Freddie Mac

We make home possible®

Discover *Gold*
Through Quality

Quality Control,

Fraud, and

Wholesale Origination

Best Practices

Available at: *www.freddiemac.com/dgtq*

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Quality Control Best Practices Contents

The chapters in the Quality Control Best Practices part of *Discover Gold Through Quality* cover the following:

In addition, you will find the following:

- Exhibit QC1, *Sample Origination and Closing Documents Checklists*, provides helpful checklists on documents to review in the loan file.
- Exhibit QC2, *Sample Document Review and Red Flag Checklists*, provides helpful checklists on a variety of topics, including mortgage application, credit reports, sales contract, etc.
- Freddie Mac Contact Information

Keep in mind that the best practices noted here are provided to assist you in establishing a new, or improving your existing, quality control program. This information is not a substitute for Freddie Mac's Single-Family Seller/Servicer Guide requirements and may not address all of the circumstances or meet all of the needs of your organization.

Chapter 1 – Introduction

Overview

Our extensive research into the practices of successful mortgage lenders has strengthened our belief that reliable and effective quality control programs are essential to the mortgage industry. This publication provides you with requirements and best practices for designing, administering and documenting an effective quality control program for Loan Prospector® mortgages, non-Loan Prospector mortgages and mortgages that are manually underwritten.

General Requirements

You must meet all of the quality control requirements found in the *Single-Family Seller/Servicer Guide* (Guide) as a condition to selling home mortgages to Freddie Mac. We have included Guide requirements for reference in this booklet and have indicated the Guide section where you will find the requirement. To ensure that you are in compliance with all of our requirements, please refer to Chapter 48 of the Guide titled "Seller's In-House Quality Control Program." The best practices noted in this booklet are based on our experience and actual controls currently being used in the industry. Although you are not required to implement all of these best practices, we encourage you to refer to them and customize your quality control program to reflect your company's organization, circumstances and needs.

Chapter 2 – Establishing and Managing an In-House Quality Control Program

Overview

While Freddie Mac does not believe that any one quality control program can meet the needs of all Sellers, certain characteristics are found in all effective quality control programs. These characteristics are the foundation of our requirements.

General Requirements (see Guide Section 48.1)

To be eligible to sell mortgages to Freddie Mac, you must operate a quality control program for home mortgages that is acceptable to Freddie Mac. Your quality control program should take into account the individual characteristics of your organization. You may use a combination of preclosing and/or postclosing quality control methods based on your specific organization and needs. Your quality control program must:

- Be in writing.
- Provide for standard operating procedures for all employees who will be involved with or affected by the quality control process.
- Operate independently of mortgage origination and underwriting departments.
- Be capable of evaluating and monitoring the overall quality of your mortgage production on a regular and timely basis.
- Include procedures to ensure that sample selection mortgage file reviews and the reporting of findings to senior management are conducted on a timely basis.

Your review of the mortgage file and reverifications must be thorough enough to:

- Determine compliance with the requirements of the purchase documents for mortgages sold to Freddie Mac.
- Assess whether the mortgage was properly underwritten based on prudent underwriting practices and sound underwriting judgment.
- Assess the accuracy of the data integrity. This is important whether you are transmitting loan data to investors or using an automated underwriting system.

Responsibilities of a Quality Control Representative

When establishing a quality control program, you should designate one individual in your company to be the quality control representative. This representative will have overall responsibility for implementing and coordinating activities under your quality control program.

Depending on the size of your company, the quality control representative may have other responsibilities. However, this individual should not be responsible for mortgage origination, processing or underwriting functions.

Typical responsibilities of the quality control representative may include:

- Maintaining and disseminating up-to-date information on your requirements as well as the requirements of mortgage insurers, applicable government entities and your investors, including Freddie Mac
- Ensuring that your reviewers have the appropriate skills and experience to perform quality control reviews
- Having the authority to modify the program when necessary to meet the objectives of the program
- Reporting quality control findings to senior management
- Working with the appropriate areas to develop recommended solutions to problems uncovered in quality control reviews
- Developing and implementing employee education and training
- Following up with management on quality control findings

Mortgage Service Providers **(see Guide Section 48.2)**

You may find it necessary or desirable to hire mortgage service providers for all or part of your quality control program.

A seller using third party quality control services must:

- Ensure that the work performed by third party quality control services comply with Freddie Mac requirements
- Monitor and evaluate the performance of third party quality control services on a regular basis

If you choose to use these services, you can find information on establishing and maintaining best practices for monitoring mortgage service providers in Chapter 7 of the Wholesale Originations Best Practices section of *Discover Gold Through Quality*.

Fair Lending Reviews

Overview

We support your commitment to employ business practices that promote fair lending in all geographic areas and for all borrowers. For some lenders, the fair lending review will be part of a compliance review program. We believe your quality control program should contribute to your efforts to:

- Support fair lending principles
- Monitor your employees' understanding of, and adherence to, fair lending policies
- Determine that fair lending policies are being consistently applied throughout your company
- Apply our underwriting guidelines consistently to each borrower when originating mortgages

Requirements **(see Guide Section 6.2)**

As a Freddie Mac Seller, you must agree to comply with the following laws, regulations and orders:

- Title VI of the Civil Rights Act of 1964
- Title VIII of the Civil Rights Act of 1968, as amended by the Housing and Community Development Act of 1974
- Section 527 of the National Housing Act
- The Equal Credit Opportunity Act (ECOA)
- The Fair Credit Reporting Act
- Executive Order 11063, Equal Opportunity in Housing
- All other applicable federal and state laws, regulations and orders

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Documentation of Your Quality Control Program

Overview

All quality control activities must be fully documented in writing and reviewed by management on a regular basis. Your findings must be clearly documented and:

- Communicated to management on a regular basis
- Communicated to the origination areas of your company as feedback on their operations
- Available to Freddie Mac upon request

General Requirements

Your policies and procedures must document your processes for:

- Sample selection, including methodology, frequency and responsibility (see Guide Section 48.4)
- Reverification, including verbal reverifications (see Guide Section 48.5),
- Loan Reviews (see Guide Section 48.5 and 48.6)
- Transfers of servicing (see Guide Section 48.3)
- File documentation review (see Guide Section 48.7)
- Reporting and follow-up, such as reporting on review results and implementing any corrective actions (see Guide Section 48.9)
- Document retention (see Guide Section 48.10)

Reverification Process Documentation

In addition to the required reverifications stated in Guide Section 48.5, many Sellers develop reverification procedures for:

- Mortgage applications
- Title searches
- Sales contracts
- Occupancy certifications
- Mortgage and/or rental payment histories
- Noncredit payment references
- Gift letters

When shipping documents containing a borrower's personal information during the reverification process, we recommend several practices to protect information against accidental disclosure to unauthorized recipients. See them in the "Protection of Borrower's Personal Information" section, page QC3-4 in the next chapter.

File Review Process Documentation

Your quality control review procedures must include a review of:

- The existence and accuracy of documentation required by applicable law
- Compliance with your guidelines, eligibility and underwriting requirements and those of the mortgage insurer and Freddie Mac, as applicable
- Compliance with your warranties regarding Freddie Mac's Exclusionary List
- The settlement statement and related documentation to determine that all conditions of closing have been satisfied
- Loan Prospector® data as entered into the data fields in the last transmission to Loan Prospector, prior to sale to Freddie Mac (Refer to the *Loan Prospector Functionality Guide*)

Documenting Reviews **(see Guide Section 48.8)**

In documenting your quality control file review results, you must:

- Maintain complete records for each mortgage file selected for quality control review
- Document and explain discrepancies or inconsistencies found in the mortgage file that affect the eligibility of the mortgage based on your requirements or those of the mortgage insurer or Freddie Mac

Timely Revisions

You should revise your quality control program on a timely basis when there are:

- Significant changes in your origination process or products
- Changes in your eligibility or underwriting requirements
- Changes in your investor's or mortgage insurer's eligibility or underwriting requirements

Retention of Records **(see Guide Section 48.10)**

For at least three years from the date of the quality control review, you are required to retain all records related to:

- Your quality control findings
- Corrective actions taken

Your quality control records must be made available to us upon request and included in the information provided to the new servicer if a transfer of servicing occurs.

Quality Control Sampling

Overview

It is usually not feasible to review every mortgage that your company originates. However, by carefully selecting a sample of cases to review, you should be able to effectively monitor the overall quality of your total mortgage production. You may use any combination of preclosing or postclosing quality control reviews based on your specific operations and needs.

How often you select your quality control sample will depend on your origination volume and what works best in your company. We have found that many Sellers prefer to select a quality control sample at least once a month, which guarantees faster results so corrective actions may be started earlier if necessary.

Sampling Structure Requirements **(see Guide Sections 48.4)**

To comply with our sampling requirements, you must:

- Select at least 10 percent of one of the following production populations for quality control review:
  - Your total annual home mortgage production
  - Your total annual secondary market home mortgage production
  - Your total annual Freddie Mac home mortgage production
- Design your sampling procedures so there is a chance that each mortgage within the chosen population will be selected within 90 days of the note date
- Warrant that over the course of each 12-month period, your selected samples are representative of the full scope of your product line and production process
- Ensure that Loan Prospector mortgages make up a representative portion of your quality control sample
- Assign to quality control personnel the authority to conduct additional reviews at their discretion

NOTE: Any mortgages excluded from your quality control sample selection process are not eligible for sale to Freddie Mac.

Sellers with a total annual production volume in excess of 5,000 home mortgages may substitute a statistically based sampling method for the 10 percent requirement. Statistical sampling allows you to make reliable numerical estimates about the characteristics of your loan production.

Selecting a Sampling Method **(see Guide Section 48.4)**

If you have the option of choosing between the 10 percent sampling method and the statistically based sampling method, you will need to consider the advantages and disadvantages of each to select the appropriate sampling method for your business.

Advantages and Disadvantages of a 10 Percent Sampling Method

Some of the advantages of using a 10 percent sampling method include:

- Simplicity in design
- Ease of administration
- Quantity of information available in a 10 percent review
- Less involvement by statisticians in the quality control sampling method

Some of the disadvantages of using a 10 percent sampling method are: The number of mortgages that must be reviewed may be prohibitive if your mortgage production volume is very high, and The quality control reviews may not yield statistically valid results.

Advantages and Disadvantages of a Statistically Based Sampling Method

Some advantages to using a statistically based sampling method include:

- A more efficient process because, in some cases, fewer than 10 percent of your mortgage production will be selected for review
- A smaller statistical sample may free the capacity to focus on targeted and discretionary samples as the need arises
- The ability to make estimates about a population and to quantify the precision of those estimates

Some disadvantages to using a statistically based sampling method are:

- Requires that you use a statistician to design, maintain and periodically review the sampling method
- May not reduce the actual number of mortgages selected for review, especially if your mortgage product lines and/or production processes are changing (for example, adding mortgage service providers, offering new types of mortgages or opening new branch offices in new market areas)

- Provides an alternative only to the random selection portion of the 10 percent quality control sample; it will not eliminate the need to conduct discretionary reviews, when necessary, to warrant that the total sample is representative of the full scope of your product line and production process

Sampling Components

Once a sampling method has been selected, your quality control program should be designed to include the following three sample types:

- Random sample
- Targeted sample
- Discretionary sample

Random Samples

Random samples let you obtain an unbiased view of your total mortgage population. In a random sample, every mortgage has an equal chance of being selected. You will select mortgages by using numbers randomly generated through one of the following selection processes:

- A random number table
- A computer-generated program of random numbers
- A calculator capable of generating random numbers

Your use of randomly selected numbers, as compared to simply starting with the 10th mortgage of the review period, will help to prevent bias that can result when employees know in advance which files will be reviewed.

Random Sample Types

Starting with the random numbers, you are able to select any of the following types of random samples:

- Simple random sample
- Systematic random sample
- Stratified random sample

Simple Random Sample

To establish a simple random sample, you need to determine how many mortgages you want in your sample, select enough random numbers and pick the mortgages with the corresponding numbers.

Systematic Random Sample

To establish a systematic random sample, select one random number, pick the mortgage with the corresponding number and choose every 10th consecutive mortgage.

Stratified Random Sample

To establish a stratified random sample, you must first stratify the entire mortgage population into groups and subgroups. For example, groups may consist of mortgages sold to different investors. Subgroups may consist of fixed-rate mortgages, balloon/reset mortgages and adjustable rate mortgages. Then you select either a simple random sample or systematic random sample from each of these subgroups. One advantage of using a stratified random sampling technique is that you can more effectively select mortgages that represent the full scope of your business.

Targeted Samples

In addition to your random sample, you may decide to target certain mortgages for review to better understand why problems occurred. Your targeted samples generally will include 100 percent of these mortgages.

For example you might target:

- Mortgages in which the borrower was 30 days late or more within the first four months of origination and
- Mortgages referred to foreclosure within the first 24 months of origination.

Discretionary Samples

In addition to your random and targeted samples, you may want to review a discretionary sample. You may use a discretionary sample to:

- Focus on a new type of mortgage offered by your company
- Evaluate the work of a particular employee or branch office
- Evaluate the work of a mortgage service provider, appraiser or other supplier of services
- Evaluate the work of mortgage brokers and correspondents
- More closely evaluate mortgages with high-risk characteristics
- Investigate possible misrepresentation or suspected fraud
- Expand your review because of a pattern of deficiencies found in earlier reviews

A discretionary sample includes mortgages selected on a non-random basis. By using discretionary samples, you will gain knowledge on a desired topic much more quickly than if you were to rely only on random sampling.

Chapter 3 – Implementing an In-House Quality Control Program

Quality Control Loan Reviews

Overview

The review of the original file documentation and reverifications should:

- Verify the existence and accuracy of the information associated with your mortgage files
- Evaluate the underwriting decisions associated with the mortgages
- Determine where additional training may be needed
- Discover errors and omissions as well as intentional violations of rules
- Identify necessary changes in your company's processes and procedures
- Assess whether mortgages conform to the underwriting requirements and guidelines of your company, the insurer and investor
- Determine that regulatory requirements are met
- Determine that specific Freddie Mac warranties and requirements are met
- Monitor the overall quality of mortgage production

Prudent Lending Practices

The concept of prudent lending practices should be incorporated in your quality control program. In other words, if your regulator, the mortgage insurer or your investors, including Freddie Mac, have no specific rule to govern a particular topic or situation, you should review the practices of the mortgage banking industry and strive to adopt a practice that is both customary and prudent.

Checklists

Your quality control program should include the use of checklists to promote consistency and efficiency in your reviews. Checklists should be designed to assist the reviewer in:

- Ensuring the accuracy and completeness of the origination documents
- Evaluating the underwriting decisions and the acceptability of the mortgage

- Verifying the existence of required legal documentation
- Determining that your company policies are met

Your checklist should:

- Promote a thorough analysis of the information by the quality control reviewer
- Take into account the skill level and experience of your reviewers
- Confirm that requirements of your regulator, the mortgage insurer and Freddie Mac have been met
- Be easily executed in a "Yes/No" format (such as "Is the information in the new credit report essentially the same as the information in the original credit report?") or in a directive format (such as "Compare the original credit report to the new credit report.")
- Be updated in a timely fashion to concentrate on identified areas in your operations or policies needing a more intensive review

Documentation Review

You must include in your quality control review a comparison of the original documents with the reverifications you receive. You must also include a review of the closing documents. (See Exhibit QC1, *Sample Origination and Closing Documents Checklists)*

Declined Loan Reviews

You should also include a random sample of your declined loan applications in your quality control program and review for:

- Documentation supporting the decision to decline
- Exceptions in lending treatment
- Evidence that fair lending policies are understood and consistently applied throughout the company

Purchase Document Compliance Reviews

To ensure that the mortgages meet the terms of the purchase documents, you should provide your quality control staff and/or mortgage service provider easy access to copies of your contracts. You should also determine that your mortgage service provider or quality control staff has the most recent Guide bulletins and has received training on the new requirements. Also, your quality control staff must be informed when changes to our standard purchase programs have occurred and/or when requirements have been negotiated with your company.

Fraud Detection

You are encouraged to use your quality control program as a complement to your other efforts to prevent and detect fraud in your operations. Your quality control program can also be designed to provide valuable feedback to prevent problems before they occur by checking for red flags and reverifying data.

> You can find information on fraud prevention and detection in the Fraud Prevention Best Practices section of *Discover Gold Through Quality*.

Red Flags

To assist your origination staff in identifying attempts to misrepresent information or commit fraud, we developed lists of "red flags." (See Exhibit QC2*, Sample Document Review and Red Flag Checklists).*

These red flags represent typical inconsistencies often found in fraudulently obtained mortgages.

The presence of one or more red flags in a file does not necessarily mean there was fraudulent intent. However, the discovery of several red flags during the quality control review may signal the need for a more detailed review of the mortgage.

These red flags are useful tools for your quality control staff to identify the types of documentation or lack of documentation that may lead to the discovery of fraud in a mortgage file. These discoveries should then be used by management to modify your company's origination policies or procedures when appropriate to prevent the fraud from recurring.

Quality Control Reverification

Overview

The reverification process is the centerpiece of your quality control program. The success of your quality control program will depend directly on the resources and planning you devote to this area. You should initiate reverifications as soon as possible after sample selection to facilitate the review procedures discussed later in this chapter.

General Requirements **(Guide Sections 48.5)**

You must make certain reverifications on Loan Prospector® and non- Loan Prospector mortgages selected for quality control review. The purposes of the reverification process include:

- Evaluating the validity and quality of the information used in the original underwriting decision
- Protecting you against fraud and misrepresentation

You should begin reverifying the information listed in this section as soon as possible after the sample selection to facilitate the mortgage file review. Reverifications may be either in written or verbal form. All reverification documentation must be retained in the mortgage file.

Protection of Borrower's Personal Information

When shipping documents containing a borrower's personal information during reverification, you should take steps to protect information against accidental disclosure to unauthorized recipients. Try to limit the personal information shipped to what is needed for the intended purpose; for example, you may require only the last four digits of a Social Security Number.

For personal information that needs to be mailed, we recommend that:

- The shipper should confirm the correct address and contents of the shipment
- The envelope or package should not be marked "confidential"
- Unless necessary, the information should not be sent to a residential address
- The shipper should confirm pick-up and receipt
- An inventory of the sent material should be maintained, in order to know the potential impact of a lost shipment

Before you fax or mail documents with sensitive or private borrower information, we suggest that you confirm the accuracy of the fax number or mailing address.

Verbal Reverification **(see Guide Section 48.5)**

Although we strongly encourage written reverifications, you may obtain verbal reverifications on employment, income and sources of funds.

Any verbal reverification must be documented in writing and retained in the mortgage file. The verbal reverification documentation must:

- Identify the name of the quality control reviewer who made the contact
- Identify the name of the employer
- Identify the name and title of the individual contacted at the employer
- Show the date of contact
- Confirm that the information in the original verification was accurate or identify any inaccuracy

Other Reverifications

You may need to reverify more documents than those required by Freddie Mac to:

- Meet the requirements of your regulator, other investors or mortgage insurers
- Investigate cases of suspected misrepresentation or fraud
- More fully document the overall conclusion of acceptability in a file that appears marginal after the required reverifications are reviewed

Original Verification

The original verification of employment, income, sources of funds and payment history should be:

- Photocopied
- Attached to a letter requesting confirmation of the accuracy of the documentation
- Mailed to the issuer of the original verification with a self-addressed stamped envelope (Add "Do Not Forward" on the front of your envelope)

Credit Reports **(Guide Section 48.5(c))**

For Loan Prospector mortgages, you are not required to obtain a new credit report. However, any credit information obtained from sources other than Loan Prospector must be reviewed.

For one out of every 10 non-Loan Prospector mortgages in your sample, you must obtain either a new Residential Mortgage Credit Report or a three-repository merged in-file credit report.

For the remaining non-Loan Prospector mortgages, you must obtain a new in-file credit report containing information from one or more of the national repositories.

You should obtain the new report from a source other than the original reporting agency. You must compare the new credit report with the credit report used when the mortgage was originated.

For Loan Prospector Accept Mortgages and A-minus Mortgages, you are not required to review the Loan Prospector-provided credit reports to determine that the credit report was properly underwritten, or that it is in compliance with credit underwriting guidelines. However, you must verify that the Loan Prospector-provided credit reports are for the correct borrower.

For manually underwritten mortgages, you must re-underwrite the credit and continue to review the mortgage file documents in accordance with Guide Section 48.7 to determine that the mortgage was underwritten to Freddie Mac's requirements.

If the mortgage requires an Indicator score to establish eligibility of the mortgage for the product offering, you must confirm that the score listed on Form 1077, Uniform Underwriting and Transmittal Summary, and the method used to select the score are correctly identified.

Appraisal, Inspection Reports and No-Appraisal MAF
(Guide Section 48.5(e))

To evidence that the mortgaged premises is acceptable for the transaction, each mortgage file must contain one of the following Freddie Mac reports:

- Form 70, Uniform Residential Appraisal Report
- Form 2055, Exterior-Only Inspection Residential Appraisal Report
- Form 70B, Manufactured Home Appraisal Report
- Form 72, Small Residential Income Property Appraisal Report
- Form 465, Individual Condominium Unit Appraisal Report
- Form 466, Exterior-Only Inspection Individual Condominium Unit Appraisal Report
- Form 2070, Loan Prospector Condition and Marketability Report, or Fannie Mae Form 2075
- Home Value Models: A print out of the Last Feedback Certificate with a Minimum Assessment Feedback of Form 2070 or PIA, and may include Freddie Mac Form 2070 and Fannie Mae Form 2075

You may select from one of the following options:

- Option 1 - Of every 10 mortgages selected for quality control review, one must be a field review and the remaining nine mortgages may be desk reviews
- Option 2 - Of every 10 mortgages selected for a quality control review, three must be a field review. No desk reviews are necessary for the other seven mortgages

If the Mortgage was originated using the Home Value Models: Property Inspection Alternative, the Seller is not required to order an appraisal or a review appraisal. However, the Seller is required to determine:

- The Mortgage met all the eligibility requirements of Sections 44.9 and 44.10
- The address information and all other information entered into Loan Prospector was true, complete and accurate
- The property address used by Freddie Mac and returned on the Loan Prospector Feedback Certificate is the address of the Mortgaged Premises
- The Mortgage met all the eligibility requirements for the Property Inspection Alternative
- The Last Feedback Certificate returned a Minimum Assessment Feedback of 2070 or Property Inspection Alternative, and is dated within 120 days of the Note Date
- The Mortgage was not a Seasoned Mortgage

If the Mortgage was originated using Home Value Models: Form 2070, the Seller is not required to order an appraisal or a review appraisal. However, the Seller is required to determine:

- The Mortgage met all the eligibility requirements of Sections 44.9 and 44.10
- The address information and all other information entered into Loan Prospector was true, complete and accurate
- The property address used by Freddie Mac and returned on the Loan Prospector Feedback Certificate is the address of the Mortgaged Premises
- The Mortgage met all the eligibility requirements for Form 2070 or 2075
- The Last Feedback Certificate returned a Minimum Assessment Feedback of 2070 or Property Inspection Alternative, and is dated within 120 days of the Note Date
- Form 2070 or 2075 did not required an upgrade to an appraisal
- The Mortgage was not a Seasoned Mortgage

For purposes of performing field reviews, the following quality control requirements apply:

1. If the Mortgage is secured by a 1-unit property and was originated using an appraisal report, the Seller must obtain a field review with the results reported on a field review report, such as a Freddie Mac Form 1032, On-Unit Residential Appraisal Field Review Report.

2. If the Mortgage is secured by a 2- to 4-unit property, the Seller must obtain a field review with the results reported on a field review report, such as Freddie Mac Form 1072, Two- to Four-Unit Residential Appraisal Field Review Report.

   When the field review consists of a review of an appraisal report, the appraisal review must:

- Be prepared by a qualified appraiser (see Guide Section 44.2) not affiliated with the original appraiser or appraisal firm
- Either concur with, or provide a different opinion regarding, the value and marketability of the mortgaged premises as of the effective date of the original appraisal and not as of the date of the appraisal review
- Be used to evaluate the quality of the original appraisal report
- Include an exterior review of the subject property and comparables
- Include a review of the accuracy of the factual data in the original appraisal report

When a desk review of the original appraisal or inspection report is required for the remaining mortgages in your quality control sample, the reviewer need not be an appraiser. However, the reviewer should be familiar with the subject's market area and be qualified to:

- Address the appropriateness of the data presented in the report
- Address the appropriateness of the comparable sales (as applicable)
- Conclude that the appraiser's rationale for the final reconciliation of value was supported (as applicable)

Verification of Employment and Income **(Guide Section 48.5(a))**

You must reverify all verifications of employment and income used in the original underwriting process based on required minimum documentation.

The original documentation verifying employment and income may include:

- Verification of employment and income forms
- Paystubs
- Salary vouchers
- W-2 forms
- Tax returns
- Financial statements
- Compensation award letters
- Other documentation verifying income

For Loan Prospector mortgages, you must use the rules for stated and calculated income. You must reverify the employment or income information that required verification.

You must obtain IRS income information using Forms 8821 or 4506 (or an alternate form acceptable to the IRS that collects comparable information) for each mortgage selected for quality control review where federal income tax returns were required as original income documentation.

For these mortgages selected for quality control review, the IRS form does not need to be sent again to the IRS if an original response was received during the origination process. (It is important to note that IRS Forms 8821 or 4506 expire 60 days from the date the borrower signs them.)

Verification of Self-Employment

You must reverify information related to the borrower's self-employment.

The original verifications may have included:

- Tax returns
- Financial statements

You should contact the appropriate person or organization to reverify the information. For example:

- Ask the IRS for copies of the borrower's personal and business tax returns with the IRS Form 4506 (Request for Copy of Tax Form), IRS Form 8821 (Tax Information Authorization) or any similar form acceptable to the IRS
- If an accountant prepared the financial statements, ask the accountant to confirm the authenticity of the financial statements

Verification of Source of Funds **(see Guide Section 48.5(b))**

You must reverify all original documentation verifying sources of funds for:

- Down payment
- Closing costs
- Prepaid items

The original documentation may include

- Verification of deposit forms
- Depository account statements
- Stock and securities account statements
- Gift funds
- A signed settlement statement or other evidence of conveyance and transfer of funds if a sale of assets was involved

Payment History

You should reverify all mortgage payment histories, rental payment histories and other large liabilities used in the original underwriting process based on the required minimum documentation.

The original payment history documentation may include:

- Direct written references from the mortgagee, landlord or creditor
- Mortgage payment history
- References contained in the credit report (You should review the new quality control credit report.)
- Canceled checks to cover the most recent 12-month period (Note generally, these will not be reverified, provided you have evidence that the checking account is valid.)

Mortgage Application

A copy of the original, signed mortgage application should be mailed to the borrowers with a request that the borrowers:

- Acknowledge their signatures
- Verify that the information shown is valid
- State whether they were asked to sign a blank or incomplete mortgage application
- State whether they were asked to omit any information requested on the mortgage application

We recommend that you confirm the accuracy of the fax number or mailing address before you fax or mail documents with sensitive or private borrower information. For additional guidelines for protecting borrower information, go back to “Protection of Borrower’s Personal Information” on page QC3-4.

Occupancy Verification

You should verify the occupancy status of the property any time there is a “red flag” that an owner-occupied property is not occupied by the borrower

You must verify the occupancy of the property for all mortgages secured by 3- to 4-unit primary residences that are selected for quality control review.

You may use any one or more of the following procedures to verify occupancy:

- Send the borrower a certified letter to the subject property address
- Physically inspect the subject property
- Use directory assistance or cross-reference services
- Verify the name and address on checks submitted for housing payments
- Review homeowner's insurance records
- Check with utility companies
- Check with homeowners associations

Follow-Up Procedures

Your quality control program should include policies addressing reverification requests that are not returned in a reasonable amount of time. You may want to employ steps to reverify the existence of the sources of information before mailing a second request or attempt to verbally reverify the information. Effective follow-up procedures should be part of your program.

Resource Recommendation

You should provide your staff with the necessary resources to confirm or reverify information in the mortgage file. The following is a list of resources and resource materials that you may use to confirm or reverify information and representations made in the mortgage file:

- Directory Assistance – confirm occupancy or addresses of individuals or entities on verification documents
- Cross-Reference Directories – obtain a telephone number for an address or obtain a name and address for a telephone number
- Credit Reports – discover undisclosed obligations, Social Security Number irregularities, aliases, employment histories and address histories or discrepancies
- United States Postmaster – identify the registered owner of a post office box
- Secretary of State's Office – verify the existence of and to obtain information on corporations
- Social Security Number Verification – confirm the issuance and validity of a Social Security Number
- FICA Taxable Wage Tables – verify wages and taxes on paystubs and W-2 forms
- Mail Drops – obtain from either the local postmaster or directory and use to evaluate the information provided on verification documents

- State and County Licensing Offices – confirm employment information on licensed professions
- Online Databases – provide information regarding individuals, businesses and properties

Data Integrity Review (see Guide Section 48.6)

Overview

Your quality control review procedures for all mortgages must include a review of the completeness and accuracy of the information you obtained in the origination process.

The data integrity review of the information must include a process for checking data fields entered in Loan Prospector and ensuring that all data submitted is valid. In order to assist in this process, the quality control reviewer must have access to documentation that lists the required codes and formats for all data fields.

Procedures for Review

You must perform a data integrity review on all mortgages sampled to ensure that the loan data is accurate and consistent. Source documentation to be reviewed includes:

- Mortgage applications
- Employment and income verifications
- Source of funds verifications
- Sales contracts
- Tax returns
- Credit data
- Asset documentation
- Appraisal and inspection reports
- Mortgage delivery data (SCC codes)
- The Loan Prospector Key Number when applicable

If you determine that the Key Number for a Loan Prospector mortgage is missing or is inaccurate, you must notify Freddie Mac in writing within 30 days of the finding.

You must also check the information provided to Loan Prospector, including the:

- Borrower’s name
- Property address
- Property type
- Terms of the transaction (including financing)
- Capacity of the borrower to repay the mortgage

Chapter 4 – Quality Control Program Reporting Requirements

Overview

Reporting is a crucial component of any quality control program. The effectiveness of your program will depend on all of your quality control activities being fully documented in writing and reported to senior management on a regular basis.

Management must have these reports to:

- Monitor the overall quality of mortgage production
- Be able to respond to specific quality control findings and take steps to resolve identified problems
- Monitor the operation of the quality control program
- Document that the company complies with our eligibility requirement for a quality control program

Just as your quality control program should be adapted to the size and structure of your organization and origination process, your reporting policies and procedures should be adapted to your needs.

General Requirements **(see Guide Section 48.9)**

You must maintain complete records for each mortgage selected for quality control review and document discrepancies or inconsistencies that affect the eligibility of the mortgage based on your requirements as well as those of the mortgage insurer and Freddie Mac.

The results of your quality control reviews must be reported in writing to your senior management within 90 days of selection. We recommend reporting on a monthly or quarterly basis. You must thoroughly analyze findings affecting the acceptability or eligibility of mortgages and initiate necessary corrective actions.

You must notify us in writing within 30 days of your determination that a quality control finding affects the eligibility of a mortgage sold to Freddie Mac.

Developing Quality Control Reports

Your quality control program may need only a few reports, or your program may require numerous reports depending on your company's size, specific operations and needs.

You should ensure that your reports:

- Are timely
- Are provided to the proper areas of management
- Contain useful information in the right amount of detail
- Elicit appropriate responses, including corrective action when appropriate
- Provide tracking and trending of results to monitor the quality of the originations

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Types of Reports and Records

You should develop standard record keeping and reporting requirements tailored to meet the design of your quality control program. Some of the records and reports you may want to maintain are listed below:

- Mortgage sample selection documentation – shows which mortgage files were selected for quality control review and how they were selected
- Individual mortgage file report – written by the quality control reviewer and contains the findings of the quality control review of a specific mortgage
- Summary report of individual findings – prepared on a regular basis and summarizes the findings of the individual mortgage file reports, helping to identify trends, fraud or other problem areas. We recommend preparing the report weekly or monthly
- Reporting of quality control findings to affected areas – provided to the department heads of those areas directly concerned with the individual findings. The department heads should be asked to provide comments, recommendations or explanations
- Regular report of quality control findings to senior management – presented to management on a regular basis (monthly or quarterly). The report contains the summary report of individual findings plus the responses from the affected department heads

- Management's response to quality control findings – management's response to the quality control findings; it includes recommendations and explanations of the steps the company intends to take to resolve any problems
- Special problems report – prepared and given to management immediately when fraud, willful misrepresentation or other serious origination problems are discovered during the quality control review. The report states the facts of the special problem and includes copies of any evidence that will assist management's understanding of the problem
- Corrective actions status report – tracks the company's progress in implementing management's plans for corrective actions
- Report to investors, mortgage insurers or government agencies – presents material findings to the investor, mortgage insurer or government agency. For example, we require that you notify us with such a report within 30 days of your determination that a finding affects the eligibility of a mortgage sold to Freddie Mac
- Tracking and trending reports – tracks the historical quality of the originations
- Special reports – consider other reports for your quality control program, such as branch office reports, reports of targeted reviews, mortgage service provider reports and fair lending reports

Exhibit QC1 – Sample Origination and Closing Documents Checklists

Origination Documents to Review **(see Guide Section 48.7)**

You must include the following documents in your quality control review for comparison with the reverifications you receive:

- Form 65, Uniform Residential Loan Application
- Credit documentation
- Employment and income documentation
- Sources of funds documentation
- Appraisal and inspection documentation
- Sales contract
- Form 1077, Uniform Underwriting and Transmittal Summary

Closing Documents to Review **(see Guide Section 48.7)**

You must include the following closing documents in your quality control review to ensure the information is accurate, complete and consistent with other documents in the mortgage file:

- Notes and riders
- Security instruments and assignments
- Mortgage insurance certificate, or policy or mortgage guaranty certificate
- Modification or assumption agreement
- Title binder or final title insurance policy (both if available) or other evidence of title
- Plat or survey
- Settlement statements (HUD-1 or other form)
- Leasehold estate documents
- Hazard insurance policy or certificate
- Flood insurance policy or certificate or flood zone determination documents
- Underwriter's approval and any conditions of closing
- Closing instructions

Exhibit QC2 – Sample Document Review and Red Flag Checklists

The following information is provided as a starting point in developing your checklists and lists of red flags. The suggestions we provide are not intended to be all-inclusive and do not necessarily mean fraud is present. However, they indicate the need for additional review and documentation. We encourage you to incorporate them into your quality control reviews.

Mortgage Loan Application Checklist

- Review the mortgage loan application for completeness and signatures
- Compare the initial (handwritten) and final (typed) applications for unexplained discrepancies
- Compare what is shown on the application with what was verified in the credit, income, employment and assets documentation
- Compare the borrower identifiers (name, address, Social Security number) with other information in the mortgage file
- Compare the property description with that on the appraisal report or inspection report and legal documents

Mortgage Loan Application Red Flags

- Significant or contradictory changes from handwritten-to-typed loan application
- Unsigned or undated loan application
- Invalid Social Security number
- Number of years on the job/in that profession inconsistent with borrower's age
- Borrower is purchasing the property from their landlord or employer

Credit Report Checklist

- Compare the original credit report to the new credit report for conflicting information
- Determine whether the date of the original credit report was within requirements
- Review the original credit report and payment histories for completeness and derogatory information
- Determine whether the original credit report indicates that public records information was checked
- Determine whether direct verifications were obtained for all significant debts not rated on the original credit report

- Compare the borrower identifiers on the original credit with the mortgage application
- Determine whether inconsistencies and discrepancies were resolved before loan closing
- Determine if the Indicator score and the method for selecting the score, if applicable, was indicated on the Form 1077

Credit Report Red Flags

- No credit history (possible use of alias or different Social Security number)
- Invalid Social Security number or differs from that on other documents
- Personal data not consistent with handwritten mortgage loan application
- Unresolved significant differences between the original and new credit report
- Also Known As (AKA) or Doing Business As (DBA) indicated
- Employment information is different from mortgage loan application and verification of employment
- Recent inquiries from other mortgage lenders

Salaried Employment and Income Checklist

- Compare original verifications of employment and income with reverifications
- Check to see whether two full years of employment and income were verified
- Determine if material discrepancies exist among the verifications, the mortgage loan application and credit report
- Determine whether all income used in qualifying the borrower was verified
- Determine whether the dates of original verifications were within requirements
- Determine whether the verification documents used (verification of employment form, paystub, W-2 form) were complete and acceptable
- Determine whether employment and income documentation inconsistencies and discrepancies were resolved before closing the loan

Salaried Employment and Income Red Flags

- Evidence of “white-outs” or alterations
- “Squeezed-in” numbers
- Appearance that verification of employment form was hand carried
- Round dollar amounts
- Employer's address shown only as a post office box or mail drop service

- Handwritten paystubs or W-2 forms
- Income out of line with type of employment

Self-Employment Checklist

- Review tax returns and financial statements for consistency and completeness
- Compare reverifications to the original documentation
- Consider whether there is consistency among the mortgage loan application, credit report and business documentation
- Assess whether the underwriter correctly analyzed the documentation required for a self-employed borrower

Self-Employment Red Flags if Dealing With a Self-Employed Borrower

- Tax returns not signed or dated by the borrower
- No estimated tax payments by self-employed borrower (Schedule SE required)
- Evidence of “white-outs” or alterations on the tax returns
- Business expenses are inconsistent with type of business (for example, truck driver with no car and truck expense)

Self-Employment Red Flags if Dealing With a Salaried Borrower

- Co-borrower's maiden name is the same as the signature of employer (possibly self-employed)
- Self-employment tax claimed, but self-employment not disclosed
- Borrower listed as the “Manager” on the verification of employment (confirm borrower is not the owner)
- Mortgage loan application reflects the same telephone number for borrower and employer

Source of Funds Checklist

- Compare original verifications of source of funds with reverifications
- Determine whether sufficient funds were verified
- Determine whether the dates of the original verifications were within requirements
- Determine whether gift funds were properly verified
- Determine whether verification of deposit forms or depository account statements show unexplained recent large deposits or unreported debts

- Determine whether the source of significant sales contract deposits was verified and that the amount agrees with that shown on the settlement statement
- Determine whether source of funds documentation inconsistencies and discrepancies were resolved before closing
- Determine whether any new depositors were recently added to the borrower's account

Source of Funds Red Flags

- New bank account (verify previous bank account)
- Round dollar amounts (especially on interest bearing accounts)
- Evidence of "white-outs" or alterations
- "Squeezed-in" numbers
- Recent large deposits without acceptable explanation
- Illegible signatures with no further identification
- Source of funds consists of unverified gift, equity exchange, note, sale of residence or repayment of personal loan

Appraisal Report and Inspection Report Checklist

- Determine whether an experienced state certified or licensed real estate appraiser from the state in which the property is located performed the appraisal
- Check to ensure all conditions on the appraisal report and all applicable upgrade requirements were met before closing
- Compare the original appraisal report or inspection report to the review appraisal report, if one was obtained, for conflicting information
- Review the original appraisal report or inspection report for consistency and completeness
- Assess whether the appraiser's conclusions and market value estimate were supported by the information contained in the original appraisal report
- Determine whether the original appraisal report is free from mathematical errors
- Review the size of the gross and net adjustments for reasonableness
- Review the similarity of the comparable properties used
- Determine whether the date of the original appraisal report was within requirements
- Determine whether the flood zone information is correct
- Check the appraiser's name against the Freddie Mac Exclusionary List

Appraisal Report and Inspection Report Red Flags

- Appraisal report or inspection report was ordered by any party to the transaction other than the lender (buyer, property seller, Realtor)
- Comparable properties not verified as recorded

Sales Contract Checklist

- Determine whether all parties signed the contract and addenda
- Determine whether the information in the contract is consistent with other file documentation
- Determine that the source of a large earnest money deposit was verified

Sales Contract Red Flags

- Seller shown as a relative, Realtor or employer
- No Realtor involved
- Sales price substantially below market value
- Assignment of contract or borrower not shown as purchaser

Legal and Closing Document Checklist

- Determine that the correct legal instruments were used
- Determine that the legal documents are complete and consistent with the other information in the mortgage file
- Check the legal documents for proper signatures
- Determine that the title is properly vested and title exceptions are acceptable
- Determine whether underwriting conditions were met and closing instructions were followed
- Determine whether required insurance policies were obtained
- Review the settlement statements (HUD-1 or other forms) to ensure they were completed properly
- Determine whether required disclosures were executed by the borrower

Legal and Closing Document Red Flags

- Terms of the closed mortgage differ from the terms approved by the underwriter
- Unusual credits or disbursements shown on settlement statements (HUD-1 or other forms)

- Power of attorney used without explanation
- Names and addresses of property seller and buyer vary from other loan documentation
- Evidence of “white-outs” or alterations without initials
- Reference to undisclosed secondary financing
- Reference to undisclosed double escrow

Owner-Occupancy Checklist

- Ensure the borrower certified their intent to occupy the property as a primary residence
- Review the facts of the case to determine whether to accept the borrower's occupancy certification at face value
- Determine whether discrepancies or conflicting information concerning the borrower's occupancy status were properly resolved before closing

Owner-Occupancy Red Flags

- Significant or unrealistic commute distance from subject property to employment
- The borrower is purchasing a smaller or less expensive home from their current primary residence without explanation
- The borrower intends to rent or sell their current residence with no documentation
- Appraisal report reflects “Occupant” as a tenant or vacant on an owner-occupied refinance application
- The mortgage file contains postclosing documentation (transfer of property, returned mail or collection difficulties) that may indicate the property is not owner-occupied

Underwriting Judgment Checklist

- Assess whether the information required to make the underwriting decision was properly verified and documented
- If the loan is not an Accept Mortgage, re-evaluate the creditworthiness of the borrower to determine whether the underwriter correctly evaluated the borrower’s credit reputation
- Re-evaluate the income stability of the borrower to determine whether the underwriter correctly evaluated the borrower’s continuance of income
- Determine whether the loan decision was based on documentation in the mortgage file and described on Form 1077 or another document in the file

- Determine whether the borrower's verified funds were sufficient and that the sources were properly verified
- Review the appraisal report or inspection report to determine the appropriateness of the comparables and whether they support the final estimated market value
- Determine whether the mortgaged premises is acceptable collateral for the transaction
- Determine whether the effect of large property seller contributions was properly considered
- Determine whether the requirements of your company, the mortgage insurer and your investors, including Freddie Mac, were met
- Determine whether any significant discrepancies were resolved before loan closing
- Consider whether the underwriter's approval was
  - Supported by evidence in the file
  - Reasonable
  - Prudent

Underwriting Judgment Red Flags

- Approval clearly not supported by file documentation
- Unresolved material discrepancies contained in file documentation

Loan Prospector® Loan Checklist

- Check to be sure that the most recent Loan Prospector Feedback Certificate is in the file
- Check the data fields entered in the last transmission to Loan Prospector to ensure the validity of the data
- Confirm the accuracy of the Special Characteristic Code (SCC)
- Notify Freddie Mac of significant data discrepancies
- Check to be sure the Loan Prospector Key Number is accurately reflected in the delivery data

Exclusionary List

- Check all parties (individuals and companies) to the transaction against Freddie Mac’s Exclusionary List

Freddie Mac Contact Information

Please use this list to identify the Freddie Mac contact for your specific business need. If you're unsure of the appropriate contact, or have general questions, please call our lender helpline, (800) FREDDIE or (800) 373-3343.

Corporate Headquarters

8200 Jones Branch Drive
McLean, VA 22102-3110
(703) 903-2000

Quality Control Offices

Corporate

Attn Corporate Office Quality Control
Freddie Mac
8200 Jones Branch Drive, MS 287
McLean, VA 22102-3110
Telephone number: (703) 903-2062
Fax number: (703) 903-2068

Southeast/Southwest

Attn Southeast/Southwest Quality Control
Freddie Mac
2300 Windy Ridge Parkway
Suite 200, North Tower
Atlanta, GA 30339-5665
Telephone number: (770) 857-8800
Fax number: (770) 857-8808

North Central

Attn North Central Quality Control
Freddie Mac
333 West Wacker Drive
Suite 2500
Chicago, IL 60606-1287
Telephone number: (312) 407-7400
Fax number: (571) 382-4871

Northeast

Attn Northeast Quality Control
Freddie Mac
8200 Jones Branch Drive, MS 271
McLean, VA 22102-3110
Telephone number: (703) 903-2146
Fax number: (703) 903-2387

Wholesale Originations

Contact your account manager for questions or comments relating to wholesale originations.

Additional Resources

Guarantor Line

(703) 761-7170

Fraud Hotline

(800) 4FRAUD8 *or*
(800-437-2838)

Document Custodial Services

21550 Beaumeade Circle
P.O. Box 5000
Ashburn, VA 20147
(703) 724-3000

Single-Family Seller/Servicer Guide

http://www.FreddieMac.com/sell/guide/

The Learning Center Glossary

http://www.FreddieMac.com/learn/glossary/

Please contact our Lender Helpline…

(800) FREDDIE *or* (800) 373-3343
8 a.m. to 8 p.m. Eastern time every business day

…For information on the following topics:

- Underwriting
- Loan Prospector®
- Loan Delivery
- Loan Servicing (performing & non-performing loans)
- Technical Issues (MIDANET®, GoldWorks® & Loan Prospector)
- Historical Rate Information
- Training Registrations
- Publications
- Billing

Discover *Gold*

Through Quality

Fraud Prevention

Best Practices

Available at: *www.FreddieMac.com/dgtq*

Chapter 1 – Preventing, Detecting and Resolving Fraud

Introduction

Freddie Mac's Fraud Investigation Unit was created in 1989 to assist in the prevention, detection and resolution of mortgage fraud. We are committed to helping you and others in the mortgage industry combat fraud. Working together, we can keep our housing-finance system stable and financially strong.

To combat fraud Freddie Mac recommends you provide all appropriate employees, including servicing staff, in your organization with the following:

- Clear directives as to their responsibility when they suspect fraud
- An awareness of the major types of fraud
- An understanding of underwriting *red flags* and their use. See Chapter 2, Mortgage Screening Checklist
- A list of resources available to them to detect and investigate fraud

This chapter will give you guidelines to help you prevent, detect and resolve mortgage fraud in your business operations.

Fraud Hotline

To report incidents of fraud that might affect Freddie Mac, please contact our **Fraud Hotline** at (800) 437-2838 or (800) 4 FRAUD 8.

Preventing Fraud

In many organizations, fraud prevention and detection efforts are closely tied within the quality control area. Although your fraud prevention and detection efforts should not be limited to your quality control area, your quality control program is an excellent place to strengthen those efforts. Efforts to prevent and detect fraud should be made in a number of areas including:

- Employee training
- Prudent underwriting
- Quality control
- Loan servicing procedures

Employee Training

Employee training programs that are effective in the fight against fraud:

- Provide employees with the information to help them recognize the *red flags* that may signal the need for more review. See Chapter 2, Mortgage Screening Checklist
- Help employees understand the most common fraud schemes
- Ensure that your work force is familiar with your company's standards for ethical conduct
- Ensure external auditors and/or regulators that sound procedures are in place regarding fraud

Prudent Underwriting

Prudent underwriting—often the cornerstone of your efforts to fight fraud– includes:

- Knowing your brokers. See Chapter 5 of the Wholesale Originations Best Practices section of *Discover Gold Through Quality*
- Knowing your appraisers, builder clients, real estate agents and others with whom you conduct business
- Following comprehensive written procedures
- Screening all loans through Freddie Mac's Exclusionary List, which you can find on LoanProspector®. com, GoldWorks® and MIDANET®
- Staffing your organization in a way that ensures quality before quantity
- Encouraging your employees to adhere to the axiom, "If it doesn't make sense, don't make the loan."
- Sharing information amongst your staff and other departments

- Utilizing outside vendors on a rotating basis
- Performing due diligence

Quality Control

To ensure that your fraud prevention and detection efforts are working, you should group and analyze your quality control results accordingly to better identify and highlight potential trends:

- Branch office
- Loan officer
- Broker
- Underwriter
- Real estate agent
- Product
- Geographic area
- Closing/escrow agent
- Title company
- Appraiser

In addition, you should:

- Consider pre-funding quality control for high-risk loans based on LTV, rate, and FICO
- Target all early payment defaults for reverification and review
- Continually update your quality control policies and procedures
- Immediately report adverse findings to senior management if you suspect fraud
- Immediately report adverse findings to your Freddie Mac Quality Control Manager

Loan Servicing Procedures

Implementing the most diligent pre-funding reviews and post-funding quality control audits are no guarantee that fraud will be detected as most are based on sampling techniques. A number of things can be done in the servicing area to help you fight fraud, such as:

- Recognize and investigate adverse default trends
- Note changes in who is making payments on loans

- Perform due diligence reviews before acquiring servicing
- Monitor pre-payment speeds on loans retained for servicing

Portfolio analysis should be performed to monitor for suspicious or abnormal activity that may uncover patterns of mortgage fraud:

- Review for first and early payment defaults
- Focus on geographic areas where the default rate is above average
- Review production of branches or loan officers whose loan default rate is above average
- Review monthly production to identify geographical concentrations
- Periodic review of high volume producers
- Review production for a branch or loan officer whose monthly production has dramatically increased within a short period of time

Review unusual patterns such as:

- No valid phone number – collector is unable to contact borrower
- Returned mail with no forwarding address
- Address change requested on owner occupied properties
- Social Security number change requests
- Insurance changed from occupant to investor
- Work number is disconnected
- Borrowers employer does not know borrower or borrower was terminated from employment prior to the closing date
- Loan is coded owner occupied, but the borrower states reason for default is "tenant not paying rents"

Pursue "suspicious" collection calls that may indicate fraud is taking place:

- "Oh…this isn't my loan. I let someone use my name"
- "My broker/realtor/seller is supposed to be making the payments"
- "I'm not responsible for the payment. I only purchased the house for a friend/relative"

- "I deeded/sold this property to______. Contact them for the payment"
- "This isn't my loan. I never owned property at that address"
- "I bought multiple investment properties from the same person and they are all vacant and in disrepair"

Training programs for your loan servicing employees can be a crucial line of defense against mortgage fraud. Areas to include are customer service, collection, loss mitigation, foreclosure, bankruptcy, escrow, and real estate owned (REO). Employees should know the process for escalating any suspicious incidents and mortgage fraud awareness should be incorporated into any new employee orientation programs.

Detecting and Investigating Fraud

To assist you in identifying fraudulent mortgages, Freddie Mac is providing the following descriptions of common fraud elements and several possible fraud schemes. We do not represent this information to be all-inclusive. There are certainly more types of fraud than described in this section, and there will be new types of schemes that emerge. Keep in mind that many of these schemes contain several of the same elements, or may be referred to by a different name, so it can be difficult to distinguish between, or even keep track of the latest schemes.

Common Fraud Elements

Some common fraud elements typically found in many fraud schemes include:

Inflated Appraisals

Inflated appraisals are appraisals with fabricated or altered values and supporting information. The comparables used in the appraisal are often not valid comparables and may also contain false values and information.

See Chapter 2, Mortgage Screening Checklist, for a list of appraisal-related *red flags* that may occur when inflated appraisals are being used in the transaction.

Loan-level Misrepresentations

Misrepresentations in files may include fabricated or altered employment, income and asset documentation. There may be undisclosed mortgage debts on the application if the borrower is applying for multiple loans at the same time. Sources of funds to close may be misrepresented, or provided to the borrower by the person "orchestrating" the fraud scheme. The borrower's occupancy intent may also be false.

Rapid Transfers of Title

The owner of record should be consistent with the property seller on the contract and title documents on a purchase, and match the borrower on the loan application and title documents on a refinance. If the property seller/borrower is not the owner of record, the loan needs to be investigated to ensure the circumstances of the transaction are legitimate.

Unusual HUD-1 Payouts

Payouts may be made to unknown entities, often the ones profiting from the scheme. Payouts might also be made to cover phantom liens, repair allocations, referral fees, and non-lien disbursements.

See Chapter 2, Mortgage Screening Checklist, for a list of HUD-1related red flags that may occur.

Identify Theft

Identify theft is frequently used to impersonate realtors, loan officers, appraisers, borrowers and others in the mortgage industry. One or more parties in the transaction may be using a false identity. Forgeries often rely on participation of a notary.

Some of the following *red flags* may occur when identity theft is perpetrated in the transaction:

- Borrower lives out of the area and does not appear on credit report to have any tie to the area in which property is located
- Payments on the loan are not remitted from the borrower
- The borrower did not attend closing and there was a use of a Power of Attorney
- Social Security number has not been issued
- The number of years employed is greater than the issue date of the SSN
- Borrower name not associated with SSN

Straw Borrowers

A straw borrower is an individual whose personal profile is used to serve as a cover for a transaction. They are sometimes referred to as a nominee borrower or straw buyer. Straw borrowers are chosen for their ability to qualify for the loan. Straws can be willing participants in the transaction, or victims whose identity is being used unbeknownst to them (identity theft). Straw borrowers can cause loans to be approved that would ordinarily be declined.

For example, the actual borrower may NOT:

- Qualify for the mortgage
- Intend to occupy the property as a primary residence
- Be eligible for a loan program
- Exist

Some of the following *red flags* may occur when a straw borrower is used in the transaction:

- A quit claim deed is used either right before, or soon after, loan closing
- Investment property is represented as owner-occupied
- Someone signed on the borrower's behalf or use of a Power of Attorney
- Names were added to the purchase contract
- Purchase contract addenda adjusts the price
- Purchase contract or HUD-1 contains references to secondary financing
- Sale involves a relative or related party
- No sales agent is involved
- There is an indication of default by the property seller
- High FICO score
- Good assets, but gift used as down payment
- Sources of funds are questionable
- Repository alerts on credit report
- Post closing – payments are remitted by a party other than the borrower

Affinity Fraud

Affinity fraud exploits the trust and friendship that exist in groups of people who have something in common. The fraudsters who promote affinity scams frequently are—or pretend to be—members of the group, often preying on their own community of friends, family and co-workers. Affinity fraud has been found in many different types of groups such as religious, military, ethnic, professional, workplace, elderly and fitness/gym. Investment property schemes often take root from affinity groups.

With affinity fraud, there is an immediate level of trust within the group. Some members may have invested and made high returns, becoming advocates for the scheme. Loyalty to the group may deter members from reporting schemes or monetary losses to authorities.

Common Fraud Schemes

Again, there are certainly more types of fraud than described in this section, and there will be new types of schemes that emerge. Some common fraud schemes include:

Builder Bailout Scheme

Builder bailouts occur when the builder or developer is motivated to move property quickly when the market has slowed and sales have begun to lag. The builder and other industry professionals may engage in questionable practices in order to move the remaining inventory of properties.

With builder bailouts, there are typically several misrepresentations involved with the transaction and may include:

- False income and employment
- False down payment
- False intent to occupy the property
- Straw buyers
- Inflated appraisals – usually just enough to create equity for the borrower or to cover the down payment
- Invalid subordinate financingSome of the following *red flags* may occur in builder bailouts:

- The builder is willing to "do anything" to sell property
- The borrower is barely qualified or unqualified, or may be a straw buyer
- The sales price and appraisal show signs of inflation
- Incentives such as buy-down funds appear excessive
- No-money-down sales are heavily promoted
- “Silent” second mortgages are involved
- The sales price is adjusted upwards
- The source of borrower down payment funds is questionable
- There is a reference to secondary financing on HUD-1 or purchase contract
- Parties to the transaction are affiliated
- Multiple sales to same person in the same project or subdivision
- Several loans close within a short period of time within a specific project or subdivision

Property Flips

Property flips occur when ownership of one property changes several times in a brief period of time. Property flipping becomes illegal and a fraud for profit scheme when a home is purchased and resold within a short time frame at an artificially inflated value. The flip typically involves a fraudulent appraisal, which may indicate that renovations were made to the home, when, in fact, there were none, or the renovations consisted only of minor cosmetic improvements. Flips may also be used to conceal the identity of the true buyer or seller of the property.

Some of the following *red flags* may occur in flips:

- Ownership changes two or more times in a brief period of time
- Two or more closings occur almost simultaneously
- The property has been owned for a short time by the seller
- The property seller is not on title
- There is a reference to a double escrow or other HUD-1 form
- Parties to the transaction are affiliated
- Up-and-down fluctuation of sales price over short period of time
- Multiple investment properties obtained by same buyer within short time frame
- “Purchases” disguised as “refinances” to circumvent a down payment
- Property seller is an entity/corporation
- Unusual cash payouts at closing on HUD-I to non-lien holders
- Comparable sales on appraisal are previously flipped properties

Foreclosure Rescue Scheme

A foreclosure rescue scheme is a type of fraud that takes advantage of homeowners who have fallen behind on their mortgage payments. The fraud perpetrator or “rescuer” approaches the homeowner with a promise to pay off the delinquent mortgage and help the homeowner stay in the property. At closing, the homeowner surrenders title (usually unaware they are doing so) to an investment buyer, who may have been recruited. The proceeds are used to pay off the defaulted loan, but the remaining equity is paid out to the “rescuer”.

Some of the following *red flags* may occur with a foreclosure rescue scheme:

- Buyer purchases a home as an investment while he or she continues to rent
- Buyer purchases multiple rental properties simultaneously

- Buyer purchases the property as a primary residence when he or she already owns a home of superior value
- Buyer is unable to contribute to funds to close

Investment Property Fraud

Investment property fraud often involves an elaborate scheme to profit the fraudster using legitimate investment buyers or straw buyers. Affinity groups may be targeted. These schemes commonly involve:

- Investment clubs or seminars to promote an investment opportunity
- No money down offers on multiple properties being sold to one borrower
- Cash back to borrower at closing
- Out-of-state property purchases where borrowers don't physically have a chance to look at the property (or properties) prior to closing. (The property may be distressed without the buyer's knowledge.)
- Loan-level misrepresentations to qualify the borrowers
- Artificially inflated values
- Purchases that are disguised as refinances to circumvent a down payment
- Rushed closings to avoid exposure before the scheme unfolds

Purchases Disguised as Refinances

These schemes are often used to disguise the borrowers equity contribution in the transaction, inflate the property value, close the loan as a refinance and provide cash-out to the fraudster. Some of the following *red flags* may occur when a purchase is disguised as a refinance:

- Borrower is not in title on the title commitment
- Land contracts executed right before or after application
- No payment history on land contract or zero paid down on balance
- Recent transfers of the subject property—was it flipped?
- Multiple investment properties purchased within a short time frame
- Inflated appraised values
- Borrowers unfamiliar with terms/conditions of land contract or unaware of the existence of a land contract
- Same name of borrower and owner of record on appraisal Property is refinanced right after a purchase on the property

Cash-out Purchases

A cash-out purchase scheme normally involves one closing and occurs when properties have been on the market for an extended length of time and a desperate seller is unable to find a qualified buyer.

The seller may be offered a way out of the situation with an offer that exceeds the selling price of the property and an agreement to make a refund to the buyer after closing. The property appraisal is inflated and a straw buyer is used to purchase the property. The loan often goes into early payment default and ends in a foreclosure.

The following *red flags* may indicate a cash-out purchase:

- The home may have been on the market for an extended period of time
- The sales contract may have been modified or may include an addendum regarding the payment to the borrower
- The appraisal may include red flags symptomatic of inflated value
- Many of the same red flags that accompany a traditional flip also apply to cash-out purchase fraud – straw buyer, false source of funds and false occupancy
- The preliminary *HUD-1* Form may already indicate a portion of the net proceeds going back to the borrower

List of Investigative Resources

You should provide your staff with the resources available to investigate suspected misrepresentation and/or fraud in the mortgage file. These sources may include:

- Freddie Mac Fraud Hotline: **1-800 4 FRAUD 8**
- Discover Gold Website www.FreddieMac.com/dgtq
- Freddie Mac Fraud Prevention www.FreddieMac.com/singlefamily/fraud_prevention.html
- Freddie Mac Exclusionary List (Seller/Servicers only)
- Internet – search and access records/information. Freddie Mac does not endorse any particular vendor or website, but a list of websites that may be helpful include:
  - www.accurint.com (Accurint records database)
  - www.lexisnexis.com (LexisNexis records database)
  - www.mari-inc.com (Mortgage Asset Research Institute)
  - www.searchsystems.net (public information)
  - www.searchbug.net (people and company finder)

- www.salary.com (salary benchmarks)
- www.mortgagefraudblog.com (recent fraud cases)
- www.mbafightsfraud.mortgagebankers.org/ (Mortgage Fraud Against Lenders Resource Center)
- www.mortgagefraud.squarespace.com (recent fraud cases)
- www.fraud.org (National Consumer League's Fraud Center)
- www.fraudproblem.com (Real estate and mortgage fraud information and assistance center)
- http://www.asc.gov/ (Appraisal Subcommittee)
- www.nationalmortgagenews.com/fraud/newsletter (National Mortgage News Fraud and Compliance Report)
- www.consumer.gov/idtheft (Federal Trade Commission's Identify Theft site)

Resolution

Once fraud affecting Freddie Mac has been detected, immediately contact our **Fraud Hotline** at (800) 437-2838 or (800) 4 FRAUD 8. If fraud is discovered in an isolated Freddie Mac loan, call your Freddie Mac QC representative.

In addition, some industry best practices include:

- Requiring the broker to repurchase the loan
- Beginning foreclosure proceedings or acceleration of the Note in accordance with the mortgage documents
- Terminating business or employment relationships
- Initiating civil actions
- Referring the matter to state or local mortgage regulators
- Referring the matter to local, state or federal authorities for criminal action
- If your institution is federally insured, file a Suspicious Activity Report
- Conducting a comprehensive review of responsible parties including a determination of overall exposure levels

Freddie Mac Exclusionary List

The Freddie Mac Exclusionary List is updated and distributed monthly. It contains the names and addresses of individuals and companies that have been excluded from participating in transactions involving Freddie Mac loans, either directly or indirectly. Freddie Mac's Seller/Servicers and our contractors must warrant that no person or entity on the Exclusionary List is involved in the origination or servicing of a loan sold to or serviced for Freddie Mac. (See Guide Section 6.11)

The Exclusionary List must not be distributed to third parties because it contains confidential information. There are no exceptions to this policy. Individuals accessing or using the Exclusionary List are required to maintain the confidential nature of the information on the Exclusionary List. By accessing or using the Exclusionary List, the user agrees to indemnify Freddie Mac for any loss, damage or expense resulting from the users' failure to maintain the confidentiality of the information on the List.

- The Exclusionary List is available to Freddie Mac Seller/Servicers via LoanProspector.com, GoldWorks and MIDANET. For directions on how to access the Exclusionary List through these systems refer to:
  - Loan Prospector - http://www.FreddieMac.com/learn/uw/pdfs/qrefs/ex_lst_lp.pdf
  - GoldWorks - http://www.FreddieMac.com/learn/service/pdfs/ex_lst_gold.pdf
  - MIDANET - http://www.FreddieMac.com/learn/deliver/pdfs/qrefs/ex_lst_midanet.pdf

Chapter 2 – Mortgage Screening Checklist

Introduction

There are a number of details that underwriters, processors and quality control employees should look for in the loan file documents. To assist you in identifying mortgages that may contain false or misleading information, we have put together this *Mortgage Screening Checklist*. Finding one or more of the items does not necessarily mean there is fraudulent intent. However, these *red flags* may signal the need for a more intensive file review.

Mortgage Loan Application

- Down payment other than cash (rent credit, sale of personal property, repayment of loan, gift, etc.)
- Loan is for a owner-occupied refinance, but the owner lives elsewhere (usually out of state)
- Non-purchasing spouse
- Borrower buying investment property, but does not own current residence
- New home is not large enough for proposed occupants
- Post office box is the only address listed for employer (especially on the handwritten application)
- The employer's phone number is a cell phone
- Significant or unrealistic commute distance from subject property to employment (on owner-occupied transactions)
- Number of years on the job/in that profession inconsistent with borrower's age
- Borrower's level of education is inconsistent with employment
- Borrower's office phone number is the same as home number (borrower is possibly self-employed)
- Assets inconsistent compared to liabilities (for example, significant assets, yet no credit or minimal credit)
- Buyer is downgrading to smaller or less expensive home
- Incomplete handwritten application
- Borrower income inconsistent with type of employment

- Non-transient job with company phone number identified as a cell phone
- Incomplete Schedule of Real Estate Owned
- Significant or contradictory changes in debt, employment, income or assets from the initial to the final application
- Borrower is purchasing property from landlord or employer
- Handwritten application lists debts in the same order as credit report
- Borrower signature is inconsistent with rest of the loan file
- Compare employment against the credit report, bank statements (for direct payroll deposits), and tax returns

Credit Report

- All credit reports and/or supplements are not included in the file
- Personal data not consistent with handwritten application
- Social security number is invalid, differs from loan application or has been recently issued
- Variance in residence data from other file documentation
- Employment cannot be verified by a credit bureau
- Variance in employment data from other file documentation
- No credit (possible use of alias or different social security number)
- Credit habits inconsistent with income/employment
- All trade lines opened at the same time or opened recently
- All accounts paid in full recently (possibly a new, undisclosed consolidation loan)
- Refinance of recently originated loan (current lender may have accelerated for misrepresentation)
- Length of time on credit bureau file inconsistent with buyer's age
- Also Known As (AKA) or Doing Business As (DBA) indicated
- Recent inquiries from other mortgage lenders
- Indebtedness disclosed on the mortgage application varies from that reflected on the credit report

- Infile credit report on closing date shows additional debt
- Credit report is from a different lender
- Hawk alerts

Verification of Employment (VOE)

- Appearance that the VOE may have been hand-carried (i.e., folded, not creased. If folded in half, it may indicate it wasn't mailed, but hand-carried. If creased, it may indicate the VOE was mailed)
- Name of employer incorporates some form of borrower's name (for example, borrower is John Doe and employer is J.D. Enterprises)
- Employer uses mail drop or post office box address
- Typed by employer
- Date of hire is a weekend or holiday
- Generic job titles (for example, manager, general manager, accountant, consultant)
- Income is out of line with the type of employment
- Commission-type position with "base" salary only (and vice versa)
- Round dollar amounts in (i.e., year-to-date or prior year's earnings)
- "Squeezed-in" numbers
- YTD past year's income says, "See W-2s and Paystubs"
- VOE shows company car and application shows auto loan
- Illegible signature with no further identification
- Co-borrower's maiden name is the same as the signature of employer (self-employed)
- Person verifying employment appears to be related to the borrower
- VOE completed same day as ordered
- White-outs or cross-outs
- Credit explanation indicates that borrower was late due to illness/layoff, but income on VOE is not lower during that time period
- Business entity is not in good standing or not registered with the appropriate regulatory agencies

- Handwritten paystubs or W-2 forms
- Company phone number is identified as a cell phone number
- “Personnel” is misspelled
- Person verifying income is not in a proper position to sign the VOE

Paystubs

- Form is handwritten
- Not computer-generated from large employer
- Check numbers do not increase chronologically
- Round dollar amounts
- Amounts withheld for Social Security, Medicare and other government programs are inconsistent with the level required
- Debts reflected as deduction from pay (credit union loans, etc.) not disclosed on application
- Year-to-date totals do not total accurately from paycheck to paycheck
- Social Security number is not consistent with other loan file documents
- Type/fonts are inconsistent
- Number of dependents is inaccurate based on loan application

Form W-2/1099

- Form is handwritten
- Not computer-generated from large employer
- W-2 is typed, but paystubs are computer-generated
- Different type/font within the form
- Employer identification number is formatted other than XX-XXXXXXX (two digits, hyphen, seven digits) and/or other than numeric (could be invalid)
- Employer and employee names or addresses are inaccurate
- Wrong SSN or misspelled name
- Round dollar amounts

- Income reflected on W-2 statements is different than income reported on mortgage application, VOE and tax returns
- FICA and Medicare wages/taxes and local taxes, where applicable, exceed ceilings/set percentages
- Copy submitted is not “Employee’s Copy” (Copy C)
- Withholdings are inconsistent with paystub

Tax Returns (Form 1040)

- Address and/or profession does not agree with other information submitted on the mortgage application
- Type of handwriting varies within return
- Evidence of “white-out” or other alterations
- Unemployment compensation reported, but no gap in employment is disclosed
- No estimated tax payments by self-employed borrower (Schedule SE required); or self-employment tax claimed, but self-employment not disclosed
- Tax returns are not signed/dated by borrower
- Paid preparer signs taxpayer’s copy

Schedule A (Itemized Deductions)

- Real estate taxes and/or mortgage interest is paid but no property is owned (or vice versa)
- Tax preparation fee is deducted, yet prior year’s return is prepared by borrower
- Few or no deductions for a high-income borrower

Schedule B (Interest and Dividend Income)

- Borrower with substantial cash in the bank shows little or no related interest income
- No dividends are earned on stocks owned
- Amount or source of income does not agree with the information submitted on the mortgage application

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Schedule C (Profit/Loss from Business Owned)

- Business code is inconsistent with type of business
- Gross income does not agree with total income on Form 1099s
- No “cost of goods sold” on retail or similar type of business
- Borrower takes a depreciation deduction for real estate not disclosed (or vice versa)
- Borrower shows interest expense but no related loan (possibly business loans with personal liability)
- No deductions for taxes and licenses
- Wages are paid, but no tax expense is claimed
- Wages are paid, but there is no employer identification number
- Salaries paid are inconsistent with the type of business
- Business expenses are inconsistent with type of business (for example, truck driver with no car and truck expense)
- No IRA or Keogh deduction
- Income significantly higher than from previous years

Schedule E (Rents and Royalties)

- Additional properties are listed, but not shown, on the mortgage application
- Mortgage interest is deducted but no mortgage is disclosed

- Net income from rents plus depreciation does not equal the cash flow submitted by borrower
- Borrower shows partnership income (may be liable as a general partner for partnership's debts)

Verification of Deposit (VOD) and Bank Statements

- Source of funds consists of (unverified) note, equity exchange, sale of residence
- Evidence that VOD may have been hand-carried (i.e., folded, not creased)
- Post office box for depository (if not typical for area or company)
- Cash in the bank is not sufficient to close
- Round dollar amounts (especially on interest-bearing accounts)
- New bank account (verify previous account)
- Significant changes in balance from previous two months to date of verification
- Savings account with average two-month balance exactly equal to present balance (no interest accumulation)
- Excessive balance in checking account vs. savings account
- "Squeezed-in" numbers
- Loan secured by checking or savings account
- Bank account not in borrower's name
- Bank account or bank statements reflect additional, non-borrowing account holders
- Illegible signature with no further identification
- VOD is completed the same day it is ordered
- VOD signed by bank officer, or someone who ordinarily would not verify an account
- Date of verification by the bank is a weekend or holiday
- "White-outs," cross-outs
- Gift letter that is not backed up by written transfer of funds
- Bank statements reflect an account holder name in a different font
- Bank statements reflect periodic deposits at odds with reported income

- Bank statements include insufficient-funds fees
- Bank statements reflect periodic withdrawals at odds with debts
- Bank statements reflect daily balances inconsistent with opening/closing balances
- Bank statements do not reflect withdrawal of earnest-money deposit
- Bank statements reflect automatic payroll deposits that are not consistent with the employment listed on the loan application
- Deposit money made in multiple transactions
- Closing check drawn on a different bank
- Bank statement does not reconcile
- Bank logo on statement is suspicious

Bank Checks

- Numbers, payee or other information appear to be altered
- Bank and/or account number is inconsistent with the information on application
- Low check number (indicates newly opened account)
- Check is not canceled
- Dollar amount is not encoded correctly on check
- Check number does not agree with encoded number
- Endorsement dates are inconsistent with the date the check was written
- Check numbers from single account do not increase chronologically
- Checks reflect additional signers for the account
- Cashiers check for funds to close mentions an entity or non-interested party as remittee (possible flip)

Sales Contract

- Borrower is not shown as purchaser
- The borrower/buyer signature does not match other documents in the file
- The contract is not dated

- Names are deleted from, or added to, the purchase contract
- Seller is a realtor, relative or employer
- Earnest-money deposit consists of the entire down payment, or is an odd amount
- Sales price is substantially above or below market value
- Second mortgage is indicated
- No realtor involved
- Name and address on earnest-money deposit check is different from that of the buyer
- Earnest-money deposit checks have inconsistent dates, for example:
  - Check #111 dated November 1
  - Check #113 dated September 1
  - Check #114 dated October 1
- Multiple contracts exist
- Earnest-money check is not cashed
- Sales contract date is after the appraisal date

Escrow/Closing Instructions

- "Fill in the blank" escrow instructions
- Change of sales prices to "fit" the appraisal
- Odd amounts paid as a deposit/down payment
- Down payment is paid into escrow upon opening
- Cash is paid outside of escrow to property seller
- Sale is subject to property seller acquiring title
- Business entity acting as the property seller is controlled by or related to borrower
- Buyer is required to use a specific broker/lender
- Reference to another (double) escrow
- Unusual credits with no economic substance
- Demands paid off to undisclosed third parties (potential obligations)
- Subject property is not subject to inspection
- Right of assignment

- Related parties involved in the transaction
- Power of attorney used with no explanation
- Power of attorney is not properly documented/recorded
- No amendments to escrow
- Unusual amendments to the original transaction
- Seller on HUD I different than seller on preliminary title report

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Appraisal

- Ordered by any party to the transaction other than lender (buyer, property seller, realtor)
- Owner of record does not agree with other information disclosed in the loan file
- Spaces where requesting information is left blank (borrower, client, occupant, etc.)
- Appreciation in stable or declining market
- Most recent sale(s) on subject and/or comps are missing
- Appraisal is ordered and/or prepared prior to date of sales contract or loan application
- New home is not large enough for proposed occupants
- High land value in urban areas (consider the area)
- Comps not verified as recorded (data source MLS, sales office, HUD-1,SREA, CMDC, real estate agent, etc.)
- Comps not similar to the subject property
- Appraiser uses public records and exterior inspections as sole data sources
- Excessive distance between comps and subject property
- Excessive adjustments in urban or suburban area where marketing time is under six months
- Income approach is not used on tenant-occupied, single-family dwellings
- Missing photos or maps
- Photos do not match description of property
- Photos of subject property taken from odd angles or with no depth of field
- Photos reveal items not disclosed in appraisal (for example, commercial property next door, railroad tracks, another structure on premises, etc.)

- "For rent, for sale" sign in photo of subject property on owner-occupant refinance application
- Refinance transaction, but the property is vacant
- Photos of subject or comps look familiar
- Appraiser is located outside of subject property county
- Weather conditions in photo of property are not appropriate for the date of the appraisal (i.e., July photo shows snow on the ground for a property in Illinois)
- Occupant is identified as a tenant on an owner-occupied application
- Occupants are unknown
- House number in photo does not match property address
- Time frame between sales not enough for reported renovations made to property
- Loan file contains a note with a predetermined value
- Full value is applied to excess land

Preliminary Title Report/Title Search

- Ordered by, prepared for/mailed to a party other than the lender
- Property seller not on the title (purchase disguised as a refinance or property flip)
- Property seller-owned property for a short time with cash out on the sale
- Notice of default is recorded (possible cash-out purchase with a straw buyer or foreclosure rescue scam)
- Delinquent property taxes
- Judgment against borrower is not shown on credit report
- Modification agreement on existing loan(s)
- Suspicious transfer

HUD-1/Settlement Statement

- Names and addresses of property seller and buyer vary from other loan documentation
- Name of the property seller is a corporation or an LLC
- Seller's address is the same as the mortgage broker

- No real estate agent involved in transaction
- Date of settlement is delayed without explanation
- Sales price differs from sales contract
- Reference is made to undisclosed secondary financing or double escrow
- Rent prorated on owner-occupied transactions
- Cash proceeds to buyer in excess of $300
- Zero amount due to/from buyer
- No loan pay off for the seller
- HUD-1 or escrow instructions contain unusual credits, disbursements, related parties, delinquent loans paid off, or multiple mortgages paid off
- Payoffs for items not consistent with liens listed on title commitment
- Excessive fees

Additional

- Type, spacing, and/or font varies within document from a single source
- Inconsistent borrowers' names, phone numbers, addresses, Social Security numbers, or handwriting throughout file
- More than one mortgage lender is reflected throughout the file
- Parties to the transaction have more than one role (for example, realtor is landlord, employer is gift donor)
- Borrower appears to be related to any other party reflected in the file except the gift donor (for example, verifier of funds or employment, appraiser, escrow officer, etc.)
- Borrowers' signatures differ throughout the loan package
- Unusually long or unusually short loan processing time (brokered loans)
- Patterns or similarities in loan packages received from a specific broker, loan originator, realtor or property seller
- Borrower or any other individual/company is on Freddie Mac's Exclusionary List

Freddie Mac
We make home possible®

Discover *Gold*
Through Quality

Wholesale Originations
Best Practices

Available at: ***www.freddiemac.com/dgtq***

Chapter 1 – Wholesale Originations

Introduction

To meet the competitive challenges of the residential mortgage market, many of our customers use mortgage brokers and correspondents in the origination of mortgages. Freddie Mac purchases wholesale home mortgages from customers that have sufficient controls to ensure the investment quality of the wholesale home mortgages.

These best practices are based on our research and the input of many Freddie Mac sellers. These best practices are recommendations, not inflexible rules or requirements. Also, this information may not address all circumstances and needs of your particular organization.

The information contained in Wholesale Originations Best Practices is intended to help you:

- Ensure quality wholesale home mortgages,
- Recognize the importance of having wholesale controls,
- Understand Freddie Mac's expectations and
- Implement an effective wholesale program or improve your existing wholesale controls.

General Requirements and Best Practices

We have summarized our wholesale origination requirements and suggested best practices for implementing wholesale controls. You must meet the wholesale origination requirements found in our *Single- Family Seller/Servicer Guide* (Guide), including those in Section 22.15 of the Guide, as a condition to selling us wholesale home mortgages.

The best practices are provided to give you ideas and convey our expectations around wholesale controls. They are based on our experience and actual controls currently being used in the industry. We do not require you to use these suggestions, but we strongly believe that the right controls can significantly reduce the risks inherent in wholesale originations.

We realize that complexity in the marketplace has resulted in a wide variety of ways for sellers to set up their wholesale operations. These best practices are generally appropriate controls for most wholesale operations; however, they do not cover all possible ways to ensure the investment quality of wholesale home mortgages.

You may find that some of these best practices and examples do not relate to the way you conduct your wholesale business. We encourage you to carefully read each chapter so that you can identify which best practices meet or are closely related to the needs of your organization.

Keep in mind that although the wholesale controls suggested here should assist you in originating investment-quality wholesale home mortgages, this information is not a substitute for the Guide. Furthermore, wholesale controls are not a substitute for required underwriting, postclosing quality control reviews or mortgage file documentation.

Chapter 2 – Understanding Freddie Mac's Wholesale Requirements

Introduction

The risks associated with wholesale home mortgages can be managed with appropriate controls. Our Guide requires you to have appropriate controls relating to the origination of wholesale home mortgages sold to us.

Chapters 2 and 3 will give you:

- Information to help you understand the philosophy behind our wholesale requirements,
- General best practices for establishing wholesale controls and
- Definitions of certain terms used in our requirements (found in Chapter 3).

Philosophy Behind Freddie Mac's Wholesale Requirements

Overview

We recognize the need for controls in a wholesale operation and our customers' need for flexibility in applying and implementing those controls. You should carefully review the best practices contained in this publication while developing your wholesale controls. We expect you to implement controls you determine are prudent in managing your specific mortgage broker and correspondent relationships.

Need for Controls

The investment quality of wholesale home mortgages is directly affected by the level of controls sellers have in place to manage the wholesale process. If adequate controls are not used, sellers may attract mortgage brokers and correspondents that originate poor-quality wholesale home mortgages. With proper controls, you can successfully manage the use of mortgage brokers and correspondents while producing investment-quality wholesale home mortgages.

Need for Flexibility

Controls should be designed to meet the specific needs of your organization. They should reflect the type and scope of your wholesale operation.

Guide Required Seller Representations and Warranties

Freddie Mac's Guide Section 22.15 requires that you represent and warrant that for each wholesale home mortgage you sell to Freddie Mac you have management controls in place that:

- Ensure the mortgage complies with the terms of the purchase documents
- Correspond to the scope and types of risks associated with your wholesale business. Factors to be considered include but are not limited to:
    - Number of correspondents and mortgage brokers you use
    - Length of time the business relationship has been established
    - Types of services provided by the correspondent or mortgage broker.

Customized Wholesale Controls

Mortgage brokers and correspondents differ in their level of experience and ability. The way mortgage brokers and correspondents are used and the services they provide also vary greatly throughout the industry. Additionally, the point in the origination process when the Seller acquires a wholesale home mortgage and the method of compensation to the mortgage broker or correspondent may vary.

This lack of uniformity may create a need to customize wholesale controls. You should review the way you manage your wholesale business and select controls that will increase your effectiveness based on how you utilize mortgage broker and correspondent services. If you use mortgage brokers and correspondents and they provide a variety of services, you may have to significantly increase your controls. We believe that you are best positioned to determine the level of controls you need for a particular mortgage broker or correspondent relationship to ensure the investment quality of wholesale home mortgages.

Chapter 3 – Wholesale Terminology

Affiliate

Any entity that is related to another party as a consequence of the entity, directly or indirectly, controlling the other party, being controlled by the other party, or being under common control with the other party.

Correspondent

An entity that typically sells the Mortgages it originates to other lenders. The Correspondent performs some or all of the loan processing functions such as taking the Mortgage application; ordering credit reports, appraisals, and title reports; and verifying the Borrower's income and employment. The Correspondent may or may not have delegated underwriting and typically funds the loans at settlement. The Mortgage is closed in the Correspondent's name and the Correspondent may or may not service the Mortgage. The Correspondent may use a Mortgage Broker to perform some of the processing functions or even to fund loan on its behalf; however, under such circumstances, such a Mortgage is considered a Mortgage Broker third party origination Mortgage and not a Correspondent third party origination Mortgage. (See the definition of “Affiliate” and “Mortgage Broker.”)

Mortgage Broker

A person or entity that specializes in loan originations, receiving a commission (from a Correspondent or other lender) to match Borrowers and lenders. The Mortgage Broker performs some or most of the loan processing functions, such as taking loan applications, or ordering credit reports, appraisals and title reports. Typically, the Mortgage Broker does not underwrite or service the loan and generally does not use its own funds for closing; however, a Mortgage Broker could fund a Mortgage on a lender's behalf and such a Mortgage will be considered, and should be delivered as, a Mortgage Broker third party origination Mortgage. The Mortgage is generally closed in the name of the lender who commissioned the Mortgage Broker's services.

Mortgage Service Provider

A mortgage service provider is an entity or individual engaged to handle or perform, for a seller or correspondent, part of the mortgage application processing, underwriting, funding or postclosing functions, but not any activities related to obtaining an application for a wholesale origination. This entity is typically paid on a fee basis for services performed, with the payment of fees not being contingent on mortgage approval or closing.

Mortgage service providers include:

- Contract underwriters
- Contract processing firms
- Contract quality control services
- Escrow companies and settlement agents
- Contract document preparation companies

Texas Equity Section 50(a)(6) Mortgage

A First Lien home equity refinance Mortgage originated pursuant to Section 50(a)(6) of Article XVI of the Texas Constitution secured by homestead property located in Texas and meeting the requirements of Section 24.8 and other sections referenced in Section 24.8.

Wholesale Home Mortgage

A Home Mortgage that a Mortgage Broker or Correspondent completely or partially originated, processed, underwrote, packaged, funded or closed, and sold or assigned to a non-Affiliate Seller who subsequently sold it to Freddie Mac.

Chapter 4 – General Best Practices for Establishing Wholesale Controls

Overview

As you establish your mortgage broker and correspondent relationships, keep in mind the goal of producing investment-quality wholesale home mortgages. If you set high standards and diligently enforce your controls, you will be able to minimize future problems. This section will give you general best practices for establishing your wholesale controls.

Using Mortgage Brokers and Correspondents

The use of mortgage brokers and correspondents can be a very profitable, efficient way to increase the volume of wholesale home mortgages you produce. If you are just beginning your wholesale operation or have not previously relied on mortgage brokers and correspondents, we recommend you limit the use of mortgage brokers and correspondents to a level your staff can easily manage. Expanding too quickly could result in weak controls and compromise the quality of your mortgages.

Insurance

Before using mortgage brokers and correspondents, you should consider how their use will affect your ability to claim under your insurance. Most fidelity and mortgage errors and omissions insurance policies do not cover acts of non-employees.

Establish Partnerships With Mortgage Brokers and Correspondents

When you do business with mortgage brokers and correspondents, work to establish an ongoing partnership with them that will provide you with quality services. Long-term relationships with mortgage brokers and correspondents may, over time:

- Reduce the need for some controls,
- Give you a high level of confidence in the quality of their work and
- Contribute to the profitability of your operation.

Written Agreements

We strongly suggest you have a written agreement with each mortgage broker and correspondent with whom you do business. The agreement should include your responsibilities and the responsibilities of the mortgage broker or correspondent. By clearly defining the responsibilities of both parties, you effectively communicate your expectations.

We encourage you to incorporate provisions into your agreement that emphasize your decision to do business with the mortgage broker or correspondent based solely on the quality and performance of the mortgages it submits.

For new agreements with mortgage brokers and correspondents, we suggest that the following provisions be included:

- Clear statements about circumstances under which a mortgage broker or correspondent has indemnification or repurchase liability,
- Details on the actions that may be taken against the mortgage broker or correspondent if it submits false information,
- Requirements for handling mortgage deficiencies,
- Your expectations concerning mortgage quality,
- Compliance with investor requirements (such a provision might include a certification by the mortgage broker or correspondent stating that it has obtained and reviewed your underwriting guidelines and operating procedures and will comply with their contents),
- Responsibilities of the mortgage broker or correspondent in the event of mortgage default,
- Clear procedures for monitoring quality and
- Specific criteria for continuing the business relationship with the mortgage broker or correspondent.

The written agreement between you and a mortgage broker or correspondent may be included in more than one document. For example, when a mortgage broker or correspondent is an affiliate or subsidiary, your responsibilities and the responsibilities of your affiliate or subsidiary might be established in internal ownership documentation or in operating manuals.

Training Mortgage Brokers and Correspondents

You may need to provide training to mortgage brokers and correspondents if you identify weaknesses in their work. By clearly communicating your expectations and assisting them in developing their programs, you can avoid costly errors.

Written Standards and Procedures

You should maintain written standards and procedures as part of your wholesale operation. Your standards and procedures will provide the foundation on which you can build a strong and comprehensive control program.

You should ensure that the standards and procedures you adopt yield investment-quality wholesale mortgages and include standards and procedures that you believe are appropriate for your organization.

The contents of your written standards and procedures should be continually updated as the type or scope of your wholesale operation changes. Train your staff fully about your standards and procedures, and keep them informed as changes and updates occur.

Implementation

You should apply your controls, including your written standards and procedures, to each wholesale home mortgage and to each mortgage broker and correspondent whose services you use in the origination of mortgages. You will then be able to identify and effectively manage any problem areas that you might encounter.

See the Fraud Prevention Best Practices section of Discover Gold Through Quality for more information.

Fraud Detection

Detecting fraud should be stressed throughout your wholesale operation. Any suspicion of fraud should be considered a serious situation, and actions should be taken to counteract the problem as soon as possible.

Record-keeping

We strongly recommend that you maintain a separate file for each mortgage broker and correspondent. You may want to keep information in a computerized system. For examples, refer to Exhibit WO1, *Sample Mortgage Broker File Checklist*, and Exhibit WO2, *Sample Correspondent File Checklist*. Keeping records will:

- Provide you with information to identify problems, make decisions and measure your program's success and
- Be a basis for feedback to your mortgage brokers and correspondents.

Controls for Affiliates and Subsidiaries

We strongly suggest you have wholesale controls relating to your affiliate's or subsidiary's use of a mortgage broker or correspondent to process any part of the wholesale home mortgage. You may decide to differentiate your controls between affiliates/subsidiaries and non-related mortgage brokers and correspondents. Such a differentiation may be appropriate where you have a level of management control over the business operations of your affiliate or subsidiary that mitigates risk.

Indirect Controls for Correspondents Using Mortgage Brokers

You should consider including controls for mortgage brokers used by your correspondents, as their use can affect the quality of wholesale home mortgages. Since more people are involved and you have little or no contact or control over them, you have a greater risk of substandard work and fraud.

As a Seller, you are responsible for the investment quality of each wholesale home mortgage you sell to us, no matter who was involved in the origination process. When you approve a correspondent, you should consider any use of mortgage brokers by that correspondent, including any practice of paying fees to real estate agents or other parties involved in the transaction. You may want to institute additional wholesale controls for correspondents that use mortgage brokers to process wholesale home mortgages.

Controls for Mortgage Service Providers

The level of controls necessary to manage the risks associated with using mortgage brokers and correspondents is not necessarily needed to effectively manage mortgage service providers. Although we do not formally require mortgage service provider controls, we strongly recommend that you implement them as outlined in Chapter 7, Managing Mortgage Service Providers.

Chapter 5 – Evaluating and Approving Mortgage Brokers and Correspondents

Introduction

Freddie Mac strongly suggests that you have and implement specific written controls for evaluating and approving mortgage brokers and correspondents. We encourage you to include controls that help you decide with whom you wish to do business. It is important to take the time to learn about mortgage brokers and correspondents to control the risks inherent in wholesale originations.

We believe that you will be more confident in the quality of your wholesale home mortgages if you maintain high standards for evaluating and approving the mortgage brokers and correspondents with whom you do business.

This chapter covers:

- General best practices for evaluating mortgage brokers and correspondents,
- Reviewing resumes,
- Checking the Freddie Mac Exclusionary List,
- Checking references,
- Verifying mortgage brokers' and correspondents' authority,
- Reviewing credit reports,
- Reviewing wholesale procedures,
- Conducting on-site visits and
- Reviewing other useful information.

Written Procedures

Procedures for evaluating and approving mortgage brokers and correspondents should:

- Ensure that a wholesale home mortgage is originated by a mortgage broker or correspondent with sufficient experience and demonstrated integrity to produce an investment-quality wholesale home mortgage,
- Contain criteria and standards for evaluation and approval, including specification of the approval authority in your organization,
- Include a check of the Freddie Mac Exclusionary List and

- Verify the mortgage broker's or correspondent's current compliance with all applicable laws related to licensing, qualification or approval to originate wholesale home mortgages.

General Best Practices for Evaluating Mortgage Brokers and Correspondents

Overview

Specific steps for evaluating mortgage brokers and correspondents may help you gather as much meaningful information as possible from which to make a sound business decision. This section will give you some suggested best practices for how to organize your evaluation efforts.

Selecting Quality Mortgage Brokers and Correspondents

What you need to make an informed decision will vary depending on:

- The scope of services that the mortgage broker or correspondent will provide to you and
- Any prior business experience you may have had with that mortgage broker or correspondent.

Gathering Information

Your written procedures should include details outlining:

- What information to collect, differentiated by the way you will use mortgage brokers and correspondents,
- Appropriate sources from whom to gather information,
- How the information is to be gathered and
- Who is responsible for gathering and validating the information.

Mortgage Broker and Correspondent Application/Questionnaire

You may wish to begin your evaluation of the mortgage broker or correspondent by requesting that it complete an informational questionnaire or application. For an example, refer to Exhibit WO4, *Sample Mortgage Broker/Correspondent Approval Checklist*, in this section of *Discover Gold Through Quality*. This type of completed document will help you to determine:

- What information you might need to make an approval decision and
- Where that information can be obtained.

Company Profiles

If you are unfamiliar with a particular mortgage broker or correspondent, you should request that a company profile be submitted along with the application/questionnaire. For an example, refer to Exhibit WO4.

You could review the company profile to:

- Determine if the company is established or just getting started:
- Check the names of principals and other information against licenses and other business documents:
- Evaluate whether the company has a history of successfully performing the services you will use:
- Determine whether the mortgage broker or correspondent does other business functions, such as appraising or real estate brokering, that might create a conflict of interest. (You need to be aware when a mortgage broker or correspondent "wears two hats" in a transaction so that you can take appropriate measures to control any increased risk.): and
- Determine the size, complexity and history of the company.

Background Checks

Freddie Mac recommends that you perform a background check on every mortgage broker and correspondent you use in your wholesale operation. Performing a background check is the most important process in evaluating and approving mortgage brokers and correspondents because it gives you a better understanding of who you may do business with in your wholesale operation. The information obtained from a background check can help you customize your relationship with a mortgage broker or correspondent or determine that you should not do any business with that mortgage broker or correspondent. We recommend that the scope of your background check include all of the items listed below. You may decide to perform all or some of the recommended items for each of your mortgage brokers and correspondents. However, the more you check, the more likely you will uncover any derogatory information that exists.

Items Checked*	Process	Source
Resumes	Search for any former, mortgage-related companies in which the principal/owner was an owner.	N/A
Newspaper Articles	Search for any derogatory information (i.e., articles about suits, financial problems, fraud issues, etc).	Subscriber database service
Licenses	Call the mortgage broker regulator in the state where the applicant is located. (Each state has different requirements, so it may not be applicable for all applicants.) Call the regulatory office and ensure that the company has an active license, and inquire about any sanctions or complaints. Check with the Department of Real Estate (DRE) if the applicant is located in California. Check to see if there have been any actions taken or complaints filed against the company.	Mortgage regulator directory; Internet (for DRE)
Corporate Records	Search to ensure that the companies are licensed and in good standing. Determine if the principals/owners have been an owner/ director of any other mortgage-related companies, and see if those companies are in good standing or were at the time of dissolution.	Subscriber database service
Civil and Criminal Cases	Search for all civil and criminal cases (both current and former) that have been filed against the company or any of the individuals.	Subscriber database service and third-party fraud detection service
Judgments/Liens	Search for any liens or judgments that have been filed against the company or any of the individuals.	Subscriber database service and third-party fraud detection service
Bankruptcies	Check for all personal and business bankruptcies.	Subscriber database service
Business Reports	Review information about the company's history, officers, affiliated companies and public records. Review a financial history of the company.	Subscriber database service
Sanctions/ Complaints	Check for sanctions and/or disciplinary actions filed against the companies and individuals.	Subscriber database service and third-party fraud detection service
Freddie Mac Exclusionary List	Check the Freddie Mac Exclusionary List for companies and individuals.	Freddie Mac Exclusionary List
Industry Feedback	Check for non-public data relating to the mortgage industry.	Third-party fraud detection service
*We recommend that you go back about 10 years to ensure that you're collecting all of the relevant, available data in all states where the individual/company resided during that time.		

We strongly encourage you to expand your information gathering activities if the information you gather through your normal procedures:

- Is inconsistent,
- Does not give you sufficient basis to determine if the mortgage broker or correspondent meets your standards, or
- Raises concern about the ability of the mortgage broker or correspondent to originate an investment-quality wholesale home mortgage.

Selecting Third-Party Fraud Detection Services

You may decide to use automated, third-party fraud detection services to perform the background check process. There are currently several third parties available to perform these services. You may decide to use one or more of these third parties to perform some or all of the background check process based on the scope of your background reviews. Your use of a third-party service should not change your senior management's responsibility to review their findings and determine appropriate responses. Senior management should review third-party findings and take the same corrective actions as it would with respect to findings made by your own staff.

We strongly recommend that you evaluate the companies and the services they provide to determine whether they meet your needs. When selecting a third-party fraud detection service, you should:

- Conduct a detailed review of the third party's qualifications,
- Require and check references of the third party,
- Review its automated services and processes to ensure they meet your needs and our recommendations,
- Determine that the third party is not on the Freddie Mac Exclusionary List,
- Review examples of its records and reports for completeness, clarity and usefulness and
- Consider the experience of the third party and its staff.

You might find that the quality of your third-party services varies over time. For this reason, you will need to monitor and evaluate the performance of your outside fraud detection services on a regular basis.

Record-keeping

As discussed earlier, we recommend that you start a file on each mortgage broker and correspondent and document your evaluation and approval process.

Beginning the file at the start of the evaluation process will ensure that you have a complete record.

Reviewing Resumes

Overview

We recommend that you include reviewing resumes in your procedures for evaluating new mortgage brokers and correspondents. You will find that resumes are a starting point for determining whether a mortgage broker or correspondent has the minimum qualifications needed to meet your standards.

This section will give you some direction about which resumes to review and discuss what information to look for during your review.

Resumes

We suggest that you require resumes from persons who run the mortgage broker or correspondent organization. Usually your request will begin with the principals.

When the principals are not active in the daily operation of their business or your review concludes that they do not have sufficient mortgage lending experience, you may find it useful to expand your requirement to include senior management.

Key Staff

Mortgage brokers and correspondents may perform services for you that require specific technical knowledge. These services might include:

- Processing,
- Underwriting and
- Conducting quality control reviews.

Since you are ultimately responsible for the quality of wholesale originations no matter who provides these services, you may decide to review the resumes of key staff performing these services.

Resume Content

Your mortgage brokers and correspondents should be experienced in originating, processing or underwriting investment-quality wholesale home mortgages that are salable to the secondary mortgage market.

Besides establishing whether a mortgage broker or correspondent has prior experience originating wholesale home mortgages, a resume may provide other insights about the mortgage broker or correspondent. For example, if the resume shows that a person is newly employed with a mortgage broker or correspondent organization, the person's prior employer could be a good reference check to give you another perspective of his or her qualifications.

You should evaluate the content of the resume with an understanding that events in the mortgage market, such as a rising-rate environment or industry consolidation, justifiably may have caused frequent moves. You could ask individuals to supplement resumes with explanations of any extenuating circumstances.

Reviewing resumes can also tell you when you may need to provide additional training for a mortgage broker or correspondent if its staff's experience is limited.

Staff Help to Determine Qualified Mortgage Brokers and Correspondents

Allow your key staff who perform, or have performed, the service that the mortgage broker or correspondent will provide, to review the resume. Ask them if they would hire the individual to do that job. If not, ask why.

Checking the Freddie Mac Exclusionary List

Overview

This section will give you suggestions to help you meet our requirements related to the Freddie Mac Exclusionary List.

Freddie Mac Exclusionary List

As part of meeting our purchase requirements, you represent and warrant that you have not knowingly retained as a mortgage broker or correspondent any person or entity listed on the Freddie Mac Exclusionary List, in the capacity of a principal, in connection with any mortgage sold to us (or in connection with any related function) after the effective date of the list.

It is essential that your written standards and procedures for evaluating and approving mortgage brokers and correspondents include checking the most current Freddie Mac Exclusionary List. You may find it efficient to have your staff check the Freddie Mac Exclusionary List in conjunction with reviewing the resumes of mortgage brokers and correspondents.

Documenting Your Check

We feel that it is important that your procedures include documenting that the Freddie Mac Exclusionary list was checked. This record should be kept as part of the permanent file on each mortgage broker and correspondent.

Other Lists

Some of our customers keep their own watch lists. You might consider adding a step in your procedures to check your organization's list for mortgage brokers, correspondents and principals.

Checking References

Overview

Thorough reference checks will give you information and a valuable understanding of the:

- Quality of a mortgage broker or correspondent's work,
- The mortgage broker or correspondent's level of integrity and
- The mortgage broker or correspondent's ability to perform specific services.

This section will give you some idea on how to check references. For examples, refer to Exhibit WO5, *Sample Reference Letter*, and Exhibit WO6, *Sample Telephone Reference Call Record*, in this section of *Discover Gold Through Quality*.

How Many References?

The number of references you decide to contact may vary depending on the amount of business you intend to do with the mortgage broker and correspondent and any prior business relationship you have had with them.

We suggest three references as a minimum unless you have some other basis on which to judge the mortgage broker or correspondent's work. For example, a prior business relationship with the mortgage broker or correspondent would give you an understanding of the quality of their work. You might decide that you do not need three references if the mortgage broker or correspondent performed similar services for you in the past.

Useful References

The most useful references are from investors that have recently used the mortgage broker or correspondent for the same or similar services that you will be approving the mortgage broker or correspondent to provide.

In most cases, these investors will be agency-approved conventional lenders. You might also include references from investors who use mortgage brokers and correspondents to originate government mortgages.

Non-investor References

Mortgage brokers and correspondents may list non-investor references on their applications. These references might include:

- Other mortgage brokers and correspondents,
- Loan officers,
- Real estate agents,
- Appraisers,
- Builders or developers,
- Mortgage insurance companies and
- The Better Business Bureau.

References from non-investor entities should not be used as a substitute for investor (lender) references. They have not used the mortgage broker and correspondent for the services you will, so they do not have first-hand experience in your area of inquiry.

You may wish to use these references in addition to investor references. In many cases they will add useful information.

Caution

If you use non-investor references, we suggest that you consider whether the references have a potential for gain if the mortgage broker and correspondent is approved. Potential for their own gain could affect the responses they provide to you.

Who Should Check References

You will want to select a person to check the references who is:

- Knowledgeable in the details of the specific services the mortgage broker or correspondent will provide and
- Capable of evaluating the entire reference communication.

When calling, the person selected to check the reference should make every effort to determine that the person giving the reference:

- Has had direct experience using the mortgage broker's or correspondent's services and
- Has sufficient knowledge and experience to be able to discuss the services received relative to the concept of an investment-quality wholesale home mortgage.

Written or Verbal References

Both written and verbal means of obtaining references have merits and weaknesses. By sending a written request, you:

- Give the reference the opportunity to gather information from throughout the organization,
- Allow the reference to choose when to complete the information and
- Create a record of the reference check.

However, the reference may be hesitant to put negative information in writing. In a telephone conversation the reference may be willing to provide this critical information.

You should decide what procedures will give you the most useful information on which to base your approval decision. You might even include a telephone call followed up by a brief written request, or vice versa.

Questions About Service

You should ask the reference for as much information as possible about the mortgage broker's or correspondent's ability to provide quality services. Your questions might cover such topics as:

- The extent and type of services the reference received from the mortgage broker or correspondent,
- The length of time the reference used the services of the mortgage broker or correspondent,
- Whether the mortgage broker or correspondent is currently approved to provide services to the reference,
- If the reference no longer uses the mortgage broker or correspondent, the reason for discontinuing the use,
- The mortgage broker or correspondent's response to any request for clarifications, additional underwriting conditions or resolution of discrepancies and
- Whether the reference would recommend that you approve the mortgage broker or correspondent.

Questions About the Quality of the Mortgages

You will want to be specific about questions relating to the quality of the wholesale home mortgages originated by the mortgage broker or correspondent. To gather this information, you might ask about:

- The percent of wholesale home mortgages submitted which are approved or rejected,
- The completeness of the information in the mortgage files submitted,
- Any major problems or recurring discrepancies found in re-underwriting, prefunding reverifications or quality control reviews,
- The overall quality of the underwriting, if performed by the correspondent,
- Prefunding and/or other quality control statistics,
- Early payment default rates,
- Secondary market acceptance, feedback letters and repurchase requests, and
- Delinquency and foreclosure trends.

It is always advisable to ask the reference to elaborate or give examples wherever possible.

References for Newly Formed Mortgage Brokers and Correspondents

When a mortgage broker or correspondent applicant is newly formed, it may be unable to provide you with sufficient references. Often new companies are formed by individuals who have gained lending experience while previously working at other companies. In some cases, you may be able to get references on key individuals rather than the new company itself. Additionally, you may decide to place more emphasis on other evaluating criteria, such as experience.

Documentation

You may want to develop standard materials for your staff to use in documenting your reference checks. Guidance for using these materials should be included in your procedure for checking references.

Verifying Mortgage Brokers' and Correspondents' Authority to Originate Home Mortgages

Overview

Laws covering licensing, approval or qualifications to originate wholesale home mortgages vary depending on jurisdiction. This section will give you some ideas for verifying whether a mortgage broker or correspondent has authority to originate wholesale home mortgages.

General Controls

We strongly suggest your controls include steps to ensure that the mortgage broker or correspondent who originated the mortgage has complied with all applicable laws related to licensing, qualification or approval to originate home mortgages.

We believe it is important that you obtain and validate all applicable approvals and licenses before accepting services from a mortgage broker or correspondent. By doing so, you will reduce the risk that the mortgage broker or correspondent has misrepresented itself.

Documenting Compliance

You may want to require mortgage brokers and correspondents to submit copies of documents verifying their compliance with applicable laws with their application or questionnaire.

If the mortgage broker or correspondent does not have copies available, it should be able to provide licensing numbers or other identifying information.

Verification

You can verify the current status of a mortgage broker's or correspondent's authority to originate wholesale home mortgages by contacting the appropriate governmental authority. If you choose to do a telephone verification rather than written verification, you should document the call.

Reviewing Credit Reports

Overview

To get a more complete picture of the mortgage broker or correspondent, we suggest that you obtain and review credit reports. You can use the reports to:

- Check the mortgage broker or correspondent's debt and payment history,
- Identify lawsuits, judgments, or credit-related criminal convictions and
- Reconcile the information provided in the report with reference checks and resumes.

By reviewing this information you may be able to identify potential problems of both financial and business integrity.

This subsection will give you best practices for reviewing credit reports.

Intent of the Review

We suggest that you use credit report information to evaluate a mortgage broker's or correspondent's ability and probable intent to provide quality services. If the mortgage broker or correspondent has severe credit problems, it may not be able to financially support its own operation.

Personal Credit Reports

Personal credit reports are useful for evaluating:

- Individuals,
- Sole proprietors,
- General partners of mortgage brokers and correspondents that are partnership firms and
- Owners of closely held corporations.

Business Credit Reports

Business credit reports are appropriate for evaluating all mortgage brokers or correspondents unless a mortgage broker or correspondent is an individual conducting business under the individual's personal name only.

Poor Credit History

You may choose to approve a mortgage broker or correspondent with a less-than-spotless credit report. Other factors may outweigh the risk, such as a change in circumstances which indicates that the problems were not a reflection of the mortgage broker's or correspondent's ability to originate investment-quality wholesale home mortgages.

Mortgage Broker or Correspondent's Input

We suggest that you discuss the report with the mortgage broker or correspondent and include this feedback in your evaluation.

Lawsuits, Judgments and Criminal Convictions

Lawsuits, judgments and criminal convictions are serious references and may indicate a lack of integrity. If, after reviewing the reports and discussing them with the mortgage broker or correspondent, you conclude that the broker's or correspondent's integrity is not well-established, approval of the broker's or correspondent's application may not be prudent.

Reviewing Mortgage Broker and Correspondent Wholesale Procedures

Overview

When you sell wholesale home mortgages to us, you have full responsibility for their quality. The quality could be affected by the process used in their origination.

Your controls should assist you in determining whether a mortgage broker or correspondent has established procedures that meet your minimum standards and reflect an effort to originate investment-quality wholesale home mortgages.

This subsection will give you some suggestions on evaluating the origination procedures of mortgage brokers and correspondents.

We suggest that you begin your analysis by checking that the mortgage broker or correspondent has established procedures. If you are going to depend on the mortgage broker or correspondent to perform specific services on your behalf, you will need to know how those services will be performed.

Mortgage broker and correspondent procedures will be more or less formalized depending on the originations it does. But, in every case, the mortgage broker or correspondent should be able to show you what its procedures are and how each step is performed.

You will want to ensure that the mortgage broker and correspondent procedures meet all applicable Freddie Mac and regulatory requirements. You should require additional procedures as necessary to ensure that the mortgage broker and correspondent mortgages meet your standards.

Mortgage brokers and correspondents may answer your inquiry about their procedures with broad or generalized statements. They may state that they follow industry or agency standards. They may say that they apply Freddie Mac best practices. We suggest that you ask each mortgage broker and correspondent to give you more detail so that you can assess what it routinely does.

Compare Procedures

Compare the mortgage broker and correspondent procedures to your retail production process. Does the mortgage broker or correspondent do everything that you require of your own staff? If not, you may need to require additional procedures before using the mortgage broker or correspondent.

Specific Underwriting Procedures

If you have delegated underwriting to a correspondent, you will want to focus on its underwriting procedures. Besides establishing that the correspondent’s procedures meet your standards, you should verify that the underwriting decision is not made or influenced by persons whose compensation is dependent on approval or closing.

Appraisal Policies/Procedures

You cannot feel confident about the investment quality of a wholesale origination if you are not sure about the quality of the appraisal. If the mortgage broker or correspondent orders the appraisal, it is essential that you control against poor quality and appraisal fraud.

Your controls should include a careful review of the mortgage broker’s and correspondent’s appraisal policy and procedures.

The appraisal report must be signed by an appraiser that you approved. You will have to provide the mortgage broker or correspondent with a current list of approved appraisers and notify it regularly of any additions or deletions.

If a mortgage broker or correspondent requests that you approve an appraiser not on your current approved list, we encourage you to:

- Deny approval of the appraiser unless the request to approve is supported by non-solicited requests from your staff or other mortgage brokers or correspondents,

- Determine that the mortgage broker or correspondent has no business relationships with the appraiser that might compromise the objectivity of the appraisal report or
- Require that the mortgage broker and correspondent not use the newly approved appraiser exclusively.

We recommend that in all cases you require mortgage brokers or correspondents to request appraisals from a variety of appraisers.

Conducting On-site Visits and Personal Interviews

Overview

In a face-to-face meeting with a mortgage broker or correspondent, you have an opportunity to ask questions that have arisen as a result of your other evaluation activities. The mortgage broker or correspondent will have the opportunity to present information that you might otherwise not receive.

You will get the best understanding of a mortgage broker or correspondent by meeting with the principals at their office. A quick visual survey will tell you a lot about their business.

This section will give you some insight on conducting on-site visits and personal interviews.

On-site Visit Example

One industry practice is to arrange three visits to each mortgage broker's or correspondent's location as part of the evaluation process. The first visit is conducted by senior management in order to evaluate the mortgage broker's or correspondent's overall operation. Next, the underwriting manager sets up a meeting to evaluate the mortgage broker's or correspondent's processing, and if applicable, underwriting departments. Depending on the services the mortgage broker or correspondent will provide, a third visit is made by the accounting or servicing manager.

By following this process before approving a mortgage broker or correspondent, you would have three:

- Looks at the mortgage broker's or correspondent's operations,
- Key areas evaluated and
- Different points of view.

As a result, you acquire a strong basis for evaluating the mortgage broker or correspondent. Some suggested activities for on-site visits are:

- Check the mortgage broker's or correspondent's procedures and several mortgage files,
- Interview employees who will perform services for you and
- Tour the mortgage broker's or correspondent's facility and note key equipment.

Personal Interview

Sometimes distance may make an on-site visit impractical. You may want to use the services of a third-party fraud detection service to perform the on-site inspection. Please review Chapter 7, Managing Mortgage Service Providers, before using any third-party services. You may decide to substitute personal interviews with key personnel in the mortgage broker or correspondent's organization. You may even have to depend on a series of telephone calls.

We believe that some direct contact is critical to your evaluation. We encourage you to be thorough in questioning and follow-up conversations. You can have copies of mortgage files and procedure manuals sent to you if needed to complete your evaluation.

Reviewing Other Useful Information

Overview

Mortgage brokers and correspondents offer a wide variety of services. Depending on the services they will provide you, you may need to include additional evaluation procedures.

The following section will give you a few suggestions to consider what else you want to request from a mortgage broker or correspondent.

Insurance

You may consider requiring proof of fidelity bond and errors and omissions insurance when the correspondent has repurchase liability. These policies may be difficult or very expensive for your correspondent to obtain. You should weigh the benefit you might receive from the coverage against whether it is practical to require your correspondent to obtain the insurance.

Mortgage Brokers Used by Correspondents

We believe that the risk of poor quality increases in transactions where a correspondent uses a mortgage broker to perform some of the origination process. The potential for fraud is also greater. We suggest that your written procedures include controls that address the increased risks. Your procedures should:

- Establish that a correspondent has controls for managing the use of mortgage brokers,
- Document a mortgage broker's compliance with all applicable laws related to licensing, approval or qualification to originate home mortgages before accepting a wholesale home mortgage,
- Limit the use of mortgage brokers if you feel that a correspondent lacks the staff to effectively enforce its wholesale controls and
- Limit or disallow wholesale home mortgages originated by mortgage brokers from correspondents that do not have your complete confidence.

You may want your correspondent to have wholesale controls that are in many ways the same as the best practices included here.

Affiliated Businesses

Problems can arise and quality may be compromised if a mortgage broker or correspondent has influence over other entities that perform non-originating services (such as appraisers, escrow agents or title companies).

By requesting that the mortgage broker or correspondent provide a list of affiliated businesses, you can adopt appropriate controls. You might:

- Refuse mortgages for which the mortgage broker's or correspondent's business affiliates were used,
- Perform higher quality control and performance tracking on mortgages when affiliated businesses are involved, until you become confident that quality has not been compromised and
- Restrict a mortgage broker or correspondent from using affiliated businesses exclusively

General Guidelines for Approving Mortgage Brokers and Correspondents

Overview

High standards for approving mortgage brokers and correspondents is your first defense against the risks inherent in wholesale originations. Establishing and implementing these standards decrease the probability that you receive substandard services. This subsection will give you some suggestions for procedures to use when approving mortgage brokers and correspondents.

General Guidelines

Your written procedures for approving mortgage brokers and correspondents should include specific criteria and standards for approval and the steps to follow to reach the approval decision, as well as identify the approval authority within your organization.

Approval Criteria and Standards

You should decide what criteria should be used to evaluate mortgage brokers and correspondents for approval. We suggest you choose criteria that emphasize the risks associated with a particular applicant and facilitate making an informed decision. When identifying the approval criteria, you should define the minimum evaluation results you will accept and clearly indicate what is unacceptable.

Approval Authority

Ideally, the decision to approve a mortgage broker or correspondent should be made by your senior management. They have the requisite experience and overall perspective to make a decision that supports the goal of originating investment-quality wholesale home mortgages.

You may decide to permit senior management to delegate their approval authority as you determine appropriate for your organization. We recommend that your choice be experienced in risk management.

The approval decision should be made without any conflict of interest or inappropriate influence. We strongly believe that any individual whose compensation is based on the volume of wholesale home mortgages originated should not have the ultimate or sole authority for approving mortgage brokers or correspondents.

Appeals

You may also decide to provide an appeal process for application denials.

Documentation

You should retain the documentation of the approval or denial decision along with the information gathered in the evaluation process. This information will be:

- A foundation for determining specific requirements you will want to include in your written agreement with the mortgage broker or correspondent,
- A useful comparison for ongoing monitoring of approved mortgage brokers or correspondents,
- A basis for further evaluation of denied mortgage brokers or correspondents that subsequently appeal or reapply and
- A record of your adherence to your written standards and procedures.

We may request that you provide this documentation as we monitor your relationship with us.

Chapter 6 – Monitoring the Quality of Wholesale Home Mortgages

Introduction

The approval process discussed in Chapter 5 of Wholesale Originations Best Practices provides sufficient information to select qualified mortgage brokers and correspondents. However, it should not be considered a substitute for controls that monitor the results of their work. You are responsible for ensuring wholesale home mortgages are investment quality.

Whenever you allow someone outside of your organization to perform services for which you have ultimate responsibility, you increase the risk that mistakes and negligent omissions will occur. You also have a much greater risk for instances of fraud. Your best protection against fraud is a comprehensive quality control program that emphasizes fraud detection.

Your quality control program should be structured to reflect the risks associated with the way you use mortgage brokers and correspondents. You should not rely solely on postclosing quality control reviews. Your program should also include prefunding reviews, due-diligence reviews and other monitoring controls as appropriate for the way you use mortgage brokers and correspondents.

See the Quality Control Best Practices section of *Discover Gold Through Quality* for more information.

Monitoring the Performance of Mortgage Brokers and Correspondents

Introduction

We strongly suggest you develop written performance standards for your mortgage brokers and correspondents. The standards should be based on your:

- Overall loan performance experience and
- Awareness of the risks associated with delegating tasks outside your organization.

As a Freddie Mac seller, you are responsible for the investment quality of the home mortgages you sell. In light of this responsibility to ensure quality, you should establish and vigorously enforce your performance standards.

This chapter will give you:

- An understanding of performance monitoring and some suggested indicators of performance (IOPs),
- Ideas on reviewing mortgage brokers and correspondents and reporting your updated findings to management and
- Suggestions for follow-up procedures.

Written Requirements

Your written procedures for monitoring the performance of mortgage brokers and correspondents should include:

- Standards for evaluating acceptable performance,
- A system for collecting IOPs and for periodic reporting of each mortgage broker and correspondent performance to your senior management,
- Provisions for establishing greater controls over, or terminating the business relationship with, a mortgage broker or correspondent that does not meet your performance standards and

A process for regularly re-verifying the mortgage broker's or correspondent's current compliance with all applicable laws related to licensing, qualification or approval to originate home mortgages, and rechecking the Freddie Mac Exclusionary List.

Anticipated Results

Once your standards and procedures are written and implemented, you should have a clear statement of your performance expectations and an organized system to evaluate and make necessary management decisions about each mortgage broker and correspondent you use.

Performance Standards and Indicators of Performance

Overview

You can be more confident in the quality of your wholesale home mortgages if you set high standards and are diligent in evaluating whether or not your mortgage brokers and correspondents are performing to those standards. This subsection will discuss performance standards and some common indicators that can be used to evaluate performance.

Performance Standards

In establishing standards of performance, you should determine what is acceptable performance for your business. You should determine what will give you the needed confidence to enable you to warrant the investment quality of each wholesale home mortgage. Your decisions should be based in part on the extent and scope of the services provided by your mortgage brokers and correspondents.

By using the results of your wholesale quality monitoring program, you will be able to identify the general level of performance you can expect from most mortgage brokers and correspondents. That level of performance should be regularly evaluated relative to the amount of risk you can effectively manage and be used as the basis for ongoing adjustments to what you set as acceptable performance standards.

Establishing Indicators of Performance (IOP)

You are responsible for controlling your wholesale process. We recommend you develop and implement a system for collecting IOPs as part of your controls.

The design of your system should be based on the way you operate your business. It is important that whatever system you choose provides meaningful information for your senior management to use in making decisions about the continued use of each mortgage broker and correspondent. If possible, join an industry group to be aware of other institutions trends and reported incidences of material misrepresentation. Always report incidences of fraud to Freddie Mac and law enforcement.

To provide meaningful data, we suggest you focus your efforts on current IOPs rather than lagging IOPs. Try to isolate relevant information that could be used to predict future performance. Relevant information may include:

- Rejection rates and reason for rejection

This information may indicate a lack of ability to originate quality home mortgages. A higher-than-average rejection rate may reflect a lack of attention to important details that could result in an unacceptable level of errors. Rejection rates and the reason for rejection could indicate a misunderstanding of your underwriting or procedural requirements by the mortgage broker or correspondent.

Unfortunately, high rejection rates could also indicate a mortgage broker or correspondent is emphasizing volume over quality or intentionally disregarding your requirements. We recommend that you be wary of a mortgage broker or correspondent that brings you a number of files just to see what you will approve.

- Cancellation rates and reason for cancellation

You should require a mortgage broker or correspondent to give you detailed reasons when it cancels a transaction. Some reasons may be valid. One reason for withdrawal is that a mortgage broker or correspondent may submit a mortgage file to several investors. In most cases, the mortgage broker or correspondent is trying to find the institution that will approve the mortgage and offer the best rate and terms. The mortgage broker or correspondent may withdraw the file if your terms and conditions are not as favorable as those offered by another investor. Unavoidable circumstances such as a borrower's loss of employment could be another reason. You may want to consider your expenses related to a particular withdrawal, but such cancellations may not give you any information about a mortgage broker’s or correspondent’s ability to provide quality wholesale home mortgages.

However, if a mortgage broker or correspondent has questionable reasons for cancellation, you may have a more serious situation. Some mortgage brokers or correspondents will deliver poor quality, and even fraudulent files, but withdraw them as soon as you begin asking questions or raising concerns.

- Underwriting and re-underwriting summaries

Underwriting summary information may highlight areas of weakness in the work done by a mortgage broker or correspondent. Special attention should be paid to the frequency or severity with which a mortgage broker’s or correspondent’s mortgage packages need exceptions to prudent underwriting guidelines. You may find it beneficial to track how many times a request for exceptions comes from a mortgage broker or correspondent at the time of submission. Frequent requests could indicate that a mortgage broker or correspondent is more interested in having transactions approved than bringing you quality wholesale home mortgages.

A consistent pattern of outstanding conditions on submitted files may indicate that the mortgage broker or correspondent is inexperienced and would benefit from more direction or training. It may also be a sign that information is being withheld. Any indication of fraud in these summaries should be immediately addressed.

- Results of prefunding reviews

The results of your prefunding reviews should be evaluated in the same way as your underwriting and re-underwriting summaries. If prefunding review results are quickly communicated, you may be able to correct any deficiencies before funding. Prefunding reviews should be used to establish the mortgage broker’s or correspondent’s ability to process thoroughly and as a control against fraud. The prefunding review should compare the in-file credit report with the credit report submitted by the mortgage broker or correspondent. Perform in-house appraisal reviews by your underwriter or staff appraiser. Conduct telephone verifications of employment and the existence of deposit accounts. The sampling level chosen should reflect the level of confidence you have in the mortgage broker’s or correspondent’s ability and integrity.

Prefunding reviews should be used intensively when starting a new mortgage broker or correspondent relationship. Initially, we recommend 100 percent. If you choose to do less than 100 percent prefunding reviews, we recommend that all mortgages not re-verified be tagged for postfunding quality control review. You should maintain intensive sampling until you are confident of the mortgage broker's or correspondent's integrity and ability to provide investment-quality wholesale home mortgages.

- Due-diligence reviews

Due-diligence reviews are designed to be used to evaluate closed mortgages purchased in groups, often called bulk purchase. These reviews are not a substitute for routine postfunding quality control reviews. Due-diligence reviews normally include procedures that establish the characteristic of the mortgages in the group. Check the required documentation and performance of the mortgages, and review mortgage amortization and escrow agents. Due-diligence reviews may also be used to monitor the quality of mortgages that have already undergone the normal postfunding quality control review. For a due-diligence review to be an effective control, you must include procedures in the review that clearly identify the investment quality of the mortgages under review.

- Quality control postfunding reviews

These indicators will also show areas of weakness and may draw attention to potential serious problems. Even if underwriting or prefunding indicators are used, postfunding quality control review results should be used as a key indicator of performance, especially if document preparation and closing were done by the mortgage broker or correspondent. If errors or discrepancies occurred when these functions were performed, they might go unnoticed until the postfunding quality control reviews are conducted.

You should track the severity and frequency of discrepancies and consider the mortgage broker's or correspondent's responsiveness and completeness in correcting any discrepancies.

- Early payment defaults and delinquencies

Review all early payment defaults. This information may indicate poor underwriting. If the correspondent did the underwriting, you may need to add more controls, such as increased training and monitoring of its work. Early, especially first payment, default occurs in some cases of fraud. The "straw borrower" scheme may have been used. Pay attention to any trends, such as several loans that go into default at the same time or in the same condo project. Compare names in first payment default files or early payment defaults such as loan officers, processors, underwriters and appraisers. Always be aware of a significant variance in property value. Work with servicing to determine any change of addresses or payments that are paid by someone other than the borrower.

You should take immediate action to determine if you are dealing with fraud.

See the Fraud Prevention Best Practices section of Discover Gold Through Quality for more information.

If you suspect fraud or poor underwriting, contact your collection staff to determine the reason for the delinquency or default. The cause may be some postsettlement event completely unrelated to the use of the correspondent.

See the Quality Control Best Practices section of Discover Gold Through Quality for more information.

- Later defaults and delinquencies

This information may indicate poor underwriting. Just as in early payment default, you may want to investigate whether the correspondent performed prudent underwriting and take appropriate action based on your findings.

If you transfer servicing, you may not have information about defaults and delinquencies. You should make arrangements with the new Servicer to keep you current on the performance of the mortgages so you can continue to monitor performance.

- Other Indicators of Performance (IOP)

You are encouraged to include any other IOPs that you determine are meaningful in any of your mortgage broker and correspondent relationships. For example, you might want to track complaints from borrowers. Repeated complaints could establish a pattern that should be investigated. Immediate attention should be given to allegations that the mortgage broker or correspondent asked the borrower to sign blank or incomplete applications, "bend the rules" or present fraudulent information.

Also, you might evaluate the timeliness of responses and return of requested information, underwriting conditions and final documents. Slow turnaround might indicate that the mortgage broker or correspondent lacks the staff or intent to provide quality service.

Collecting Information

You should determine the timing and format for collection of data. We recommend that the frequency and amount of indicators collected by your system parallel the volume of business and types of services you receive.

Monitoring and Tracking Systems

You may not know whether or not your controls are sufficient to monitor your risk without consistent, accurate information about performance. We strongly recommend that you make performance tracking a priority for all employees. Do not allow it to be delayed or omitted just because it seems like a difficult or time-consuming process. You should make sure that employees are trained in what to look for and how to report what they find.

If the size of your organization warrants, you may need to develop a system whereby problems identified in one area automatically trigger increased monitoring in other areas.

If you determine that you do not have the capacity to effectively track a number of mortgage brokers and correspondents, you should reduce your usage to a more manageable level.

Eligibility Updating and Reporting

Overview

Freddie Mac suggests that you routinely review your mortgage brokers' and correspondents' overall performance. Your routine reviews should include updating critical information and reporting performance to your senior management.

This subsection will give you some ideas about how to establish these important controls.

Updating Compliance Information

As part of your review of overall performance, you should re-verify current compliance with all applicable laws related to licensing, qualifications or approval to originate home mortgages.

You should request documentation of current compliance from each mortgage broker and correspondent. After obtaining this information, you should contact the appropriate governmental authority to validate the documentation.

To facilitate your compliance with representations and warranties to Freddie Mac, when your correspondent uses mortgage brokers to originate, you should:

- Require that your correspondent provide you with verifying information about mortgage brokers,
- Obtain a list of mortgage brokers from your correspondent and get the information directly from each mortgage broker or

Request that the correspondent complete the same approval/monitoring process on their mortgage broker that Freddie Mac conducted on the correspondent.

Rechecking the Freddie Mac Exclusionary List

As part of your review procedures, it is essential that you recheck the Freddie Mac Exclusionary List. To accurately recheck the list, you must have a correct list of the principals of the organization. You should request this information from each mortgage broker and correspondent. You may also want to have each mortgage broker and correspondent sign a statement agreeing to immediately notify you of any changes in principals.

Other Updates

It may be prudent to update other information as part of your routine review. You may want to request:

- A current list of affiliated businesses,
- A current list of mortgage brokers used by the correspondent,
- A current list of mortgage service providers,
- Resumes on any new principals or key staff and
- Any changes in procedures.

Mortgage Broker and Correspondent Files

You should create a file for each mortgage broker and correspondent. The file should contain, but is not limited to:

- Application,
- Mortgage broker or correspondent agreement,
- Resumes of the principals,
- Credit reports on the principals,
- Results of the background check and
- Errors and omission insurance policy, if applicable.

The file will be very useful when you conduct your routine reviews. You should compare new information with this information in the file. Any substantial changes in information should be evaluated. For example, if a correspondent indicated at application or in prior reviews that it did not use mortgage brokers to help originate its wholesale mortgages, but now it does, you may need to change your controls for that correspondent.

Important Changes

If you receive information that a mortgage broker or correspondent has changed owners, form of ownership, senior management or its organized structure, you should consider such changes a reason to completely re-evaluate your risks. Until you re-approve the mortgage broker or correspondent in its new form, you might decide to suspend accepting its mortgages.

Inactive Mortgage Brokers and Correspondents

We suggest that you routinely check your approved mortgage broker and correspondent list for inactivity. After a significant period of inactivity, you may find it wise to suspend approval of an inactive mortgage broker or correspondent until it can be re-evaluated. You should decide how long a mortgage broker or correspondent may remain inactive before you suspend it from your approved list. You might decide on a standard period of time for all or differentiate the time period based on other aspects of each business relationship.

Reporting to Senior Management

You should have and implement procedures to routinely report performance to senior management. We recommend that you report more frequently when problems are identified. You should also increase the frequency of reporting if a mortgage broker or correspondent is bringing you a high volume of mortgages. If volume increases over a short period of time or during a generally slower period of mortgage activity, it may indicate that you were adversely selected for certain mortgages.

Report Form

Your performance reports should include all information your senior management needs to determine the adequacy of the controls you have in place and where the controls may require strengthening or refining. Senior management should also be given any available information that would allow you to anticipate future problems.

Freddie Mac's Requests for Reports

You should have the capability to produce reports that reflect your monitoring of each mortgage broker's and correspondent's performance. We may request such reports to evaluate your controls and to determine whether you are adhering to your written standards and procedures.

Procedures for Follow-Up Actions

Overview

Managing your mortgage brokers and correspondents includes more than gathering information. It is essential that you take action, such as ongoing communication of information and expectations. Sometimes, the appropriate action is calling on your mortgage brokers and correspondents to let them know that they are doing a good job. Sometimes, the action is terminating a relationship and calling the Freddie Mac fraud hotline to report any suspicions of fraud.

See the Fraud Prevention Best Practices section of Discover Gold Through Quality for more information.

This subsection will give you some suggestions for appropriate follow-up actions.

Usage

Internally, the most important action you can take is to stay aware of:

- How much mortgage brokers and correspondents are being used by your organization,
- The controls that are in place to monitor them and
- Whether problems have been identified.

You can monitor your mortgage broker and correspondent usage through production and interim progress reports as well as quality control and performance reports. Your senior management may wish to delegate this day-to-day monitoring activity to area managers, but they should expect to be involved when needed.

Noncompliance

You are encouraged to take quick action, including suspension, if monitoring indicates serious noncompliance with your requirements or in cases of suspected fraud or misrepresentation. Your business relationship with a mortgage broker or correspondent should be terminated if your suspicions are substantiated.

Handling Problems

We recommend that you have procedures to handle less serious problems in a timely, organized way. The problems should be documented in the file, communicated to the mortgage broker or correspondent, and followed for evidence of correction. Showing the mortgage broker or correspondent that you are serious about adherence to your standards is an important deterrent to costly problems.

Increase Controls

You should have written procedures for greater controls over, or for terminating the business relationship with, a mortgage broker or correspondent that does not meet your performance standards. When performance standards are not met, you may want to restrict the type or amount of business accepted. Additional training may be effective in helping meet your performance standards.

In all cases of poor performance, additional tracking and more frequent monitoring should be done. The increased level of monitoring would probably include prefunding reviews as well as postfunding audits. A performance watch list that subjects the mortgage broker or correspondent to an increased quality control sampling is one way to ensure that poor performers are managed appropriately.

The results of your increased controls should be reported to your senior management more frequently than your regular reporting on mortgage brokers and correspondents that have no performance problems.

Contractual Restrictions or Sanctions

Some sellers find that the importance of their standards must be reinforced by imposing contractual restrictions or sanctions on mortgage brokers and correspondents that do not comply. They use penalties to draw attention to their expectation that mortgage brokers and correspondents meet certain standards. Some even feel that restrictions or sanctions will act as a deterrent to mortgage brokers and correspondents that are not intent on producing investment-quality wholesale home mortgages.

Listed below are a few penalties that some of our Sellers find effective:

- Suspend the mortgage broker or correspondent until a face-to-face meeting can be held.
- Restrict the volume of business until proof is obtained that the problem has been resolved.
- Restrict the services the mortgage broker or correspondent is approved to perform.
- Impose fines for any recurrence.

Communicate Performance

If you must deny, or require repurchase of, a mortgage because a mortgage broker or correspondent did not deliver an investment-quality wholesale home mortgage, you should clearly indicate where efforts have failed to meet your standards. If your monitoring reveals a pattern of poor performance, the mortgage broker or correspondent should be informed immediately. This may discourage repeat problems.

Communicate with Your Staff

Your staff is your front line in both monitoring and controlling mortgage brokers and correspondents. We strongly suggest that you update status lists regularly and make them available to all appropriate staff. Your staff members should be aware of their responsibility to frequently check status lists. You will need to inform your staff immediately of any change in controls or monitoring procedures for a particular mortgage broker or correspondent.

Update and Retain Files

You can create a valuable reference tool by adding information to an existing file as you review or work with a mortgage broker or correspondent. The file can be used to perform current checks on the relationship and to develop trend information.

We hope you will build long-term, productive relationships with your mortgage brokers and correspondents. We realize problems that develop in slow economic times may be different from problems that tend to appear only in times of high volume. By having a long-term reference tool, you may be able to anticipate and control for cyclical problems.

Retain Files on Terminated Mortgage Brokers and Correspondents

We suggest you retain information about terminated mortgage brokers and correspondents. You may want to keep a record of what caused the termination. If the termination was requested or was the result of inactivity, the records will facilitate the approval process if the mortgage broker or correspondent reapplies.

Principal Watch List

When one mortgage broker or correspondent has problems, the principals may disband the company and re-form under a new name. You may want to develop an internal watch list made up of principals with whom you have experienced problems and their corresponding entity. This list would facilitate the evaluation of mortgage brokers and correspondents.

Chapter 7 – Managing Mortgage Service Providers

Introduction

A mortgage service provider is an entity or individual engaged to handle or perform, for a seller or correspondent, part of the mortgage application processing, underwriting, funding or postfunding functions, but not activities related to obtaining an application for a wholesale origination. This entity is typically paid on a fee basis for services performed, with the payment of fees not being contingent on mortgage approval or closing. Some examples of mortgage service providers are:

- Contract underwriters,
- Contract processing firms,
- Contract quality control services,
- Escrow companies and settlement agents and
- Contract document preparation companies.

Business Characteristics of Mortgage Service Providers

Mortgage service providers vary greatly in size and business type. A mortgage service provider may be capable of performing only one function, or may offer a variety of services. Generally, your risk increases if a mortgage service provider performs more than one function relative to a mortgage file.

Other Characteristics of Mortgage Service Providers

A mortgage service provider usually:

- Markets its services, and is under contract to a number of lenders at one time,
- Enters into contracts that specifically state that it is not an employee or agent of the lender,
- Enters into contracts that specifically limit liability, often to the amount of the fee earned and
- Contracts only to provide a specific service or set of services.

Using Mortgage Service Providers

Overview

Mortgage service providers can perform important functions such as:

- Processing credit documents,
- Underwriting mortgage applications,
- Selecting the mortgage sample,
- Sending out the re-verification requests,
- Preparing legal documents,
- Conducting due-diligence reviews,
- Reviewing appraisals,
- Inspecting properties,
- Reviewing the appropriateness of the underwriting decision,
- Reviewing the legal documents for completeness and compliance and
- Performing due-diligence reviews.

Their use is often a cost-effective way to accomplish these tasks. Remember, however, that you are still responsible for the investment quality of each wholesale home mortgage, regardless of whether your employees or a mortgage service provider worked on the mortgage file.

Using Mortgage Service Providers

While we do not have specific requirements relating to the use of mortgage service providers, we believe that some risks are involved in using them. We strongly recommend that you evaluate how you are using them and establish appropriate controls. This subsection discusses some of the risks involved with using mortgage service providers.

Opportunities to Use Mortgage Service Providers

You may contract mortgage service providers for either your retail or wholesale production. Your correspondent might also use mortgage service providers.

Major Risks

The quality of a home mortgage could be compromised by an mortgage service provider that:

- Lacks sufficient experience to perform the contracted function,
- Lacks sufficient trained staff and equipment to provide a quality service,
- Places undue emphasis on speed or volume at the expense of quality work or
- Has a relationship with a party to the mortgage transaction.

Assessing Mortgage Service Providers

You should look at the scope and type of services to be provided to determine the risks in the business relationship.

Some factors are whether the mortgage service provider:

- Has any prior experience and
- Will be working independently, working with your employees, or working under the direct supervision of one of your employees.

In addition, the details of the contract for services should include:

- The mortgage service provider's roles and responsibilities,
- How acceptable services will be evaluated,
- The type of compensation,
- Any liability limits/indemnification provisions,
- Any relationship the mortgage service provider has with other parties to the transaction and
- The ability of your staff to monitor the use of mortgage service providers.

Suggested Controls

Overview

Your program for managing mortgage service providers should be similar in structure to the program used for managing correspondents. It should include steps for:

- Evaluating and approving each mortgage service provider,
- Monitoring the quality of their mortgages if using contract underwriters and
- Monitoring their performance.

We recognize that you will probably have fewer mortgage service provider controls than correspondent controls. You will probably also have fewer procedures. A smaller monitoring program is consistent with the presumed lower risk.

Requirements related to Freddie Mac's Exclusionary List apply to mortgage service providers used in connection with any home mortgage sold to Freddie Mac.

General Guidelines

Once you have evaluated your relationship with a mortgage service provider, you will be able to choose the appropriate controls. We recommend that you keep a file on each mortgage service provider and review the information periodically. You should limit the use of mortgage service providers to a level that you can effectively manage.

Evaluation Procedures

We suggest that you evaluate the mortgage service provider before contracting with it. You will probably choose to do a more thorough evaluation if you anticipate extensive or long-term use of the mortgage service provider, or if it will be performing critical functions, such as underwriting.

Approving Mortgage Service Providers

Your senior management should review the information gathered before contracting with a mortgage service provider. If two firms are competing for the work, the company most qualified to produce quality work should be chosen, even if its fees are higher. In the long run, working with quality firms will reduce risk as well as the costs associated with negligence and errors.

Monitoring Mortgage Quality

We suggest that you conduct targeted quality control reviews or other types of reviews to establish and monitor the quality of the mortgages that were handled by each mortgage service provider. We recommend increasing the level of reviews early in a relationship so that you can take corrective measures before problems escalate. You may need to give more direction or training if problems recur. Increased review would also be indicated if you begin using a mortgage service provider after a period of non-use.

Evaluating Performance

We recommend that you periodically conduct performance reviews. The performance review should begin with the results of your quality control reviews. It should also include any available performance information about how the mortgages performed.

Identifying which mortgages a mortgage service provider handled may be easier if it performed all of a specific function, or if the mortgage service provider worked on a group of mortgages that can be identified by another characteristic.

Other Controls

Besides gathering quality control and any available performance information, you can periodically visit the mortgage service provider, review its staffing, and evaluate its procedures. The results should be communicated to your senior management and the mortgage service provider.

Handling Poor Performance

Poor performance should be monitored and controls increased as warranted. If you feel the risks are not being controlled, we recommend that you discontinue using the mortgage service provider or at least eliminate them from consideration for future contracts.

Freddie Mac Contacts

Please identify the Freddie Mac contact for your specific business need. If you're unsure of the appropriate contact, or have general questions, please call our lender helpline, (800) FREDDIE.

Exhibit WO1 - Sample Mortgage Broker File Checklist

Mortgage Broker Name: ____________________________ Approval date: _____________

Principals: ____________________________ Review (owners) ______________
____

Social Security # (for each principal) ____________________
____
____

Date of Birth (for each principal) ____________________
____
____

Home Address for each principal: ____
____
____

Business address: ____
Primary contact: ______________________
Phone number: ______________________
Tax ID number: ______________________

Approved to provide the following services:

____
____
____
____
____

Special instructions/controls (attach sheet as needed):

____
____
____
____
____

Initial file documents:

_____________ Signed approval checklist or other approval form
_____________ Fully executed agreement for services
_____________ Approval documentation including
  _____________Licenses, approval, etc. to originate home mortgages
  _____________Reference letters/phone reference records
  _____________Credit report(s)
  _____________Resumes
  _____________Proof that Freddie Mac Exclusionary List was checked
  _____________Other (as required)

Monitoring documentation:

Indicators of performance		Frequency of collecting
_____________	Cancellation rate	_________________________
_____________	Underwriting/reunderwriting summaries	_________________________
_____________	Quality control results and remedial	_________________________
_____________	actions taken	
_____________	Early payment defaults and delinquencies	_________________________
_____________	Later default or delinquency	_________________________
_____________	Other indicators	_________________________

Updated information		Dates received or done
_____________	Verified licenses etc.	____ ____ ____ ____
_____________	Ownership/principal change	____ ____ ____ ____
_____________	Check Freddie Mac Exclusionary List	____ ____ ____ ____
_____________	Other information	____ ____ ____ ____

Continuing approval (reports to senior management):

Date	Approved by	Changed controls (if any)
______________	______________________________	________________________________
______________	______________________________	________________________________
______________	______________________________	________________________________
______________	______________________________	________________________________
______________	______________________________	________________________________
______________	______________________________	________________________________

Date	Approved by	Changed controls (if any)

Exhibit WO2 - Sample Correspondent File Checklists

Mortgage Broker Name: ____________________________ Approval date: _____________

Principals: ____________________________ Review (owners) _______________
____

Social Security # (for each principal) ____________________
____
____

Date of Birth (for each principal) ____________________
____
____

Home Address for each principal: ____
____
____

Business address: ____
Primary contact: ______________________
Phone number: ______________________
Tax ID number: ______________________

Approved to provide the following services:
____
____
____
____
____

Special instructions/controls (attach sheet as needed):
____
____
____
____
____

Initial file documents:

_____________ Signed approval checklist or other approval form
_____________ Fully executed agreement for services
_____________ Approval documentation including
- _____________Licenses, approval, etc. to originate home mortgages
- _____________Reference letters/phone reference records
- _____________Credit report(s)
- _____________Resumes
- _____________Proof that Freddie Mac Exclusionary List was checked
- _____________Other (as required)

Monitoring documentation:

	Indicators of performance	Frequency of collecting
_____________	Cancellation rate	_________________________
_____________	Underwriting/reunderwriting summaries	_________________________
_____________	Quality control results and remedial	_________________________
_____________	actions taken	
_____________	Early payment defaults and delinquencies	_________________________
_____________	Later default or delinquency	_________________________
_____________	Other indicators	_________________________

	Updated information	Dates received or done			
_____________	Verified licenses etc.	____	____	____	____
_____________	Ownership/principal change	____	____	____	____
_____________	Check Freddie Mac Exclusionary List	____	____	____	____
_____________	Other information	____	____	____	____

Continuing approval (reports to senior management):

Date	Approved by	Changed controls (if any)
____________	______________________________	________________________________
____________	______________________________	________________________________
____________	______________________________	________________________________
____________	______________________________	________________________________
____________	______________________________	________________________________
____________	______________________________	________________________________

Date	Approved by	Changed controls (if any)

Exhibit WO3 - Sample Mortgage Broker/ Correspondent Application/ Questionnaire

1. Legal name of applicant: ______________________________
doing business as: ______________________________

2. Address:

____

3. Primary contact person:

Name: ______________________________
Title: ______________________________
Phone number: ______________________________

4. Date business established:

____

5. Business type:

______ Corporation under the laws of
______ Partnership registered in ________ General or Limited? ________
______ Sole proprietorship ______________________________
______ Other ______________________________

6. Taxpayer identification number:

7. Information on owners and principals:

Name and Title	Social Security Number	Length of Time Associated With Applicant

8. Scope of services you wish to provide: ______________________________

____

____

9. How long have you originated home mortgages: ______________________

10. Has your business ever been suspended or terminated by Freddie Mac or any other investor? __________________ If yes, please provide details:

____

____

____

(Attached additional sheets if necessary)

11. References:

a. Company name:

____

Name of association with reference:

Address: __________________ Phone number: __________________

Name/title of contact person: ______________________________

b. Company name:

____

Name of association with reference:

Address: __________________ Phone number: __________________

Name/title of contact person: ______________________________

c. Company name:

____

Name of association with reference:

Address: __________________ Phone number: __________________

Name/title of contact person: ______________________________

12. Please attach copies of the following requirement documentation:

- Resumes on owners and principals
- Documentation of compliance with laws related to licensing, approval or qualification to originate home mortgages (as applicable)
- Articles of incorporation, partnership agreement, etc. (as applicable)
- Your procedures for services to be provided (for example, processing procedures, underwriting procedures, etc.)
- Proof of your current errors and omissions insurance and fidelity bond insurance (when applicable)
- A list of affiliated businesses, if any
- Other: ____

INFORMATION PROVIDED BY:

______________________________	____________________
(please print name)	(title)
______________________________	____________________
Signature	Date

FOR (SELLER NAME) USE ONLY:

______________________________	____________________
Received by:	Date

Exhibit WO4 - Sample Mortgage Broker/ Correspondent Approval

Name of applicant: ____
Address: ____
Primary contact name/title: _______________________________________

A. Documentation

Type of Information	Date Requested	Date Received	Review/Summary Comments	Reviewed By
1) Resumes for:				
____________	________	________	____________	________
____________	________	________	____________	________
____________	________	________	____________	________
2) Reference checks:				
____________	________	________	____________	________
____________	________	________	____________	________
____________	________	________	____________	________
3) Licenses, approval or qualification documents:				
____________	________	________	____________	________
			____________	

(Verified current compliance with ____________ on ____________)

4) Credit reports:				
a) Principal				
____________	________	________	____________	________
			____________	
			____________	
b) Business				
____________	________	________	____________	________
			____________	
			____________	

5) Company profile (including articles of incorporation/partnership agreement, etc):

6) Procedures

7) List of affiliated businesses (if any):

8) Errors and omissions and fidelity bond insurance (if required):

9) Other information (as required):

B. On-site visit/personal interview report
Date conducted: ______
Summary findings: ______

C. Checklist – Representations and warranties to Freddie Mac

______ Mortgage broker/correspondent has experience originating investment-quality mortgages and has demonstrated integrity

______ Mortgage broker/correspondent (entity and principals) not on the Freddie Mac Exclusionary List

______ Mortgage broker/correspondent is currently in compliance with all applicable laws related to licensing, qualification, or approval to originate home mortgages

D. Overall comments

____

____

E. Approval

Applicant approved ____ yes ____ no By ____________ Date ________________

Comments: ____

F. Written agreement

Agreement sent to applicant on ______________________

Fully executed agreement received on ______________________

Exhibit WO5 - Sample Reference Letter

Date

ABC Mortgage Company
123 Maple Street
Hometown, USA

Attention: John Jones

RE: Reference for XYZ Broker, Inc.

Dear Mr. Jones:

The above referenced company has applied with XLM Bank for approval as a wholesale originator. Your firm was given as a reference.

We would appreciate your assistance by completing the brief questionnaire below and returning it in the enclosed self-addressed envelope as soon as possible. Your answers and comments are important to us.

Thank you for your time and assistance in this matter.

Sincerely,
Jane Smith, Manager

1. How long has your company been doing business with XYZ Broker, Inc.?

2. What services did they provide to your firm?

3. Approximately how many mortgage files did they submit to you last year?

4. How would you rate the overall quality of the mortgage packages submitted to you?
____ Excellent ____ Very Good ____ Good ____ Fair ____ Poor

5. Have you had any problems and/or material discrepancies? ____ Yes ____ No
If yes, please explain: ____

6. Are they currently approved to provide services to your firm? ____ Yes ____ No
If no, please explain why: ____

7. How do they respond to requests for clarifications, additional conditions and/or resolution of discrepancies?

______ Thorough, prompt response ______ Provide information in required time frame
Slow/need repeated requests _________ Often withdraw case

8. Approximately what percentage of mortgage files they submitted to you:

- Were approved and settled without major problems ______%.
- Were denied in underwriting _____%.
- Had major problems or discrepancies found in a quality control review _____%.
- Performed well after settlement _____%.
- Had performance problems (such as early payment default, delinquencies in the first 12 months, entered foreclosure, etc.) _____%.

9. Generally, would you recommend the use of their services? ____ Yes ____ No
If no, please explain why: ____

Other comments that you feel would be helpful:

____

____

____

Signature: ______________________________ Date: ___________________________
Name/Title: ____________________________

Exhibit WO6 - Sample Telephone Reference Call Record

Applicant: ____

Reference called: ____________________ (Name of Firm)
Name and title of individual called: ______________________________

1. How long has your company been doing business with the mortgage broker or correspondent?

____

2. What services did the mortgage broker or correspondent provide to your firm?

____

____

3. Approximately how many mortgage files did the mortgage broker or correspondent submit to you last year?

____

4. How would you rate the overall quality of the mortgage packages submitted to you?

____ Excellent ____ Very Good ____ Good ____ Fair ____ Poor

5. Have you had any problems with the mortgage broker/correspondent?

_____ Yes _____ No

If yes, please explain:

____

6. Is the mortgage broker/correspondent currently approved to provide services to your firm?

_____ Yes _____ No

If no, please explain why:

____

____

7. How do they respond to requests for clarifications, additional conditions and/or resolution of discrepancies?

______ Thorough, prompt response ______ Provide information in required time frame

Slow/need repeated requests __________Often withdraw case

8. Approximately what percentage of mortgage files has the mortgage broker/ correspondent submitted to you:

- Were approved and settled without major problems ______%.
- Were denied in underwriting _____%.
- Had major problems or discrepancies found in the quality control review _____%.
- Performed well after settlement _____%.
- Had performance problems (such as early payment default, delinquencies in the first 12 months, entered foreclosure, etc.) _____%.

9. Would you recommend the use of the mortgage broker/correspondent services?
____ Yes ____ No

If no, please explain:

____

____

Other comments that you feel would be helpful:

____

____

Reference verified by: ____

Date: ______________________________