#### Chapter 5. Monitoring Unit

**Overview**

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| In this Chapter | This chapter contains the following topics.   |  |  |  | | --- | --- | --- | | **Topic** | **Topic name** | **See Page** | | 1 | General Information on Lender and Servicer Audits | 5-2 | | 2 | Objective | 5-3 | | 3 | Sampling | 5-4 | | 4 | Application of Quality Criteria | 5-7 | | 5 | Reporting | 5-10 | |

#### 1. General Information on Lender and Servicer Audits

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| a. Overview | This chapter describes the evaluation procedures used in conducting lender and servicer audits by the Monitoring Unit (MU). The MU’s overall mission is to ensure program integrity by conducting quality assurance audits of program participants. This is accomplished by conducting audits to ensure that lenders and servicers are in compliance with laws, regulations, and policies governing VA’s Guaranteed Home Loan program. |

#### 2. Objective

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| a. Purposes of Conducting Lender and Servicer Audits | The objective of conducting lender and servicer audits is as follows:   * Ensure that lenders and servicers are in compliance with the laws, regulations, and policies governing VA’s Guaranteed Home Loan program. * Determine whether VA loans closed by a lender meet VA requirements pertaining to: underwriting, property eligibility, and appraisal review guidelines. * Perform servicer audits to determine whether the VA loan is being properly reported and serviced during the default period and that proper alternatives to foreclosure are being considered. In the case of a foreclosure, determine that the claim submitted by the servicer is correct and no unallowable fees are paid. * Identify deficiencies and advise lenders and servicers of actions necessary to correct deficiencies. * Provide feedback to lenders and servicers for improvement in procedures, where necessary. |

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#### 3. Sampling

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| a. Lender Selection | * Lenders are reviewed based on the following reasons: volume of loans closed in a 2-year period, delinquency ratio (DQ3), non-compliance percentage and referral by VACO Loan Policy (VACO), Regional Loan Centers (RLC), Department of Veterans Affairs Office of Inspector General (OIG), or the Department of Housing and Urban Development (HUD). * The MU will review the most recent Ginnie Mae Portfolio Analysis Database System (GPADS) data for DQ3 ratios for each lender with an emphasis placed on the worst 100 lenders. GPADS identify lenders based on their most recent 2-year volume. Lenders appearing on the GPADS DQ3 lists with higher than normal default rates that have not been audited within the past 2 fiscal years are considered for selection. A DQ3 ratio is the proportion of loans delinquent for 3 or more months. * MU will review lenders’ non-compliance with RLC deficiencies and submission of loan files for Full File Loan Review (FFLR). Lenders with high rates of non-compliance that have not been audited within the past 2 fiscal years are considered for selection.   For all lender audits, the following documents may be requested:   * Marketing materials used to solicit Veteran borrowers. * A copy of the results of loans reviewed in the last 2 reviews under the lender’s Quality Control plan, along with the 10 most recent VA loans reviewed internally. * Evidence of random field reviews of VA fee panel appraisers as required by the [Lender’s Handbook 26-7 15.02](http://www.benefits.va.gov/WARMS/pam26_7.asp). (If reviews are done monthly, 2 months will be required. If reviews are done quarterly, 1 month will be required.) * Non-supervised lenders will need to provide the most recent application to close loans on an automatic basis per [VA Pamphlet 26-7, Chapter I, Section 16a](http://www.benefits.va.gov/WARMS/pam26_7.asp), *Application Checklist for Authority to Close Loans on an Automatic Basis*. * The 10 most recent applications that were denied credit for a VA home loan. |
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#### 3. Sampling, Continued

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| **a. Lender Selection, Continued** | * A list of all non-compliance loans. * The lender’s Organizational Chart. * A list of branch offices where VA origination and servicing activities are conducted.A list of binding authorities for the organization. * A list of approved automatic underwriters and their signatures.   Monitoring Unit (MU) Chief will access lender reports as follows:   * The MU Chief will access Loan Guaranty Reports/MU Reports from the [Veteran’s Information Portal (VIP)](https://vip.vba.va.gov/portal/VBAH/Home), and run a current listing on all lenders most recent 24-month volume in excess of 200 loans. Lenders are categorized by the MU as mega, large, medium, and small. After considering lenders for audit from GPADS, the balance of lenders selected will come from the Loan Guaranty Reports/MU Reports list of the most recent 24-month volume by lender.   The MU will audit lenders based on the following:   * Mega lenders are generally audited every other year because of VA’s increased risk exposure based solely on their high volume of loans originated. * Large lenders are generally audited every 3 years. * Medium lenders are audited every 4-5 years based on volume and performance on past audits. * Large numbers of egregious loans or major deficiencies by any lender on a previous audit may warrant a lender to undergo annual audits until a marked improvement in underwriting is shown. * Audits are conducted on-site (at the lender’s office) and the number of loans audited is based on the number of reviewers conducting the audit. |

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#### 3. Sampling, Continued

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| b. Servicer Selection | The MU Chief selects servicers for audits as follows:   * Selection of servicer audits is made by the Chief, Monitoring Unit and/or Loan Administration Policy. Generally, servicers with a large number of defaults are selected for audit. Servicers referred by the RLC(s), OIG, or other governmental agencies and nongovernmental agencies identifying specific problems are also selected for audit. Additionally, servicers are selected if a previous audit disclosed serious deficiencies that justify a follow-up visit. * Loans identified as delinquent 30-business days or more will be selected for audit. Loans are randomly selected from VA Loan Electronic Reporting Interface (VALERI). There are three categories of cases that are audited: * Loss Mitigation Retention * Loss Mitigation Foreclosure Alternative * Foreclosure |

#### 4. Application of Quality Criteria

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| a. Lender Audits | The application of the quality criteria for a lender audit is as follows:   * The evaluation of the quality of lender or servicer audit reviews is based on compliance with existing laws, regulations, directives, and the MU Standard Operating Procedures (SOP). * Reviewers will refer to all reference material that enables them to determine whether the lender is in compliance with VA regulations. * This reference material may include, but is not limited to:   + Part of any regulation applicable to VA   + [Chapter 37, and §5303A, title 38 U.S.C.; 38 CFR §36.4300-4393](http://www.ecfr.gov/cgi-bin/text-idx?SID=d48fd08e7162cdcd05476f631ad0d240&mc=true&node=sp38.2.36.b&rgn=div6)   + [VA Pamphlet 26-7, VA Lenders Handbook](http://www.benefits.va.gov/WARMS/pam26_7.asp)   + Copies of all active Circulars that are not currently incorporated in the Lenders Handbook   Each loan file is reviewed for the following, including other indications that the loan or property does not conform to the law, regulation, procedure or policy:   * Income used is properly documented, accurately calculated, and sufficient for the loan * 2-year employment history documented * Veteran and spouse reflect acceptable credit risks * Stability and reliability of the income established * All significant debts properly considered * Proper occupancy certifications * [VA Form 26-1820](http://www.vba.va.gov/pubs/forms/VBA-26-1820-ARE.pdf), *Report and Certification of Loan Disbursement,* complete and signed on the date of closing * Veteran not charged unallowable fees or overcharged fees at closing * Funding fee is correct with evidence of VA receipt in file, or file contains proper evidence of exemption * Evidence documenting discount points paid by the Veteran disclosed before loan closing * Lender did not charge Veteran excess daily interest at closing |
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#### 4. Application of Quality Criteria, Continued

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| a. Lender Audits, Continued | * Terms of the sale in basic agreement with the sales contract and addendum * All credit reports showing each report met credit report standards * Loan amount did not exceed the maximum allowed * Veteran, on a purchase loan, did not receive excess cash proceeds * A non-supervised lender reflects a VA-approved underwriter * Appropriate lender official properly executed the loan quality certification * Lender’s agent met program requirements * Sufficient assets to close the loan properly verified * Verifications of employment and deposit properly handled (not hand-carried by the Veteran) * Lender retained copies of all required documentation for the required time period * Documents complete and signed (including Deed of Trust Note or Mortgage) * Data throughout the file consistent with no potential fraud indicators * If Automated Underwriting System (AUS) used, data correctly entered * No indications that the Veteran’s loan eligibility is questionable * Property verified as eligible * All Notice of Value (NOV) conditions were met and NOV was properly and timely issued to the Veteran * If Lender Appraisal Processing Program (LAPP) processing: * The SAR is VA-approved * SAR met limitations on value adjustments and written justification documented * SAR met limitations on repair waivers and written justification documented * SAR’s review diligent and any questionable URAR items clarified with the fee appraiser and documented in writing   Additional areas of quality reviews are as follows:   * The lender’s Quality Control plan will be reviewed to assure the lender’s quality review process is identifying primary issues. The MU examination will also assure the lender has a corrective action plan to manage, educate, and resolve loan origination issues. |
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#### 4. Application of Quality Criteria, Continued

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| a. Lender Audits, Continued | * The lender’s Staff Appraiser Reviewer (SAR) Quality Control plan will be reviewed to assure the lender’s quality review process is identifying primary issues. The MU examination will also assure the lender has a corrective action plan to manage, educate, and resolve Field Appraiser findings. * Non-compliance loans will be reviewed to assure the lender is managing all issues effectively and efficiently and resolving all non-compliant issues with the appropriate RLC. * MU will review the lender’s declined loan portfolio for loans declined within 3 months of the audit date. MU’s review will be performed to assure the lender is conforming to VA laws, regulations, procedures, and policies when making the final determination to decline approval of a Veteran’s loan. * The lender’s marketing material will be examined to assure the material being distributed to Veterans by the lenders does not misrepresent or suggest the material is from VA.   Special Note Regarding All Audits: Cases of suspected fraud on the part of the lender, servicer, real-estate broker, or Veteran must never be discussed with the lender on-site. Such items are referred to the OIG via fraud memorandum through the MU Chief. |

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| b. Servicer Audits | The following should be reviewed in reference to servicer audits and servicer compliance:   * Electronic Default Notifications * Delinquent Servicing * Property Inspection Requirements * Partial Payment Processing * Loss Mitigation Options * Loss Mitigation Foreclosure Alternatives * Foreclosure Notification Procedures * Bankruptcy Notification Procedures * Maintenance of Escrow Account Procedures * Assumption and Release of Liability Procedures * Paid in Full Procedures * Claim Under Loan Guaranty Procedures * Conveyance |

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#### 5. Reporting

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| a. Finding Types | Findings reported will be classified into one of these categories:   * Closed action item – The deficiency is not a repeat finding based on any review during and since the last lender or servicer audit. The lender or servicer has fully remedied all deficiencies when appropriate, during the on-site visit by complying with policy. * Open (non-repeat) action item – The deficiency is not a repeat finding based on any review during and since the last lender or servicer audit. The lender or servicer cannot remedy all deficiencies during the on-site visit. * Open (repeat) action item – The deficiency is a repeat finding based on any review during and since the last lender or servicer audit, and therefore, it will remain open until the next audit. However, the lender or servicer will strive to remedy all deficiencies during the on-site visit when appropriate, or provide milestones and projected completion dates, requesting an extension from the audit team leader if justifiable. |

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| b. Reporting Strategy | The lender or servicer will have 7-calendar days from the date of MU’s exit briefing to respond to any action items, and provide any necessary supporting documents, if applicable. LGY Monitoring Unit will review all lender responses and monitor the lender or servicer progress on any findings to determine if any open action items can be closed. The lender or servicer will be notified by memorandum when any action item has been closed. The final audit report will be issued approximately 60-calendar days after the completion of the lender or servicer audit, and will include an overview of open and closed action items, observations, and/or recommendations, along with a discussion of commendable best practices.  The lender or servicer should strive to cure any open action items while the audit team is on-site. If there are deficiency responses that the lender or servicer is unable to provide during the on-site visit, an extension request should be made to MU management through the audit team leader. Pending approval by MU management, an extension of up to 30-calendar days may be granted when warranted by the circumstance of the deficiency. |
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#### 5. Reporting, Continued

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| b. Reporting Strategy, Continued | VA may cite process deficiencies that are not material in nature, and are provided primarily as a training notice for the lender to correct on future loans. However, some deficiencies are such that they compromise the integrity of the origination and/or servicing process and must be addressed immediately. A lender or servicer failure, either one-time or on a repetitive basis, to satisfactorily correct outstanding action items could result in any of the following:   * VA may suspend random sampling reviews and require that all loans closed by a lender be submitted to VA for full review. * VA may suspend a lender’s automatic authority and require that all loans be submitted on prior approval basis. * VA may require the lender to indemnify VA against loss on a loan. * VA may determine that a loan is ineligible for guaranty. * VA may impose other administrative sanctions. |