



TPO Quality Control Policies

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Reviews and Audits

As part of MSF's quality control plan, loans may be subject to various reviews and audits at different stages during the life of a loan.

Quality Control Audits and Verifications

The Quality Control Department (QC) conducts two types of audits during the underwriting stage of the loan; a Full QC Audit and a High Risk Audit. In addition to the risk based audits, QC also performs a Final Prefunding Audit and a Post Funding Audit to ensure adherence to regulatory standards.

Following is an explanation of these audits: Refer to QC Verification section for details on employment and asset validation.

- **Full QC Audit:** This type of audit is reserved for all files originated by certain third-party originator's (TPO) for various routine reviews. A TPO may be subject to audit for a variety of reasons; most are routine and not the result of file quality or broker actions. QC identifies which loans require a full audit through internal departmental procedures.
- **High Risk Audit:** Quality is important on every loan, particularly on loans with increased risk levels. To ensure the quality of these loans, the QC team audits all high risk files.
- **Clear to Close (CTC) Audit:** All Loans are subject to a final CTC audit before the loan is cleared for funding. CTC Reviews find any issues that could make the loan unsalable, issue trends, and help ensure compliance and general accuracy before the loan is cleared for funding.
- **Post Funding Audits:** All loans are subject to a post-funding audit once funded. Every loan must undergo one or more post funding audits conducted by MSF and affiliates

Full Quality Control Audit

MSF performs a thorough internal prefunding review for third-party originated loans.

- At the time a third-party originator's ("TPO") application is approved by MSF, the third-party originator is placed on QC watch. Every loan submitted by the third-party originator gets a full prefunding QC audit once the loan is UW Approved.
- Documentation of prefunding review findings is retained electronically by MSF for no less than five years. When ten of the TPO's files have received a full prefunding review, Compliance Counsel is notified so they can review all findings. If any findings are documented as Material Risk, Compliance Counsel will notify Senior Management. An in-house decision will be made regarding terminating the originator or placing the originator's files on second level QC Audit for all files going forward. This decision depends on the subject matter and severity of the Material Risk finding.
- The TPO Prefunding Review includes, but is not limited to, the following areas:
 - Borrower Validation
 - Employment Validation
 - Property Validation
 - Miscellaneous Validation: Verification of Deposit and Verification of Rent/Mortgage
 - LexisNexis Risk Management Solutions Report (Pulled on every file)

High Risk Quality Control Audit

In addition to the prefunding review executed specifically for third-party originators, MSF requires all loans with high-risk indicators to undergo a prefunding review regardless of their channel of origination. The review is initiated once the file is accepted into underwriting and completed before the file is approved.

High-risk loans include one or more of the following:

- LTV ratios > 100% (conventional only)
- Mid-range credit score below 650 (All loan programs. Includes FHA Streamline and VA IRRRL with No Credit Score)
- Non-owner occupied properties (All loan programs)
- Cash-out refinances (All loan programs)
- VA Regular Refinance
- Loans with newly hired originators, processors, and underwriters (first five loans from each employee)

Clear to Close Audit

MSF performs a thorough internal prefunding CTC review on ALL files to find any issues that could make the loan unsalable, issue trends, and help ensure compliance and general accuracy before the loan is cleared for funding. CTC/Final QC requests are emailed by the underwriter to the CTC Inbox.

Loan Officers and Brokers must go through the underwriter for anything regarding CTCs. Requests are processed in the order they are received, unless approved as a “Rush”. Rush requests can only be approved by managers

Post Funding Audit

MSF performs three types of post-funding audits. Not all three audits are performed on every loan; however once funded, every loan is subject to one or more of the following audits at any time:

- Internal Post Closing Audit
- Internal Post Closing Underwriting Audit and/or
- External PC Audits.

QC Verifications

MSF's quality control policies also require our QC team to obtain verifications for certain types of documentation.

These Verifications include but are not limited to:

- Verification of Employment (VOE)
- Verification of Deposit (VOD)
- Personal and Business Tax Transcripts (4506T's)
- Wage Earnings (W2/1099)
- Social Security Number Verification (SS89)

Employment Verifications

QC verifies all employment information listed in the system on every TPO loan. This verification will include a VOE and 3rd party verification of the business.

There are two types of Verification of Employment:

- Full VOE
- Streamline VOE

4506T Verifications

QC verifies all income information listed in the system on every loan

- 4506T's are ordered on all loans except for Streamline Refinance loans and VA IRRL loans
- 4506T's are ordered when the loan is approved.

W-2/1099 Verifications

A copy of the prior year(s) W-2(s)/1099(s) is required for all loans (except for Streamline Refinance loans and VA IRRL loans)

- If a copy of the W-2/1099 is not available QC will request a copy on behalf of the borrower. A Signed 4506T form with section 8 completed is required to request these forms

SSN Verifications

MSF must be able to validate and document the social security number for all borrowers on the loan application. If a Social security card is not available or there are inconsistencies in the loan file the Underwriter or the Processor will request SSN verifications through QC

- SSN verification is ordered via email request by UW or MSF Loan Processor
- A signed SSA-89 form is required to request a SSN verification

Asset Verifications

A Verification of Deposit may be ordered by the auditor, depending on the audit type. The UW will review and compare the VOD to the bank statement(s) provided.

Additional Pre-Closing Requirements

In addition to Audits conducted by QC, MSF also requires certain pre-closing procedures to be completed prior to issuing the clear to close approval.

These include:

- Obtaining a Soft Pull Credit Report and
- Conducting a Management Review
- MERS Verification

Soft Pull (No Score) Credit Report

As part of MSF's pre-close procedures, a soft pull credit report is required on all credit-qualifying loans at CTC. A soft pull credit report will not reference every trade line from the original credit report, only those with information that has changed from the original credit report. Borrowers must qualify with the highest monthly payment listed on the credit report, credit supplement or soft pull. A letter of explanation is required for all new credit inquiries and any new addresses reporting on the soft pull report.

Please refer to the information below for additional information not specifically addressed above:

- All credit qualifying loans require a pre-closing soft pull credit report
 - Pre-closing soft pull credit report is not required for non-borrowing spouse credit report in community property states
 - Any significant debt load increases and/or substantial payment increases may require a new credit report per underwriting discretion
 - Additional derogatory credit reporting will require a new credit report
 - Any new disputed account or a dispute now reflected on an existing trade line must meet product specific guidelines for disputed accounts
 - If requirements cannot be met, a new credit report and AUS with dispute removed may be required
 - Any new inquiry reflected on the soft pull credit report must be explained in writing
 - If a new inquiry is reflected from the originating entity, the new credit report must be provided and used for qualifying purposes as typically soft pull updates and credit supplementing do not result in new inquiries
 - Documentation will be required to ascertain that no new credit report was obtained
 - If the inquiry results in a new debt and not reflected on credit, provide documentation of current payment and balance to be included in DTI
 - The soft pull credit report must be no more than 14 calendar days before Note date

Management Review

Certain types of loans require Underwriting Management review and approval prior to issuing the clear to close approval. These loans include but are not limited to:

- All Open Access Loans
- Borrowers Owning More than Five to Ten Financed Properties
- Loan Amounts Exceeding \$417,000
- Loan Safe Fraud Manager Risk Score of 850 or Higher
- CU Scores 4 or Higher
- Purchase Transactions when the seller is a Company or LLC. (Does not apply to a relocation company, bank REO or new construction where the builder is selling the property)

MERS Review

All credit qualifying loans require a pre-closing MERS verification

- The pre-closing MERS verification must be no more than 14 calendar days before Note date

Client Re-cert Audit Procedures

Client Re-cert is an annual audit requirement for each broker/correspondent partner of MSF. Client Set-up will send a list to the Account Executive in charge of completing the client re-cert for that previous month to request information on audits needing completion

RM Lender Support Audits

RM Lender Support is a third party company that is used by MSF to audit roughly 10% of our closed loans every month. At the end of the month a report is sent to RMLS listing all loans closed by MSF that month; in-turn RMLS sends of a list of files from that report that they would like us to send them to be audited.

Once audits are completed, a group of exception reports are issued to MSF that include any and all errors/exceptions found throughout the files during their audit. Any deficiencies relating to incomplete or missing information may require additional contact with broker/correspondent partners and or borrowers to obtain required documentation needed to clear deficiencies