

Ask Tommy: Your QC Expert



By Tommy A. Duncan

Question: What do you see happening at high levels of mortgage banking and quality control (QC)?

It is flat out war. There is a war raging never seen before at the corporate levels of mortgage banking. It is the survival of which corporation has the best QC department or outsource QC company. Investors have engaged their QC departments or have outsourced to QC companies to build cases against lenders for repurchase. The lenders have engaged their QC department or outsourced to QC companies to rebuttal repurchase claims.

This is the most exciting time in QC history ... to be competing against competitors and robust QC departments at large mortgage banking corporation based on material facts. Mortgage insurance companies are doing the same thing and trying to push toxic or potential toxic paper back down to the source of underwriting or origination. Investors and mortgage insurers have the right to seek repurchase claims base on the breach of contract.

What makes this endeavor exciting is finding QC errors on a QC department or an outsourced QC company. It is relatively easy to find origination oversights and regulatory errors, which so many files going through repurchase claims have. What is difficult for some auditors is finding the material substance to justify a repurchase. Just because a loan is a default, does not mean it is automatically a repurchase. For example, a lender had a large number of files that went into default. The investor/insurer issued a repurchase letter to the lender requiring indemnification. We conducted our audit and found that every file had a borrower or co-borrower who worked for one of two corporations that had gone out of business. We obviously found minor oversights in the loan, but the minor oversights did not warrant the repurchase of the investor/insurer's claims. In fact, the lender did not have to repurchase a single loan associated with the claim.

Are investors/insurers calling fraud when there is not fraud in a file? Things that make you say, "Hmmm?" Well that is a tough question. There does appear to be some perception of desperation out there from a select few making claims of fraud in the loan in order to justify a repurchase claim to lenders that are difficult to substantiate fraud.

For example, the income is documented at \$130,000, but the 1003 loan application has \$1,300,000, which was a typo. The fraud would have been if the borrower had provided electronically-altered documents or falsified documents or if someone in the loan origination had altered documents. I will agree that this error should have been caught and corrected somewhere in the loan process or underwriting, but the W-2s and income verification supported the amount of \$130,000. The rebuttal audit showed, on material fact, to support fraud, but showed human error or oversight. The loan qualified under the \$130,000 income requirement. This loan was not in default and payments were current. However, this loan audited by an outsourced QC company proclaimed fraud and working toward a repurchase on behalf of a mortgage insurance company.

These are exciting times in the QC world, and we love going to battle each and every day, either finding fraud or rebutting repurchase claims.

May the best QC army win!

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