

## Best Practices Quality Control Program for 3<sup>rd</sup> Party Inspections

If a Lender/Servicer elects to use 3<sup>rd</sup> party inspectors to perform GSE inspections, a quality control program is typically implemented in conjunction with the use of this type of vendor.

The quality control program usually begins prior to engaging the vendor through adoption of some of the following pre-screening activities:

- Review and confirmation of 3<sup>rd</sup> party company credentials, experience and background information.
- Request, receipt and acceptable review of letters of reference from the 3<sup>rd</sup> Party's current or previous clients.
- A statement from the 3<sup>rd</sup> Party certifying that they meet all of the Lender/Servicer's requirements including insurance coverage.
- A statement from the 3<sup>rd</sup> party certifying that all inspectors used will meet the "best practices" qualifications.
- Use of a contract that incorporates specific and detailed inspection requirements and that has been approved by Lender/Servicer's counsel.

Following engagement of a vendor, the quality control program should contain at least one of the following tests:

- The Lender/Servicer performs limited scope, follow-up inspections on some of the vendor-inspected loans.
- The Lender/Servicer performs a drive-by inspection on some of the vendor-inspected loans.
- The Lender/Servicer assigns a different vendor to inspect some of the vendor-inspected loans.

The quality control program may also contain some of the following:

- The Lender/Servicer performs an in-depth desk-top review (which may include a call to the property or a review of the 3<sup>rd</sup> Party's notes and interview) on some of the vendor-inspected loans.
- The Lender/Servicer confirms or verifies the inspector's qualifications on a sample of the vendor-inspected loans.
- The Lender/Servicer limits the number of consecutive inspections a third-party vendor may perform on a single loan.

A representative sample of the 3<sup>rd</sup> party inspected loans should be tested annually by the Lender/Servicer. The Lender/Servicer should notify their vendor after performing a quality control test, and provide feedback concerning the results. The Lender/Servicer should retain the results of the quality control testing (including corrective action taken) for review by their Investor as requested, or in conjunction with the Investor's on-site review.

## Best Practices Quality Control Program for 3<sup>rd</sup> Party Inspections

The sample of inspections that the Lender/Service tests should be based on some of the following criteria:

- A representative or random sample of inspections from each 3<sup>rd</sup> Party Inspector.
- The risk characteristics of the loans and properties inspected (i.e. larger loans, soft markets, Lender's watch list or pre-watch list, trend indicated by past inspections or financials, or other identifying risk characteristics that the Lender/Service may use).
- Risk characteristics that the Lender/Service may identify as it relates to their portfolio or customer base (i.e. geographic concentrations, borrower/sponsor concentrations, or product characteristics).