

Lender Letter LL-2012-05

September 11, 2012

To: All Fannie Mae Single-Family Sellers and Servicers

Fannie Mae's Quality Control Process

Selling Guide Announcement SEL-2012-08, *New Lender Selling Representations and Warranties Framework*, introduces a framework to provide lenders with relief from enforcement of remedies for breaches of certain representations and warranties on new loan deliveries meeting specific payment history requirements. The new framework applies only to conventional loans that are acquired by Fannie Mae on or after January 1, 2013. (See [SEL-2012-08](#) for details on mortgage loan eligibility requirements for the relief and life of loan exclusions.)

This Lender Letter discusses the changes in Fannie Mae's quality control process that lenders can expect as a result of the relief provided by the new framework. Fannie Mae will evaluate the mortgage loan file with the primary focus of confirming that the mortgage loan meets underwriting and eligibility requirements. A mortgage loan is ineligible if errors or failures are uncovered in the file that would have resulted in Fannie Mae's refusal to purchase the mortgage loan on the terms delivered had the facts been known at the time of acquisition.

What Will Continue

As part of this effort, Fannie Mae is reinforcing the commitment to

- ensure that lenders continue to have the opportunity to resolve loan repurchase requests through an appeals process;
- continue to provide detailed and timely feedback to lenders, as appropriate, particularly on significant or systemic origination, underwriting, or quality control deficiencies; and
- conduct quality control reviews that evaluate loan files on a comprehensive basis with the primary focus of confirming the mortgage loan's eligibility.

Fannie Mae continues to expect that lenders have origination, underwriting, and quality control processes in place that meet the requirements of the *Selling Guide*.

What is Changing

How Loans Are Selected

Fannie Mae uses a statistically valid approach in selecting a random sample of new mortgage loan deliveries for review. Beginning in early 2013, this random sampling will be augmented with targeted, discretionary sampling, taking advantage of the recent advancement in tools and data-gathering requirements.

Random Sampling: Selecting a random sample of new mortgage loan deliveries aids Fannie Mae in measuring the overall quality of loan deliveries.

Discretionary Sampling: Fannie Mae will employ a number of technology tools and internal models to identify earlier in the post-acquisition review process mortgage loans that may not meet Fannie Mae requirements and issues that may affect loan underwriting quality.

- Performing loans
 - Loan level: Loan-level data, technology applications and tools such as Desktop Underwriter[®], Uniform Loan Delivery Data, electronic appraisal submission of the Uniform Appraisal Dataset via the Uniform Collateral Data Portal[®], and EarlyCheck[™] will enable Fannie Mae to more accurately identify loans with characteristics that merit further scrutiny in discretionary reviews.
 - Lender-level impact: If Fannie Mae's loan-level assessment tools find fewer loans with potential defects from a particular lender, such lender can expect that a lower percentage of loan files will be requested for discretionary reviews. In contrast, lenders with higher potential defects identified can expect that a higher percentage of their loan files will be requested for reviews.
- Nonperforming loans: Fannie Mae will continue to request files and conduct comprehensive reviews on nonperforming mortgage loans.

How Many Loans Are Selected

The quality and volume of the mortgage loans delivered to Fannie Mae will directly impact the size of the discretionary sample. As Fannie Mae continues to work through the legacy book reviews, lenders will continue to see a high number of nonperforming loans sampled. In the future, lenders can expect an overall increase in the focus on reviewing performing loans selected prior to the 12- or 36-month sunset.

Review Process

The loan files will continue to be reviewed by trained loan file review staff. Fannie Mae monitors the performance of its loan file review staff in part by examining a monthly sample of loan file review decisions to ensure strong governance of the process.

As noted above, the focus of a comprehensive file review will be to confirm whether the mortgage loan, as delivered, meets Fannie Mae's underwriting and eligibility requirements. If errors or failures are uncovered in the file, the review determines whether Fannie Mae would have refused to purchase the mortgage loan on the terms delivered had the facts been known at the time of acquisition.

Repurchase Process

Request

If Fannie Mae determines that a mortgage loan failed to meet underwriting requirements or is otherwise ineligible, Fannie Mae may issue a repurchase request or pursue another remedy. As noted above, the determination is based on whether Fannie Mae would have refused to purchase the mortgage loan on the terms delivered had the facts been known at the time of acquisition.

Appeal

Fannie Mae will continue to maintain a process for lenders to appeal requests for repurchase or make-whole payments. As noted in the *Selling Guide* (D2-1-04, Rebuttal of Fannie Mae QC Review Decisions), when Fannie Mae issues a repurchase or reimbursement letter on a particular mortgage loan, the lender is entitled to review and respond to the loan-level findings and to provide any required documentation to address the deficiencies identified in the letter, with the goal of resolving the significant deficiencies. If Fannie Mae does not accept the initial appeal and the lender discovers new information to support its position, a second appeal

is permitted. Fannie Mae, under the direction of the Federal Housing Finance Agency (FHFA), is working with Freddie Mac to develop a consistent approach to

- the process for lender submission of supporting documentation to Fannie Mae in connection with an initial or second repurchase appeal; and
- the remedies available to Fannie Mae as alternatives to repurchase or make-whole payment requests, such as indemnification or collateralized indemnification.

Timing

Fannie Mae

- Requesting files: Under the new representations and warranties framework, the majority of Fannie Mae file requests will occur within the first 120 days after acquisition. However, discretionary reviews may occur later, depending on a variety of factors, including the availability of analytical data and modeling techniques employed.
- Completing reviews: The goal is to complete performing loan file reviews and provide lenders with notice of any deficiencies within 90 days of receipt of a complete mortgage file (that is, a file that includes all of the documentation requested by Fannie Mae).

Lenders

The following timetables and related requirements are under discussion:

- the time frame within which a lender must provide the complete mortgage file requested by Fannie Mae (likely to be 30 days after the initial request and 60 days after a second request);
- the time frame within which a lender is entitled to appeal a repurchase (likely to be 60 days after notice); and
- the time frame within which a lender must repurchase the loan (likely to be 15 days after reaffirmation of the repurchase request).

Ongoing Communication

Fannie Mae will continue to provide lenders with ongoing feedback about their overall quality control performance, including identifying repurchases by defect types and reporting frequent or common defects. This information is provided through a variety of methods that range from regular electronic transmissions to more formal periodic discussions. The goal is to engage lenders in frequent, meaningful exchanges of information on quality trend analyses and significant underwriting deficiencies identified through the review process.

In addition, lenders can also make use of the tools Fannie Mae will employ in selecting mortgage loans for quality control reviews. For example, EarlyCheck and Desktop Underwriter help lenders detect and correct loan eligibility issues before mortgage loans are sold to Fannie Mae. Additional lender tools and resources are being developed by Fannie Mae.

Quality Control Tracking and Monitoring

Fannie Mae will continue to enhance its internal quality control tracking and monitoring processes with the goal of further refining the identification of potential mortgage eligibility issues.



As noted above, Fannie Mae, under the direction of the FHFA, is working with Freddie Mac to develop a consistent approach to certain quality control matters. More detailed information regarding quality controls, file reviews, and repurchase processes will be released in a future announcement.

Lenders who have questions about this Lender Letter should contact their Account Team.

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