

# Ask Tommy: Your QC Expert



**By Tommy A. Duncan, CMT**

## ***What is the biggest trend you see in quality control audits for 2010?***

So far in 2010, we are seeing exactly what we expected to see. The big numbers are with violations with the final Truth-in-Lending and annual percentage rates (APRs). In 2009, this category did not register in the top 10. In 2010, it ranks number three with a 183 percent increase from 2009 which includes all loan types and loan purposes.

### **Federal Housing Administration (FHA)**

In the FHA loans department, Truth-in-Lending/APR violations rank fourth with a 138 percent increase from 2009. It appears the problem with FHA is coming from loan purchases and not from refinances. The FHA refinance does not register any final Truth-in-Lending violations in the 10 category yet.

### **Conventional**

Conventional loans rank higher. Truth-in-Lending/APR violations ranked third with a 270 percent increase from 2009. It appears the conventional purchases are not sharing with refinances because it is not registering within the top 10 categories with conventional loan refinances.

### **Non-supervised mortgagee vs. supervised mortgagee (non-bank lenders vs. bank lenders)**

Violations by non-bank lenders ranked sixth in its top 10 categories with a 69 percent increase from 2009. Bank lenders jumped to 154 percent in the same category.

### **Non-supervised loan correspondents vs. supervised loan correspondents (brokers vs. bank brokers)**

Brokers have the largest numbers of all. Brokers have a 413 percent increase in final Truth-in-Lending violations since 2009. Bank brokers have a 160 percent increase since 2009.

This means that violations with the final Truth-in-Lending/APR calculations will continue to grow for all mortgage entities. This category did not register in the top 10 for anyone and has spiked considerably. Also, we are only seeing part of the story. There are many who have not performed their post-closing quality control checks for the first quarter of 2010.

The mortgage professional may see steep fines from the state and other oversight agencies if these issues are not resolved quickly. Quality Mortgage Services is only auditing 10 percent of the FHA files and 10 percent of the conventional loans of seller/servicers. The problem could be a lot worse based on the small sampling that is has viewed in quality control. The FHA has announced a grace period for the first quarter in order for its correspondents and mortgagees to get used to the new regulatory reform. The first quarter is over and those who have not performed their post-closing QC checks will be overcome by events due to APR miscalculations and steep fines from the state.

I recommend that principals or QC managers take control of this problem very quickly. Those who are current on the post-closing QC checks are putting policies and procedures in place based on the Q1 of 2010 quality control reports and will weather the storm and come out stronger. Those who have a weak QC program will be surprised when they are hit by the state or other agencies audits.

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