



May 29, 2012

Freddie Mac Updates Requirements for Pre- and Post-Closing Quality Control

by Anna DeSimone
President & Founder
anna@bankersadvisory.com

On December 1, 2011, Freddie Mac had implemented revisions to Chapters 46 and 48 of its Seller Servicer Guide, requiring additional procedures for post-funding quality control for all loans delivered as of 12/1/2011. The revisions strengthened sampling requirements to include targeted and discretionary loans and requiring an occupancy verification for primary residences. The announcement (2011-16) which was published in August 16, 2011 also included "best practices for Pre-closing quality control reviews" published in a new section 48.8.

On May 15, 2012, Freddie Mac published Bulletin Number 2012-11, updating its Selling Guide to include two key updates along with a revision to its pre-closing quality control best practices. The two key updates are:

1) Social Security Number validation requirements for a seller's in-house quality control program

2) Use of third party employment or income verification services

Freddie Mac sellers are not required to validate each borrower's Social Security number during the post-closing quality control review. Freddie Mac has removed the specific list of acceptable third-party employment and income verification service providers from the Guide; however, Sellers may continue to use third-party service providers for the purposes of verifying employment and/or income. All income and employment verifications must meet the requirements of the Guide. Sellers remain responsible for the accuracy and integrity of all information provided. Sellers are encouraged to maintain procedures and process controls to ensure the quality of services used and products provided are acceptable.

Re-verifications

Freddie Mac requires its sellers to make certain re-verifications on Loan Prospector and Non-Loan Prospector® Mortgages selected for post-closing quality control review. The purposes of the reverification process are to evaluate the validity and quality of the information used in the original underwriting decision and to protect the lender against fraud and misrepresentation. Freddie Mac expects lenders to begin re-verifying the information listed in this section as soon as possible after the sample selection to facilitate the mortgage file review.

continued on next page

Re-verifications may be in written or verbal form and all re-verification documentation must be retained in the Mortgage file.

Verifications of employment, income and sources of funds for post-closing quality control reviews must re-verify all employment, income and sources of funds used in the original underwriting process and based on the minimum documentation required at the time of origination. Copies of the original verifications should be submitted to the issuers with a request that they confirm the accuracy of the documentation. Any verbal re-verifications of employment, income and source of funds must be documented in writing. The written documentation must:

- * Identify the name of the quality control reviewer who made the contact
- * Identify the name of the business (employer, bank, etc.)
- * Show the date(s) of the contact
- * Confirm that the information in the original verification was accurate or identify any inaccuracy
- * Identify the phone number for the individual contacted. The phone number must be obtained from an acceptable third-party source
- * Identify the name of the third party source used to obtain the phone number (such as 411.com etc.)
- * Lenders must obtain the IRS income information using Form 4506-T (or acceptable alternative) for each mortgage selected for QC review. The IRS form does not need to be re-submitted to the IRS if a response was received during the origination process.

Borrower Social Security Numbers

For mortgages included in post-closing quality control samples, lenders must validate the SSN provided by each borrower. Lenders are not required to validate the SSN during the post-closing quality control if:

- * The SSN was validated during the loan origination process or a pre-closing QC review; and
- * The SSN was not initially validated by a mortgage broker or correspondent; and
- * The mortgage file indicates there were no misrepresentations in connection with the borrower's application or the underwriting of the mortgage

Pre-Closing Quality Control

Freddie Mac has updated its best practices originally published in Section 48.8 of the Seller Service Guide regarding quality control reviews prior to closing. Any in-house pre-closing quality control process should operate independently of the mortgage origination and underwriting departments when operationally possible.

Required procedures for pre-closing quality control:

- * Sampling selection and timing that permits reviews to be completed prior to closing
- * Reporting deficiencies and taking appropriate corrective measures
- * Documenting the resolution of defects
- * Cancelling or postponing settlement when the pre-closing review reveals deficiencies or when the review cannot be completed prior to the scheduled settlement

Sample Selection

The sampling must include a representative of the full scope of the product line and production process as defined in Section 48.4(a). Lenders must regularly assess its sampling methodology to ensure that its pre-closing quality control process is effective. Sampling requirements in 48.4(a) require a minimum of ten percent (10%) of at least one of the following populations: the lender's total loan production; the lender's total secondary market production; the total Freddie Mac production.

Additionally, lenders must target samples as needed in order to:

- a) Review the work originated by a new branch office, employee or third party originator
- b) Validate that a new product or offering is being originated in accordance with the lenders policies and procedures
- c) Evaluate the work of particular employee or mortgage transaction participant when there is a reason to suspect fraud, as required in Section 7.2(c).

Validation and re-verification

Freddie Mac's requirements state that an effective pre-closing quality control review process should include validation or re-verification of:

- * Data entered into Loan Prospector
- * Social Security number provided by each Borrower, unless the Lender validated the number during the loan origination process
- * Income documentation and calculation
- * Employment
- * Assets required to close or meet reserves requirements
- * Appraisal report or property valuation data
- * Adequate mortgage insurance coverage
- * Whether additional credit was granted and considered in qualifying when the borrower's credit report reveals inquiries within the previous 120-day period