

MORTGAGE PARTNERSHIP FINANCE® (MPF®) PROGRAM Quality Control Program

As a Participating Financial Institution under the MPF Program, you will maintain quality control (QC) policies and procedures that have processes for monitoring, auditing and evaluating the investment quality of loans originated and sold to us. Chapter 28 of the MPF Origination Guide provides detail on QC requirements for PFIs. MPF Guides are available to you on **AllRegs®** (from the MPF Program website - www.fhlbmpf.com, click on Online Guides.)

Setting up a QC Program and Plan

At a high level, your **QC program** must:

- Be in writing;
- Provide procedures for those involved with or impacted by the QC process;
- Provide appropriate independence between the parties involved;
- Have the ability to monitor and evaluate loan production on a regular and timely basis;
- Include procedures for defaulted loans;
- Cover requirements for sample size (minimum number of loans or percentage of production) and selection, re-verification, file review, etc.;
- Outline requirements for validating mortgages that are originated in accordance with policies and procedures;
- Check to ensure mortgages comply with applicable federal, state and local laws and regulations; and
- Check to ensure mortgages were eligible for delivery under the MPF Program.

At a high level, your **QC plan** must include:

- **Quality standards and measures** – Your QC philosophy; plan objectives; and what risks you will measure, monitor and manage;
- **Procedures** – Covering detailed operating and reporting for all staff involved in or affected by the QC process;
- **Quality control file review process** – How you will handle prefunding and post-closing QC files;
- **Sample Selection Process** – Using both random and targeted selection that covers loans originated through all production channels, under all mortgage products and using all underwriting methods;

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QUALITY CONTROL

- **Reporting** – To include the method of reporting, critical components to be included, findings distribution requirements and the receipt of timely responses and resolutions to those findings and maintenance of records;
- **Vendor oversight** – The review of the quality of work done by third-party vendors;
- **File Retention** – A process for maintaining three years of records;
- **Audit** – Making sure all QC processes and procedures are followed by staff; and
- **Staffing** – Independent operations of the post-closing QC department.

Quality Control Plan Tips		
Pre-closing	Both Pre- and Post-closing	Post-closing
Operate the pre-closing QC process independently of the loan production department (if practical).	Establish minimum skill set and expertise requirements for staff.	All post QC staff must be independent of the production, underwriting and closing departments (caveat for situations involving size of organization)
Include requirements for full reviews of loan files and analysis of data and documents.	Trained staff should have sufficient experience relative to the reviews being conducted.	Samples must include a random sample chosen by either statistical sampling or a percentage of loans closed sampling methodology and a targeted sample.
It is recommended that the staff that performs the pre-closing QC review have the authority to prevent loans from closing until all deficiencies are cured.	Provide policies and procedures to staff.	Samples must not exclude loans that underwent a pre-closing QC review.
Include both random and targeted sampling of loans (with the characteristics of loans that were found to have defects in previous pre-and post-closing reviews.)	A third-party quality control service is allowed; however, you are responsible for developing and maintaining loan quality standards and a QC plan to achieve those standards.	The entire post-closing QC process must be completed within 120 days from the first day of the month of sampled loans' closing.
Establish and implement a process to report defects identified.	The pre-closing and post-closing samples selected are representative of the full scope of your production.	The outcomes of the post-closing QC reviews must be reported in writing directly to your senior management within 30 days after the month in which the quality control review is completed.

Reporting to the MPF Provider

You are required to inform the MPF Provider in writing within 30 days of your determination that a post-closing QC finding adversely affects the investment quality or eligibility of a mortgage sold to us. Any incident of suspected fraud or false representation must be reported to the MPF Provider immediately. Prior to notifying them of such items, you should conduct the appropriate due diligence to determine whether a reasonable basis exists to conclude that false representation or suspected fraud may have occurred.

The MPF Bank's QC Review

Chapter 26 of the MPF Origination Guide describes the process by which MPF Program loans sold to us by you are selected for a post-sale QC review. Essentially, the MPF Provider will review each mortgage selected for post-sale QC review to verify that it meets the definition of investment quality and conforms to the MPF Bank's guidelines, policies and PFI representations and warranties as described in the PFI Agreement.

The MPF Program website (www.fhlbmpf.com) has a page dedicated to helping you with the QC review process. Familiarize yourself with the Mortgage Analytics Quality Control System™ (eMAQCS®) by clicking on the **Quality Control** option under the **Education** tab.

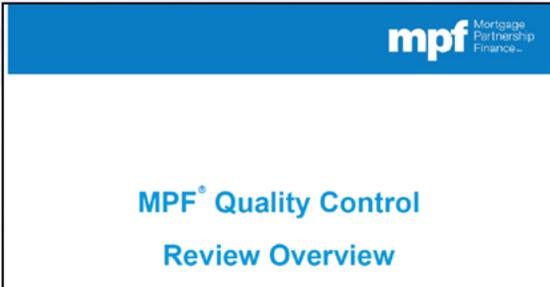
eMAQCS was created to help you:

- **Reduce expenses** - Opportunity to eliminate paper;
- **Expedite service** - Potential to save up to 15 days in processing time;
- **Increase security** - Eliminates the paper transfer of PII (personally identifiable information); and
- **Boost efficiency** - Use of a built-in workflow process.

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Key documents are located on this web page, including:

- An *overview* of the QC process



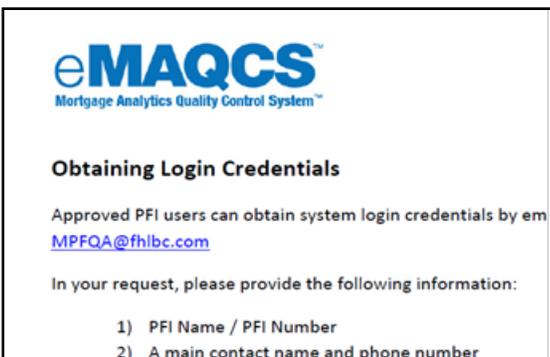
- A QC contact *questionnaire*

The image shows a form titled "MPF QC Contact Questionnaire". It includes fields for PFI Name and PFI Number. Below that is a section for "Contact responsible for copying and forwarding selected MPF loan files to MPF's QC agent:" with fields for Name, Title, Street Address, PO Box, City, State, Zip Code, Telephone #, Fax #, E-Mail Address, and E-Mail CC.

- A QC document *worksheet*

The image shows a "Mortgage Partnership Finance Program Quality Control Review - Documentation Worksheet". It includes fields for PFI #, MPF Loan #, and Borrower Name. Below that are instructions for submitting legible copies of documents and a list of criteria. There is also a section for "Completed By" with fields for Name, Phone, and Email. At the bottom, there are checkboxes for MPF Xtra, MPF Portfolio, VA, FHA, RHS Section 502, and HUD Section 184.

- The eMAQCS PFI *manual*



LEARN MORE

If you have any questions about this process, please contact us.

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For a full list of other helpful guides about the MPF Program, visit our website at www.fhlbtopeka.com/mpf, select **Operational Guides** under **Related Resources**.



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