

Ask Tommy: Your QC Expert

The QC Plan and FHA Packets



By Tommy A. Duncan

What myths do you hear from brokers that need to be debunked?

I have heard a few in 2008 after attending the National Association of Mortgage Brokers national convention and other events. There was one myth that resonated more than the others: "My lender audits my Federal Housing Administration's (FHA's) for me." The HUD Mortgagee Approval Handbook (4060.1) does mention that the lender can provide post closing FHA quality control (QC) reviews for the correspondent or sponsored Mini-Eagle; however, I am not aware of any lenders that utilize personnel from their QC department and provide QC for the FHA broker. The lender will have a FHA review of the loans they fund, which may include your FHA brokered files if they are selected in the random 10 percent selection. But the result of their QC review is for them and not for the FHA broker, and there is no grandfather clause that entitles the FHA broker to fall under the lender's umbrella. The lenders will take the position; however, it is the correspondent's responsibility to maintain a QC program for their own operation and to follow the FHA QC plan, as directed by 4060.1.

If you are one who believes the lender is auditing your FHA files for you, make sure it is in writing as part of the sponsor/broker package and request a copy of the QC report. If the lender is auditing your files, the lender will require you to respond to findings and provide responses back to them on the actions taken to correct the oversight trends. However, it is a common practice for a lender to also broker loans, and the lender will audit their brokered loans, as well as the loans they fund.

Here are the reasons why a lender will not provide the FHA broker with the required FHA post closing reviews:

- FHA brokers will have a percentage of adverse loans that will be denied or withdrawn. The lender may not have knowledge of applications that are denied or withdrawn, which would prevent them from performing a proper FHA QC review. FHA requires the FHA broker to review 10 percent of the adverse files as part of the FHA QC program spelled out in the FHA QC plan and 4060.1 during a production period. I have found that a majority of FHA brokers are not aware of the adverse file audit requirement. Some brokers just don't do it at all.
- FHA brokers are supposed to monitor Neighborhood Watch in order to track loans that have missed payments in six months. Neighborhood Watch is the database used to track early payment defaults and FHA statistics. It is the loan correspondent's or FHA broker's responsibility to monitor Neighborhood Watch, because FHA requires 100 percent review of loans that are 60-days late within the first six payments. It is important for the broker to take the lead on this review, because if the loan goes into foreclosure, HUD and the lender may take the position the broker is to indemnify or repurchase the loan. The broker will need to prove the information was correct at the time of origination. The best ways to do this is by conducting an audit and provide the results of the audit with a written response to the lender or agency that is requesting indemnification or repurchase. If there are unfortunate events that cause the homeowner to go into foreclosure, the broker may not be held accountable for the repurchase of the loan.

What you should take away from the myth that your lender audits your FHA's for you is that the lender is not keeping you in compliance with FHA. It is the broker's responsibility to keep the FHA QC program going, not the lender's. The three major types of QC review are: (1) 10 percent sampling of FHA closed loans; (2) 10 percent sampling of adverse loans; and (3) 100 percent review of closed loans that are 60-days late within six payments.

If FHA sends an auditor to perform an on-site review, the first thing they will ask to see is a copy of the QC plan and a copy of the last FHA audit report. If you intend to have a long and prosperous career with FHA, ensure you follow your FHA QC plan and the 4060.1, and don't get debunked by a myth.

Tommy A. Duncan is executive vice president of Quality Mortgage Services LLC. For answers to your QC and FHA questions, please contact Tommy at (615) 591-2528, ext. 124 or e-mail taduncan@qcmortgage.com. You may also visit Quality Mortgage Services LLC on the Web at www.qualitymortgageservices.com.

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