

Ask Tommy: Your QC Expert



By Tommy A. Duncan

Red Flag Rules made simple for the mortgage broker

The Federal Trade Commission's Red Flag Rules (RFR) is set for May 1, 2009, and many mortgage professionals are looking for a way to have a plan ready by May. I have received numerous calls from mortgage professionals looking for an affordable and simple way to create a RFR Plan or Program. Many mortgage brokers do not realize they are doing RFR already. The 26 RFR published are a guide to follow and any shop with a good processing or pre-funding quality control program should be doing many of the 26 RFRs already as required by housing agencies or lenders. A RFR Program can include more than 26 or less than 26 RFRs, depending on the uniqueness of each mortgage operation.

Many of the 26 RFRs may overlap when credit reports, Social Security Number or Death Master are ordered, or verification is performed. When identity is established with two or three forms of identification and reconciled from credit reports, Social Security Administration or Death Master, you have accomplished several of the basic or minimum standards for RFRs. As long as the mortgage broker is following state identity disclosure requirements, following FHA guideline, or following Fannie Mae or Freddie Mac's Best Practices for Quality and Fraud Prevention, you will have the majority of your RFRs addressed.

Fraudsters are becoming more creative, and the RFRs Program needs to be evaluated annually. An RFR Plan needs to be customized to the uniqueness of every mortgage operation. When making an RFR Assessment, consider hiring and termination procedures, data security and how that data is accessed with mobile devices and remote connections. Many mortgage operations do not consider physical security as part of the RFRs. I suggest an evaluation of the facilities be made as part of the assessment. Mortgage professionals have a professional obligation to ensure that not only an applicant is not using someone else's identity, but we are securing our customer's non-public information, which includes data and information technology security and physical security of the facilities.

The majority of the identity breaches are from employees taking non-public information, whether the information is on paper or media (such as drives and laptops) from the office. The next is forced-entry theft. Burglaries are easy because the thief can be in and out with a computer or two before the police arrive. It is easier than a convenient store robbery. The thief makes some quick cash by selling the computers on the streets for a fraction of the retail price, and if caught, receives less jail time than armed robbery.

Once the assessment begins, you may realize the mortgage operation is doing the majority of the 26 RFRs as the loan is being originated, processed and funded. Use the assessment to build internal awareness of low, moderate and high vulnerabilities. Take the assessment and make a plan. Include reporting procedures if a breach or compromise occurs. Execute the plan into a program and review the program regularly. Once it is in writing, regardless of how simple or complex it may be, you have your RFR Plan in place.

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