



**BlackWolf Advisory Group**

MORTGAGE SERVICING. SIMPLIFIED.

# MORTGAGE SERVICING QUALITY CONTROL

*Ensure compliance by developing sound quality control practices*





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# Chapter 1 | Introduction



Mortgage servicing plays a pivotal role in the financial industry, acting as the intermediary between borrowers and lenders after the origination of mortgage loans. Servicers are responsible for collecting monthly mortgage payments, managing escrow accounts, and ensuring that all aspects of the loan are administered accurately and in compliance with various regulatory requirements. Given the vast number of loans and the complexity of servicing operations, the need for a robust quality control testing process cannot be overstated. Here's why quality control testing is of paramount importance in mortgage servicing:

## Compliance With Regulations

Mortgage servicing is governed by a myriad of federal, state, and industry regulations, including the Truth in Lending Act (TILA), Real Estate Settlement Procedures Act (RESPA), an alphabet soup of regulations, and various investor guidelines. Non-compliance with these regulations can lead to severe penalties and legal ramifications. Quality control testing is essential to ensure that all servicing activities align with these requirements.

## Risk Mitigation

Quality control testing helps identify potential risks and vulnerabilities in the servicing process. It allows servicers to proactively address issues that could lead to financial losses, reputation damage, or even the initiation of foreclosure proceedings. By assessing risk, servicers can take preventative measures to protect both borrowers and investors.



Compliance with  
Regulations



Risk Mitigation



Customer  
Satisfaction



Operational  
Efficiency



Data Accuracy





# Chapter 1 | Introduction

## **Data Accuracy**

Accurate loan data is the cornerstone of mortgage servicing. Errors in data management can result in issues such as miscalculated payments, incorrect escrow disbursements, and inaccurate loan statements. Quality control testing focuses on verifying the accuracy of loan data, reducing the likelihood of errors, and ensuring that borrowers are billed correctly.

## **Borrower Satisfaction**

Effective mortgage servicing not only safeguards the interests of lenders and investors but also ensures a positive experience for borrowers. Quality control testing helps identify areas of improvement in customer communication, responsiveness, and issue resolution. A well-serviced loan portfolio leads to higher borrower satisfaction and increased customer loyalty.

## **Operational Efficiency**

By identifying operational deficiencies and process errors, quality control testing contributes to improved operational efficiency. Streamlining servicing operations leads to cost savings and enhanced productivity, which can have a positive impact on a servicer's bottom line.

## **Investor Confidence**

Mortgage loans are often bundled into securities and sold to investors. These investors rely on mortgage servicers to manage the loans according to agreed-upon terms. Consistent quality control testing builds investor confidence by demonstrating that loan servicing is being executed diligently and in compliance with contractual obligations.

## **Legal and Financial Consequences**

Failing to conduct effective quality control testing can result in a range of legal and financial consequences. Regulatory authorities, investors, and borrowers can take legal action if they believe their rights or interests have been violated. The financial impact can include fines, penalties, and litigation costs.

**NOW LET'S GET TO IT.**

# Chapter 2 | Establish a Quality Control Plan

A comprehensive quality control plan is the foundation of your testing process. It should outline the objectives, methodologies, and responsibilities of quality control within your organization. Key elements of the plan include:

## **Objectives and goals**

Define the specific objectives of quality control testing. For example, ensuring compliance with regulations, preventing errors, and maintaining data accuracy.

## **Risk assessment**

: Identify potential risks and areas of vulnerability in your servicing operations. This helps tie the quality control plan to your Risk Management program.

## **Regulatory compliance**

Ensure that your quality control plan aligns with relevant laws and regulations, such as the Consumer Financial Protection Bureau (CFPB) rules and state requirements.

## **Scope**

Clearly define the scope of the testing, including the types of loans, servicing processes, and areas of focus.

## **Testing methods:**

Describe the testing methods, including sampling techniques, data collection, and reporting procedures.

## **Timing**

Clearly define the timeframes in which the quality control plan will be executed. This includes testing for monthly, quarterly and annual reviews.





# Chapter 3 | Develop a Quality Control Policy

A clear and defined Quality Control policy is a requirement to ensure sound practices and serves as a guide on how your QC process will work, who will manage it and how it is executed. One of the first things requested during any audit will be your QC policy. Below are key segments that need to be covered.

## 1. Policy Statement

Begin with a clear and concise policy statement that outlines the organization's commitment to quality control in mortgage servicing. This statement should emphasize the importance of compliance, data accuracy, risk management, and customer satisfaction.

## 2. Objectives and Scope

Define the objectives and scope of the policy. Specify the areas and processes within mortgage servicing that will be subject to quality control testing. Ensure that this scope is in line with industry standards and regulatory requirements.

## 3. Roles and Responsibilities

Clearly outline the roles and responsibilities of individuals and teams involved in quality control. This should include the quality control team, management, and relevant departments responsible for corrective actions and process improvements.

## 4. Sampling Guidelines

Detail the sampling process, including the sampling percentages, calculations, and any stratification methods you'll use. Mention compliance with regulatory requirements and alignment with industry best practices.

More detail on this later

## 5. Testing Procedures

Describe the specific testing procedures, methodologies, and checklists to be used during quality control testing. Include reference to regulatory requirements and alignment with investor guidelines, such as FNMA's Servicing Guide.

## 6. Frequency of Testing

Specify how often quality control testing will be conducted. The frequency should consider factors such as portfolio size, risk profile, and regulatory mandates, on your resume.

## 7. Corrective Actions

Define the process for implementing corrective actions based on the findings of quality control testing. Assign responsibility and establish timelines for addressing issues and making improvements.

## 8. Areas of Review

Clearly outline all of the servicing areas of review (AOR). There are specific servicing departments that will have QC testing completed. You should be as detailed as possible.

## 9. Reporting

Detail the requirements for reporting the results of quality control testing, including the format, content, and distribution. Clarify how recommendations for corrective actions and process improvements will be made.

## 10. Data Analysis

Outline the process for data collection, analysis, and reporting of test results. Describe the tools and systems used for data collection and analysis and the standards for documentation.



# Chapter 3 | Develop a Quality Control Policy - cont.







# Chapter 4 | Select a Qualified Team

## In-House Team Selection

Assemble a team of individuals with expertise in mortgage servicing, compliance, and data analysis. This team will be responsible for conducting the quality control tests, analyzing the results, and making recommendations for improvements. You may also choose to outsource your quality control testing partially or completely.

### EXPERTISE IN MORTGAGE SERVICING

Assemble individuals with specialized knowledge and expertise in mortgage servicing. This includes professionals familiar with loan origination, payment processing, loss mitigation, foreclosure, and other relevant aspects.

### COMPLIANCE SPECIALISTS

Include compliance specialists who are well-versed in federal and state regulations governing mortgage servicing. Their understanding of laws such as the Truth in Lending Act (TILA), Real Estate Settlement Procedures Act (RESPA), and investor-specific guidelines is crucial.

### DATA ANALYSTS

Incorporate individuals with strong data analysis skills. They should be proficient in extracting, analyzing, and interpreting data to identify patterns, trends, and potential areas of concern.

### QUALITY CONTROL EXPERTS

Include professionals with experience in designing and implementing quality control programs. They should be adept at developing test cases, selecting samples, and ensuring that testing procedures align with regulatory requirements and industry best practices.

### COMMUNICATION EXPERTS

Select team members with effective communication skills. Clear communication is essential for conveying findings, recommendations, and areas for improvement within the organization.

### LEADERSHIP TEAM

Hire a leadership team that with experience and a history in management of QC testing processes. In addition it is imperative that your leadership team follows the organizational and executive goals.





# Chapter 4 | Select a Qualified Team

## External Vendor Selection

Depending on business needs you may consider hiring an external vendor like BlackWolf Advisory Group to handle some or all of your Servicing Quality Control needs. When assessing the external vendor you need to consider key items below.

### SPECIALIZED QC FIRMS

When considering external QC vendors, look for firms with a proven track record in mortgage servicing quality control. Choose vendors that specialize in the financial services industry and have experience working with organizations of similar size and complexity.

### REGULATORY COMPLIANCE KNOWLEDGE

Ensure that the external QC vendor has a deep understanding of regulatory requirements applicable to mortgage servicing. This is crucial for aligning the testing procedures with the latest regulatory standards.

### FLEXIBILITY AND CUSTOMIZATION

Confirm that the vendor can tailor their services to meet the specific needs of your organization. A flexible vendor should be able to adapt their testing procedures to align with your unique portfolio and operational characteristics.

### TESTING METHODOLOGIES

Evaluate the testing methodologies employed by the external QC vendor. The vendor's approach should be robust, including a mix of manual reviews, data analysis, and other relevant methodologies. Ask about sampling and Areas of Review.

### INDUSTRY REPUTATION

Research the vendor's reputation in the industry. Request references and speak with other organizations that have used their services to gauge their effectiveness, reliability, and adherence to deadlines.

### QC TESTING TOOLS

Get a clear understanding on what tools the vendor uses to complete QC testing; whether they have a tool available or if the testing is manual. Also inquire about reports you and trending you will receive.



# Chapter 5 | Sample Selection

To determine the most appropriate sampling percentages and calculations for your mortgage servicing quality control program, it is essential to consult the latest regulatory guidelines, industry standards, and the specific characteristics of your loan portfolio. Ensure that your sampling process provides sufficient coverage to identify potential issues while maintaining statistical validity. Regularly assess and update your sampling approach to adapt to changes in your portfolio and regulatory requirements.

**Determine Sampling Percentage:** The sampling percentage represents the proportion of loans from your entire loan portfolio that you will select for testing. The appropriate sampling percentage is often based on industry best practices and regulatory guidelines.

**Industry Standards:** Mortgage servicing industry standards and best practices may also offer recommendations for sampling percentages. These standards are often influenced by the size of your loan portfolio and the complexity of your servicing operations.

**Sample Size Calculation:** Calculate the actual number of loans to be included in your sample using the determined sampling percentage. For example, if your loan portfolio consists of 1,000 loans, and your sampling percentage is 5%, you would select 50 loans for testing ( $1,000 \times 0.05 = 50$ ).

**Regulatory Requirements:** Regulatory bodies, such as the Consumer Financial Protection Bureau (CFPB), may provide guidance on minimum sampling percentages. For example, the CFPB's Mortgage Servicing Rules require periodic testing of a statistically significant number of accounts.

**Risk-Based Sampling:** Consider implementing a risk-based approach to sampling. High-risk loans or areas of your servicing operations may require a higher sampling percentage to ensure thorough coverage and to identify potential issues.

**Stratified Sampling:** In some cases, stratified sampling is used, where loans are grouped into strata based on specific characteristics (e.g., loan type, delinquency status, origination source). Different sampling percentages may be applied to each stratum based on its importance and risk.



# Chapter 5 | Sample Selection - cont.

**Sampling Precision:** The sampling precision, often denoted by a confidence level and margin of error, helps determine the reliability of your results. Higher confidence levels and lower margins of error require larger sample sizes. For example, a 95% confidence level and a 5% margin of error may necessitate a larger sample compared to an 80% confidence level and a 10% margin of error.

**Regular Sampling Updates:** The sampling percentages and calculations should be periodically reviewed and updated based on changes in your loan portfolio's size, composition, and risk profile. This ensures that your sampling remains statistically valid and aligned with the evolving nature of your servicing operations.

**Sampling plays a crucial role in mortgage servicing by providing insights into the performance of loan portfolios, identifying potential risks, and ensuring compliance with regulatory requirements.**

**Through sampling, mortgage servicers can evaluate the accuracy of loan data, assess the effectiveness of servicing processes, and detect any anomalies or discrepancies that may require corrective action. By analyzing a representative subset of loans, servicers can efficiently allocate resources, prioritize areas for improvement, and mitigate operational and financial risks.**

**Additionally, sampling enables servicers to demonstrate adherence to industry standards and regulatory guidelines, fostering trust among investors, regulators, and borrowers alike. Overall, sampling in mortgage servicing serves as a valuable tool for enhancing operational efficiency, managing risk, and maintaining compliance in the dynamic landscape of mortgage lending.**

# Chapter 6 | Execute Testing

By expanding on the execution of testing procedures in this manner, you create a systematic and comprehensive approach to quality control testing in mortgage servicing. This rigorous process ensures that all aspects of servicing activities are thoroughly examined for accuracy, compliance, and adherence to regulatory requirements and investor guidelines. Detailed documentation and objective testing procedures are vital for maintaining the integrity of your servicing operations and providing transparency to all stakeholders.

## Test Case Development ✓

Before executing quality control testing, develop a comprehensive set of test cases that align with the objectives of your quality control plan. These test cases should cover a wide range of servicing activities and processes, including core and default servicing.

## Test Case Execution ✓

Follow the established testing procedures rigorously. For data accuracy checks, perform reconciliation between your loan servicing system and supporting documents, such as payment records, insurance, and tax information.

## Compliance Audits ✓

When conducting compliance checks, be thorough in evaluating adherence to federal, state, and investor-specific regulations. Cross-reference loan servicing activities with regulatory requirements, including the Truth in Lending Act (TILA), Real Estate Settlement Procedures Act (RESPA), and any specific investor guidelines.

## Testing Methodologies ✓

Define the testing methodologies that will be used. This may include manual reviews, data analysis, document verification, or automated testing tools. The choice of methodology should be based on the nature of the test case and its alignment with your objectives.

## Document Review ✓

Examine documents such as loan files, payment records, and customer communication to ensure compliance and data accuracy. Confirm that loan modifications, loss mitigation efforts, and foreclosure proceedings adhere to investor guidelines and regulatory requirements.





# Chapter 6 | Execute Testing - cont.

## **Borrower Communication Assessment** ✓

Evaluate the quality of borrower communication, including the accuracy and clarity of statements, the responsiveness to borrower inquiries, and the handling of complaints. Test the effectiveness of customer service in resolving borrower concerns.

## **Technology Testing** ✓

If your servicing operations rely on specific software or technology systems, perform tests to validate the accuracy and functionality of these systems. Ensure that the technology used in loan servicing is free from errors that could impact borrowers.

## **Randomized Testing** ✓

Implement randomized testing procedures to avoid bias in selecting loans or processes for examination. Random selection helps ensure that your testing is representative of your entire loan portfolio.

## **Documentation and Record Keeping** ✓

Maintain meticulous records throughout the testing process. Document the specific loans and processes tested, the methodologies employed, and the findings. Detailed records are essential for transparency and compliance.

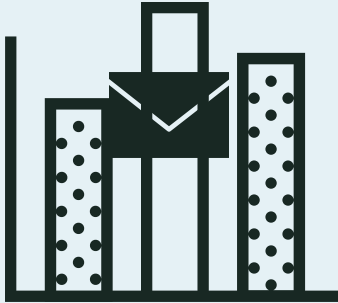
## **Testing Timelines** ✓

Establish clear timelines for the execution of testing procedures to ensure that the process remains on schedule and aligned with the testing frequency specified in your quality control plan.

## **Independent Review** ✓

It is a requirement to have an independent team or individual conduct a review of the testing procedures to ensure objectivity and to validate the results. This team needs to be separate from the business line being reviewed.

# Chapter 7 | Analyze Results and Track Trends



Tracking trends in quality control findings is a dynamic and proactive approach to mortgage servicing. It not only helps address existing issues but also positions your organization to adapt and respond to emerging risks and changes in the regulatory landscape. It allows your business lines to be aware of broken processes, develop Management Action Plans and make appropriate updates.

**Severity Assessment:** After categorizing findings as major or minor issues, go a step further by tracking the severity of these issues over time. This trend analysis will help you identify whether specific problems are becoming more or less prevalent.

**Root Cause Analysis:** As part of the analysis, track the root causes of the issues identified. This allows you to pinpoint any systemic problems that might be contributing to recurrent issues.

**Trend Analysis:** Implement a system for tracking and monitoring trends in your quality control findings. Consider the following aspects of trend analysis:

- Identify whether certain issues are recurring with a high frequency. Frequent issues may indicate a systemic problem that requires more attention.
- Assess how identified issues impact borrowers. Are certain issues causing more significant difficulties for borrowers? Track any trends in borrower complaints or dissatisfaction.
- Monitor how well corrective actions are addressing previously identified issues. If the same issues persist after corrective actions, it may be necessary to revisit and revise the actions taken.
- Keep an eye on emerging trends in the industry or regulatory landscape. Changes in regulations or market dynamics can create new risks that should be incorporated into your quality control program.

**Data Analysis Tools:** Use data analysis tools and software to facilitate trend tracking. These tools can help you visualize and quantify trends, making it easier to spot recurring issues.

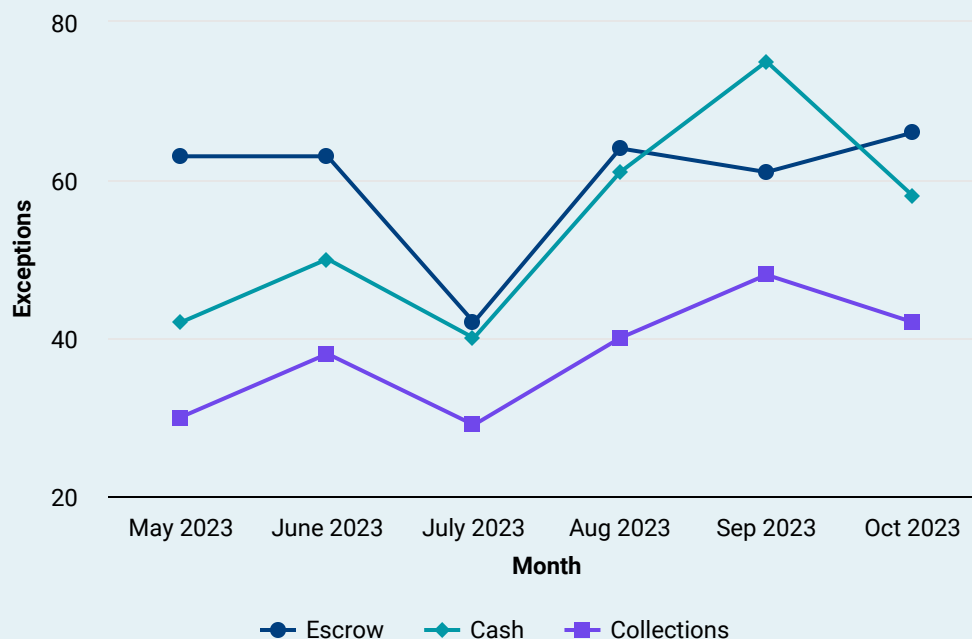
# Chapter 7 | Analyze Results and Track Trends - cont.

**Regular Reporting:** Ensure that trend analysis is a regular part of your quality control reporting. Include trend analysis in your reports to management, regulatory agencies, and investors to demonstrate a proactive approach to issue resolution.

**Adapt Quality Control Procedures:** Based on trend analysis, consider adapting your quality control procedures and sampling methods. For example, if certain issues consistently reoccur in a specific area, increase the sampling size or frequency for that area to address the problem more effectively.

**Feedback Loop:** Establish a feedback loop where trend analysis informs the refinement of your quality control plan. The identification of trends should lead to adjustments in your testing procedures and corrective action plans.

**Continuous Improvement:** Ultimately, the goal of trend analysis is to drive continuous improvement in your mortgage servicing operations. By identifying and addressing recurring issues, you can enhance efficiency, reduce risks, and maintain high-quality servicing.



# Chapter 8 | Report and Recommendations



By implementing these expanded measures in Chapter 9, you establish a robust system for continuously monitoring and reassessing your quality control program. This dynamic approach helps you adapt to evolving risks, regulatory changes, and market conditions, ultimately ensuring the ongoing effectiveness and compliance of your mortgage servicing operations.

**Detailed Report:** Create a detailed report that is easily understandable to all stakeholders, including executive management, compliance officers, and investors. Ensure that the report clearly outlines the scope of the testing, methodology, and findings.

**Recommendations:** Offer clear and actionable recommendations for each issue identified in the testing. These recommendations should outline how to correct the problem, prevent its recurrence, and improve the overall process.

**Timelines:** Establish timelines for implementing corrective actions. Prioritize and set deadlines for each recommendation to ensure that they are addressed promptly.

## Corrective Action Plan

- **Assign Responsibility:** Clearly assign responsibility for each corrective action item to individuals or teams within your organization. Accountability is essential for ensuring that actions are taken.
- **Documentation:** Maintain thorough records of all corrective actions taken, including what was done, who was responsible, and when it was completed.
- **Set Realistic Goals:** Not all findings are the same. Setting realistic goals for issue resolution is imperative to getting the issues addressed.
- **Communicate:** Be clear in your direction and allow your team to work. If issues arise, clear communication is key to resolution.



# Chapter 9 | Review and Update



Your mortgage servicing quality control program can be a comprehensive and adaptable framework for ensuring the accuracy, compliance, and efficiency of your operations. Regular testing and continuous improvement are key to maintaining the integrity of your mortgage servicing activities.

**Regular Review:** Periodically review your quality control plan to ensure it remains aligned with current regulations, industry standards, and emerging risks.


**Regulatory Changes:** Stay vigilant for changes in regulations, as these can have a significant impact on your quality control procedures. Update your plan as necessary to remain in compliance with evolving requirements.

**Best Practices:** Incorporate industry best practices into your quality control plan to continually enhance the effectiveness of your program.

**Ongoing Training:** Provide continuous training and education to your servicing team. Keep them updated on changes in regulations, industry best practices, and any process improvements. This ensures that your team is well-equipped to maintain compliance and improve the quality of servicing.

**Investor Expectations:** Keep a close eye on the expectations of investors, including government-sponsored entities like FNMA. Review investor guidelines and adjust your quality control program to align with their requirements.

**Feedback Mechanism:** Establish a feedback mechanism that encourages employees to report issues or potential areas of concern. This can be done through regular meetings, surveys, or anonymous reporting systems. Ensure that employees understand the importance of their role in quality control.



# Chapter 10 | Conclusion and Appendix

In conclusion, quality control testing in mortgage servicing is not just a best practice; it is a fundamental necessity. It safeguards the interests of all stakeholders, including borrowers, lenders, and investors. A robust quality control program not only ensures regulatory compliance but also promotes operational efficiency, customer satisfaction, and investor confidence, ultimately contributing to the long-term success and stability of mortgage servicing operations. Creating a comprehensive Quality Control Policy is a critical step in ensuring that quality control testing in mortgage servicing is conducted consistently and effectively. A well-documented policy provides guidance to your team and helps maintain a high level of compliance, accuracy, and efficiency in servicing operations.

If you have any questions, feel free to reach out.

[WWW.BLACKWOLFADVISORY.COM](http://WWW.BLACKWOLFADVISORY.COM)

# Servicing Quality Control Solutions

Our customized Servicing Quality Control Plan allows you to test your portfolio in accordance to current requirements and your specific needs, allowing you to remain compliant and address deficiencies timely.

## Servicing Areas of Review

A comprehensive quality control plan for mortgage servicing should cover various areas to ensure compliance, accuracy, and efficiency. Here's a list of key Areas of Review (AOR) that we utilize when developing a quality control plan for mortgage servicing:

Loan Boarding

Payment Processing

Escrow Administration

Loss Mitigation

Foreclosures

Bankruptcy Requirements

Claims

Collections

Property Management

Servicing Transfers

Regulatory Requirements

FNMA/FHLMC

FHA/VA

State Requirements

Real Estate Owned (REO)

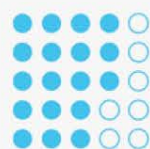
FEMA/Disaster Recovery

Client Requested AOR's

### Targeted Reviews

Targeted reviews provide specific client-requested quality control testing in addition to the Areas of Review (AOR)

Quality Control powered by:



**ORIGIN**  
Quality Management

Contact Us



904-207-8331



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# MORTGAGE SERVICING EXPERTS

A full suite of services available to guarantee you can operate smoothly, effectively service your customers, and optimize your loan operations.



## REGULATORY

- Quality Control Testing
- Internal Audit
- Compliance
- Change Management
- Investor Reviews
- Exam Management

## OPERATIONAL

- KPI Development
- P&P Management
- Complaint Reviews
- Vendor Oversight
- Sub-Servicing Oversight
- Issue Management

## WHO WE SERVE



**Banks and CU's**



**Servicers**



**Tech Firms**



**Attorneys**



**Advisory Groups**

## TECHNOLOGY

- Enhancements
- Data Integrity Reviews
- Transition Support
- Report Development
- Software Development

## OUR MISSION

It is our mission to revolutionize the mortgage servicing industry, by delivering best in class service and providing our clients with the tools necessary to run their organizations efficiently.

## WHY CHOOSE US >

We are a company founded by mortgage professionals, working with the objective of improving mortgage servicer's and their vendors daily operations.

Our advisors have worked for some of the largest mortgage servicers in the nation, and are ready to provide their expertise to your company. Additionally, we have regulatory experience, including working with the OCC on the foreclosure mandate, and the CFPB for regulatory exam management. We maintain a large network of experts in every aspect of servicing and default, ensuring no task is too great for us.



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