-closing review:**

- Examine the pre-closing QC review report and verify that any deficiencies from that review were cured prior to closing and;
- Reverify only the items that were not satisfactorily validated, verified, or cured because of the pre-closing QC review.



# Post-Closing Verifications

Post-closing verifications should ensure that the final terms of the loan align with that of the underwriting decision

If DU or LPA were used, all data submitted to the AUS must be true, correct and complete.

- Make sure the file contains the documentation to support the submitted data.
- Confirm that all the borrower's liabilities were included in the AUS analysis.



# Post-Closing Verifications

## When discrepancies are discovered, these steps must be followed:

1. Determine if the discrepancies are within the permitted tolerances.
2. **If underwritten with DU or LPA** and they are outside of the tolerances, re-submit using corrected data. If unable to resubmit, the loan must be manually underwritten according to the manual underwriting guidelines.

**Manually underwritten loans:** If discrepancies cause the total debt ratio to increase by 3% or more, the loan must be re-underwritten to determine if it meets MPF Program guidelines.

**Some MPF Xtra loans require DU and an Approve/Eligible finding.**

Those loans cannot be manually underwritten during the post-closing review process. If re-submitted through DU and an Approve/Eligible finding is not returned, the loan is ineligible.

# Post-Closing Verifications

3. Determine if the loan remains eligible with the corrected data.
4. If the loan is eligible as delivered, document the underwriting file to reflect this decision.
5. If the loan is not eligible as delivered, the MPF Provider must be notified of these findings.



# Post-Closing Reverifications

When information from the reverification process differs from the information used for the underwriting the loan, the loan must be re-underwritten to determine if it remains eligible.

- For **targeted** samples, reverifications should be limited to those that apply to the reason the loans were selected under the targeted sample's criteria.
- **Example:** If the purpose of a targeted selection was to focus on income calculation, the reverification of assets and/or credit is not necessary. Only the reverification of income and employment is required.



# Reverifications: Employment and Income

## All employment and income documentation used in the original underwriting process must be reverified

- If tax returns were not obtained prior to closing, tax transcripts must be obtained for the post-closing review using Form 4506-C (signed at closing).
- Reverification of employment should be in writing, but a verbal reverification may be permitted if the following information is documented in writing:
  - Name of your organization
  - Name of the borrower's employer
  - The name and title of the person contacted at the employer
  - The date of the conversation
  - Whether or not the information in the original verification was accurate and if not, disclose the nature of the inaccuracy.





# Reverifications: Source of Funds

## The source of funds used for closing should be reverified

- Confirmations should be obtained by sending the issuers copies of the original verification documentation with a request for validation.
- The reverification should be in writing, but a verbal reverification may be accepted provided it is documented (see the previous slide).
- In the rare instance that an asset verification cannot be obtained from a financial institution, document the attempt with a copy of the request with a note that states the date the information was requested and that it was not returned by the financial institution.



# Reverifications: Credit Reports

The borrower's credit history must be reverified for all loans chosen via random selection

- A new tri-merged report is required.
- If non-traditional credit was utilized, each of the credit references on the report must be reverified.
- The new and original reports must be compared for discrepancies or the existence of any debt that wasn't taken into consideration when the loan was originally underwritten.



# Reverifications: Owner Occupancy

**The post-closing QC review must include a verification of owner-occupancy for all loans secured by a primary residence**

- Review the property insurance policy and any other documentation to confirm there is no indication that the property is not the borrower's primary residence.
- Watch for a change of address after closing (servicers).



# Summary

## It's important to ensure that your Quality Control Plan meets the requirements of the MPF Program

- Information about plan requirements can be found in **Chapter 8** of the **MPF Program Guide**.
- A robust QC plan may help uncover staff deficiencies and prevent future errors.
- **A successful QC program results in fewer findings and repurchases!**



# MPF Contacts and Resources

## MPF Service Center

- Email - [MPF-help@fhlbc.com](mailto:MPF-help@fhlbc.com)
- Hours - 8:30 am to 4:30 pm CST
- Phone: (877) 345-2673

## MPF Quality Control

[mpfinvestordirectqc@fhlbc.com](mailto:mpfinvestordirectqc@fhlbc.com)



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