

Ask Tommy: Your QC Expert



By Tommy A. Duncan, CMT

The State of the Union Address is complete, and the President of the United States (POTUS) has given his marching orders. The government is now moving forward with the POTUS's marching orders. The Federal Housing Administration (FHA) has announced a nine percent increase in default loans and a number of respectable lenders are being identified with high number of default loans. The U.S. Department of Housing & Urban Development (HUD) is applying pressure on these lenders for possible repurchase or indemnifications of the defaulted loans. It is difficult to say if some of these loans have questionable underwriting decisions or errors without having a look at them, but I suspect the high volume in default loans is a direct result of job loss and the declining economy.

The FHA recently announced an increase in mortgage insurance and predicts that FHA volumes will decrease in 2010 and 2011. It appears to me an FHA loan product would be the product of choice during these difficult economic times. What is interesting, FHA is experiencing higher volumes of default loans and having to deal with the responsibility of loans gone bad. Will the FHA change its underwriting requirements to a standard that the government-sponsored enterprises (GSEs) have in order to survive the storm? Can the FHA or the GSEs begin an insurability risk analysis of careers or jobs that have a higher probability of risk that will affect lending decisions? Banks do it all the time. Ask someone who has been denied a loan to help start a business.

It is very clear that HUD and FHA are taking measures to survive the future. I agree that there will be an increase in default loans, both governmental and non-governmental, because of the economy. What correspondents and mortgagees need to do is to have a plan to reduce risk by increasing quality control policies and procedures, use more solid underwriting judgment when approving funding of loans, put thorough pre-funding fraud detection tools in place and have a solid quality control staff that can handle repurchase claims or indemnification letters.

Don't be naive and think that default claims will not happen to you. It is happening already and it is taking loan operations by surprise. FHA is preparing for the worst-case scenarios with the economy. Correspondents and mortgagees need to do the same. Quality Mortgage Services (QMS) is equipped with staff to handle default audits. QMS is also equipped with the Mortgage Analysis Review Software (MARS) available for lease or purchase for those in-house QC operations.

My recommendation is to plan and prepare for the default claim letters and to have an outside QC company that is skilled in auditing files that can defend your loan.

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