VA Lenders Handbook (VA Pamphlet 26-7), Chapter 1, Topic 14 — Elements of a Quality Control Plan

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14. Elements of a Quality Control Plan Change Date February 1, 2019 • This chapter has been revised in its entirety. a. Purpose A quality control (QC) plan must be submitted with every non-supervised lender's application for automatic authority. This exhibit outlines the criteria which the QC plan must satisfy. Although supervised lenders are not required to submit a QC plan with their application, VA will review the QC plan when VA performs a lender audit. b. Audit Program The QC plan must provide for: • a program of internal or external audit of the lender's compliance with VA loan processing and underwriting requirements, or • independent review by management personnel knowledgeable of such requirements who have no direct loan processing or underwriting responsibilities. c. Adequate Scope The QC plan must provide: • Audits or reviews are not less than ten percent of all VA-guaranteed mortgages originated by the lender monthly, including its branches and authorized agents except that lenders making more than 140 VA mortgages monthly may use statistical sampling methods in lieu of the ten percent. • Loans processed by all loan officers and underwriters and a random selection which includes loans from all branch offices and authorized agents. • Procedures for expanding scope when fraudulent activity or patterns of deficiencies are identified. • For lenders participating in LAPP, that reviews include the QC procedures. • Procedures for validating third party verification data obtained through Automated Underwriting Systems (AUS). • For each branch office that originates VA loans, an on-site branch office review should be conducted at least once annually. Continued on next page VA Pamphlet 26-7, Revised Chapter 1: Lender Approval Guidelines 1-42 14. Elements of a Quality Control Plan, continued d. Management Notification The QC plan must provide for written notification of deficiencies cited as a result of audits or reviews at least quarterly to the lender's senior management. ____ e. Corrective Action by Management The QC plan must require that: • prompt and effective corrective action by senior management on all deficiencies identified by either the lender or VA. • maintenance of documentation of deficiencies and corrective actions taken. • Where patterns of deficiencies have been identified, corrective instructions be provided to all relevant employees. f. Deficiencies Reported to VA The QC plan must: • Require prompt reporting of any violation of law or regulation, false statements or program abuses by the lender, its employees or any other party to the transaction to the VA office of jurisdiction, and • Provide for furnishing audit or review findings to VA on demand. g. Current VA Underwriting Policies and Procedures Maintained The QC plan must ensure that: • The lender's procedures are revised in a timely manner to accurately reflect changes in VA requirements. • Each of the lender's offices, including its approved agent(s) and branches, maintains copies of all VA publications, including regulations, handbooks, and releases, which are relevant to the lender's VA loan origination activities. They must be accessible to all employees, periodically reviewed with appropriate staff, and kept current. h. Only Authorized Persons Process Loans The QC plan must ensure that all loans submitted by the lender to VA for guaranty are processed by employees of the lender or its

authorized agent(s). Continued on next page VA Pamphlet 26-7, Revised Chapter 1: Lender Approval Guidelines 1-43 14. Elements of a Quality Control Plan, continued i. Funding Fees Paid The QC plan must ensure that VA funding fees are remitted within 15 days from the date of loan closing and late charges and interest penalties are promptly submitted. j. Escrow Fund Management The QC plan must ensure that escrow funds received from borrowers are not excessive and are not used for any purposes other than that for which they are received. k. Debarred Persons Not Employed The QC plan must ensure that the lender does not employ for VA loan origination, or underwriting, any individual who is debarred or suspended. l. Review of Loans The QC plan must provide for the following on loans selected for review: • Review of loans within 90 days of loan closing. • Written re-verification of borrower's employment, deposits, and all sources of funds. • Reordering of a new credit report from another credit source. Note: Report may be a Residential Mortgage Credit Report (RMCR) or an in-file report which merges the records of the three national repositories of credit files, commonly known as a 3-file merge. • The reviewer determines whether underwriting conclusions and lender documentation are overall complete and accurate per the table below: Step Action 1 Does each loan file contain all required loan processing, underwriting and legal documents? 2 Were all relevant loan documents not pre-signed in blank by the borrower or employee(s) of the lender, and were all corrections initialed by the borrower or employee(s) of the lender? 3 Were verifications of employment, verifications of deposit, and the credit report not handled by the borrower or any interested third party? 4 Do credit reports conform to RMCR standards, if used, and if more than one credit report was ordered, were all credit reports submitted with the loan package to VA? Continued on next page VA Pamphlet 26-7, Revised Chapter 1: Lender Approval Guidelines 1-44 14. Elements of a Quality Control Plan, continued l. Review of Loans, continued Step Action 5 Is there a correlation of each outstanding liability and each asset of the borrower and co-borrower used to qualify for the loan to those listed on the initial loan application? Note: If discrepancies exist, the loan file must show they have been explained or otherwise resolved. 6 Were any outstanding judgments appearing on the credit report listed on the application with an accompanying explanation and documentation? Note: When there is a delinquency or judgment involving debt to the Federal Government, evidence must be provided showing the delinquent account was brought current or satisfactory arrangements were made between the borrower and the Federal agency owed, or the judgment was paid or otherwise satisfied. 7 Does the loan file contain required tax returns? Note: If the borrower is self-employed, the loan file must include 2 years of tax returns and a profit and loss statement for year-to-date since the end of the last fiscal year, and a current balance sheet showing all assets and liabilities. 8 Was the Closing Disclosure accurately prepared and properly certified? 9 Were fees charged to the Veteran appropriate and accurate? 10 Was the loan properly documented and submitted in accordance with VA standardized loan file set-up procedure? 11 Was the loan current at the time it was submitted to VA for guaranty? 12 Did the borrower transfer the property at the time of closing or soon after, indicating possible misuse of the Veteran's loan entitlement? 13 Were all conflicting information or discrepancies resolved and properly documented in writing prior to submission of the loan to VA for guaranty? VA Pamphlet 26-7, Revised Chapter 1: Lender Approval Guidelines 1-45

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