# Recovery Tips

## Is QC Now Officially Dead?

Despite the restrictions placed on mortgage lenders regarding DTI limitations, product and document types, non-QM loans are thriving these days.

By Rebecca Walzak

The fact is that In 1995, with the advent of automated underwriting systems, I co-authored an article entitled "Is Quality Control Dead?" that appeared in the Mortgage Banking magazine.

At that time there was a strong belief that QC was only used to find underwriting errors and with automation taking over the underwriting process there was no need to review these loans. At the time, the agencies, Fannie Mae, Freddie Mac and HUD must have been part of that trend because they made no changes to the existing antiquated QC programs they required for seller servicers.

Unfortunately, as we all have learned to our great regret Quality Control was needed more than ever. From the turn of the century through 2007 lenders rode roughhouse over the underwriting requirements and triggered the greatest financial crisis since the Great Depression. Even as the QC Committee of the MBA meet with agencies, Congress members and consumer groups asking that they support stronger QC requirements, less and less attention was paid to QC. Despite the white papers developed showing the extent of fraud and documenting proof of what the lack of support for QC was conjuring up in the "magic elixir" that were the subprime ingredients of the collapse, QC was so weak there was no hope that the industry would listen. None of these warnings were heeded. Since then of course, QC has been revived and strengthened and the economists say we are fully recovered.

Yet once again we are hearing and reading about the latest and greatest mortgage program; the digital mortgage. According to the developers and purveyors of these programs, we have once again eliminated the need for Quality Control. These programs and their supporters claim that by using these programs have the capability of electronically validating the information entered by the consumer, running the data through an AUS and providing an approval within minutes. It is only if the loan cannot be electronically approved does it go to a loan officer to amend and approve.

However, just as in the initiation of the automated underwriting systems, there are opportunities for mistakes inadvertent or otherwise. One of the biggest concerns is the inability to validate the information. While it sounds good, how many consumers are willing to give bank account information on-line, or those who work for small companies that don't report the information to these on-line employment services. Sure, we can get tax returns, but they are at least a year old and not helpful in giving current income information. How is that validated?

Furthermore, despite the restrictions placed on lenders regarding DTI limitations, product and document types, non-QM loans are thriving. Just today I saw an advertisement for a "new" mortgage type, "No Income, No Employment". There has also been a myriad of statements from the current political administration that the controls put in place to prevent another crisis will be loosened and/or eliminated in the near future.

The question then is, can this alternative QC process that leaves numerous loopholes for bad loans to slip through and provides little incentive to do things right, stop another housing crisis. More than likely the answer is no, and because of that, it is likely that Quality Control really is dead. May it rest in peace because the rest of the industry surely won't. ❖

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