

Ask Tommy: Your QC Expert



By Tommy A. Duncan, CMT

Fannie Mae recently hosted its inaugural Quality Control Vendor Summit that included the leading quality control (QC) vendors in the county. Fannie Mae is very serious about improving loan quality and improving the Loan Quality Initiative (LQI).

One discussion we had was how to monitor the effectiveness of pre-funding QC because many tools involved in pre-funding QC are there to help fix loan defects in order to get the loan through underwriting or to deny it. One of the most effective pre-funding QC tools available is the tax transcript which is pulled when the borrower signs the 4506-T. The lender is able to affirm much of the applicant's information, such as the borrower's Social Security Number, past residences, past income, past employers and can check amended returns.

What if the mortgage industry was to apply a similar methodology to appraisals in order to reduce loan defects from the appraiser or appraisal? This process is called Appraisal Defect Detection & Prevention (ADDP) or "Add-Pee." ADDP is the new up and coming pre-funding QC process that will change the way appraisers, appraisal management companies (AMCs), and lenders will handle appraisals and appraisers. This new process may even evolve the Home Valuation Code of Conduct (HVCC) as we know it today.

ADDP can be used on the front end of the loan process, prior to funding, and on the back end in the post-closing QC process. ADDP may also reduce the requirement for a Field Review Appraisal and automated valuation model (AVM).

I foresee the appraiser being held accountable for the quality of the valuation with technologies behind ADDP. The appraiser's valuation may hold higher credibility if he or she submits the appraisal to an AMC or lender with data behind the ADDP. The lender wants to reduce the amount of underwriting stipulations and conditions on the appraisal in order to expedite the closing. The AMC and appraiser do not want to touch or revisit the appraisal again and the broker and the borrower is left hanging waiting on the appraisal so they can close the loan. In many loan and underwriting scenarios, it is the appraisal or appraiser that delays a closing.

Those wholesale lenders who have incorporated ADDP as part of their pre-funding QC process have seen a significant drop in repurchase claims based on collateral. Also, those AMCs who incorporate ADDP for the banks or lenders are making their services more valuable by reducing the probability of a change in an AMC vendor.

The ADDP adds so much more creditability to the collateral valuation that I could see brokers getting back in the appraisal ordering process if the broker had the ADDP incorporated into their QC plan and was providing the collateral data to the lender with the appraisal submission.

LQI is about compliance, and Fannie Mae is looking for effective QC policies and procedures. ADDP seeks to reduce loan defects and helps in loan approval efficiency. It can be applied down to the broker and appraiser levels as well. If you have not implemented ADDP as part of your QC plan, you are assuming risk in delayed closings and potential loan repurchases based on collateral.

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