



Quality Control Trends

Judy Prien

Manager

Regional Lending

May 11, 2010

Objectives for Today

- Why Freddie Mac performs Quality Control
- What are the trends in 2009 and 2010
- What you can do to strengthen loan quality

Why Freddie Mac Performs Quality Control

- Necessary because of the delegated underwriting business model
- Understand your processes by monitoring loan quality and how mortgages are manufactured
- Evaluate compliance with terms of business
- Support risk and loss-mitigation activities

How We Perform Quality Control

- Review a sample of loans post-purchase
- Employ three distinct samples
- Multi-dimensional loan reviews
 - » Compliance with Freddie Mac Charter
 - » Compliance with terms of business
 - » Risk underwriting

Underwriting Defects Remain a Concern

- Top deficiencies for loans sampled indicate the manufacturing process still requires some reinforcement:
 - » Requirements of both Freddie Mac and non-Freddie Mac underwriting systems not being met
 - Errors with income and obligations
 - Reserve requirements not met and insufficient funds to close
 - » Appraisal does not support the value of the property
 - States with highest concentration of appraisal deficiency: MI, FL, OH, CA, IL and IN
- Loans with these deficiencies are 2x more likely to become 90 days delinquent in the 1st year resulting in repurchase

Review the Appraisal

“A picture speaks a thousand words...”



Working Together to Produce Exceptional Loan Quality

Data Integrity

Ensure the accuracy of your data when:

- » Transmitting loan data to an Automated Underwriting System
- » Transmitting loan data to Freddie Mac

Compliance with Purchase Documents

- Ensure compliance with the program or product requirements
- For example:
 - » LTV/TLTV/HTLTV limits
 - » Property types
 - » Loan purpose
 - » Loan characteristics

Documentation Quality

- Ensure the documentation in the loan file meets the feedback certificate requirements
- Ensure that all closing and legal documentation has been provided to the Servicer
- Missing or insufficient documentation prevents an assessment of acceptable quality

Re-verifications

False representations continue to be a theme in a large percentage of loans

Staff Quality

- » Ensure employees responsible for the underwriting decision have the knowledge, skills and abilities necessary
- » The underwriter should have the ability to make a decision without an automated evaluation
- » Require ongoing training and education

Best Practices Prior to Closing

- Credit
 - » Ensure you obtain robust credit data on your borrowers
 - » Confirm whether any new debt has been opened
- Capacity
 - » Pre-closing employment confirmation

Focus of FACTS

- **F**eedback from internal or Freddie Mac Quality Control reviews used to identify and develop plans to address weaknesses in the origination channel
- **A**ccurate data to ensure appropriate underwriting decisions are made and AUS decisions are not invalidated
- **C**omplete file submitted to ensure that Freddie Mac makes eligibility decisions based on same information as internal Quality Control resources
- **T**rainning on basic underwriting fundamentals to reduce errors in credit, capacity, and collateral assessments
- **S**trong understanding of contract requirements to ensure compliance

Taking action to reinforce a focus on prudent lending standards and long term homeownership is paramount

Additional Actions

Processes and Controls

- » Quality Control Program
- » Exclusionary List
- » Appraiser Monitoring
- » Data Accuracy
- » Documentation
- » Anti-predatory Lending Practices
- » Process and Integrity Oversight

We Can Help You

- Freddie Mac *Single-Family Seller/Service Guide*
- Freddie Mac customer support
 - » 800-FREDDIE (373-3343)
 - » Account Manager
 - » Quality Control Underwriter
- FreddieMac.com
 - » Quality Control and Fraud Best Practices

Questions & Answers