

Lender Letter LL-2015-03

March 31, 2015

To: All Fannie Mae Single-Family Sellers and Servicers

Tools and Processes to Increase Certainty and Reduce Repurchase Risk for Lenders

Fannie Mae provides many tools and processes to assist lenders in understanding and meeting loan underwriting and eligibility requirements and help ensure that loans they originate are eligible for sale to Fannie Mae. Fannie Mae is focused on partnering with lenders to increase certainty of loan eligibility through a shared commitment to loan quality, thereby reducing repurchase risk.

This Lender Letter discusses a number of tools provided by Fannie Mae and activities conducted by lenders and Fannie Mae before delivery, at delivery, and subsequently during loan-level post-purchase reviews that are intended to help lenders reduce the number of loans that may have to be repurchased. In addition, this Lender Letter clarifies the circumstances leading to, and required lender action resulting from, various outcomes in the Fannie Mae quality control (QC) file review process.

Prior to and at Time of Delivery – Testing Focused on Data Analysis

The following tools and activities focus on improving the quality of the loan origination process and delivery data and are intended to help lenders identify and correct potential issues before loans are purchased by Fannie Mae:

- [Desktop Underwriter](#)[®] (DU[®]) has a proven history of providing lenders with a comprehensive credit risk assessment that determines whether loans meet Fannie Mae's eligibility requirements.
- Through [EarlyCheck](#)[™], lenders can access Fannie Mae delivery edits at any point in the lender's business process. EarlyCheck assists lenders in identifying and correcting potential eligibility or data issues early in their processes and prior to loan delivery.
- The [Uniform Collateral Data Portal](#) (UCDP) provides information on the quality of the appraisal using messages that assist lenders in detecting data inconsistencies and improving the overall reasonableness and quality of appraisal data.
- Fannie Mae recently introduced [Collateral Underwriter](#)[™] (CU[™]), which provides an automated appraisal risk assessment to support proactive management of appraisal quality. Fannie Mae is making CU available to help lenders more effectively and efficiently identify issues with appraisals. Effective April 18, 2015, lenders will have the option to view the CU risk score, flags, and messages and other UCDP messages in DU and EarlyCheck, providing a more holistic view of risk on a loan across multiple applications.
- [Loan Delivery](#) is Fannie Mae's Web-based application that allows the lender to submit loans for sale or securitization and it performs edits to facilitate error-free delivery. At the time of delivery and before funding is complete, Fannie Mae reviews delivery data to confirm loan eligibility and provides immediate feedback that a loan is not eligible.

Post-Purchase Quality Control Loan File Reviews

After loans are delivered, Fannie Mae conducts post-purchase loan file reviews on certain selected files. The QC review process is one of Fannie Mae's methods of validating whether the loans it purchases were originated in accordance with applicable underwriting standards, and it provides lenders with tangible data and feedback about the quality of their loan origination process. As part of the commitment to loan quality, Fannie Mae is shifting its post-purchase QC infrastructure and processes from a focus on loss mitigation to a focus on increasing certainty through defect prevention, remedies, and alternatives to repurchase. Throughout this process, Fannie Mae is engaging lenders in frequent, meaningful exchanges of information about trends in the quality of delivered loans and informs lenders about significant underwriting deficiencies identified through the review process. Fannie Mae has seen improved quality of originations, which has resulted in fewer ineligible loans delivered to Fannie Mae that are subject to repurchase or some other repurchase alternative. In fact, as of December 31, 2014, 0.33% of the single-family loans acquired in 2013 (based on unpaid principal balance) had been subject to a repurchase request.

NOTE: Fannie Mae's National Underwriting Center (NUC), which manages the post-purchase QC process, has been renamed the Loan Quality Center (LQC). The new name better reflects Fannie Mae's objective to partner with its lenders to achieve greater certainty for them as sellers and for Fannie Mae as the investor. Over the next few months, references to the NUC in Fannie Mae systems, Web content, and documents will be replaced by LQC.

Preparing Files for QC Reviews

Fannie Mae recently published a new and improved list of the documents that are required to be in the loan file when a QC review of the loan file is requested. The *Post-Closing Loan File Document Checklist* ([Form 1032](#)) is an excellent tool lenders may use when preparing loan files for QC reviews, and is intended to

- reduce the incidence of missing documents,
- reduce loan review delays,
- increase efficiency in the post-purchase QC process, and
- minimize repurchase requests.

Though not required to be used, Fannie Mae strongly encourages lenders to adopt and use Form 1032 for all loan files delivered to Fannie Mae for a QC review.

Results of QC Reviews

In most cases loans reviewed are confirmed as eligible, and the lender is notified that the QC review has been successfully completed, triggering the representations and warranties relief that applies under that circumstance. Refer to the *Selling Guide*, A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility, and A2-2.1-06, Life-of-Loan Representations and Warranties, for additional information and requirements. Note that the requirements for obtaining relief through a QC review apply both to performing and non-performing whole loans purchased and mortgage loans delivered into MBS with pool issue dates, on or after July 1, 2014.

The following table describes each of the possible outcomes of a QC review and actions required of or available to the lender. This information is being provided to lenders in an effort to be more transparent and to provide more certainty about when loans are subject to repurchase as a result of the QC review.

QC Result	Definition of Result	Example	Action Required of and Available to the Lender
No issue found	<p>No reportable deficiencies in the underwriting or delivery were found in the loan file.</p> <p>Loan-level reports to lenders identify loans with no issues as “No findings.”</p>	<p>Verified income was less than the income used to underwrite the loan in DU. The recalculated debt-to-income (DTI) ratio exceeded the DTI ratio used in underwriting by less than 3% (the required resubmission tolerance); the recalculated DTI ratio is 31% when recalculated with the correct verified income and the loan remains eligible.</p>	<p>Generally, no action required by the lender. In certain instances, lenders will be required to make data corrections, such as missing special feature codes.</p>
Finding	<p>A deficiency in the underwriting or delivery of the loan, but when considered with other loan attributes, the loan is eligible for sale to Fannie Mae under the same terms of the lender’s contract in effect at the time of delivery of the loan.</p> <p>A finding is labeled as “Eligible with Moderate Finding(s)” in loan-level reports to lenders.</p>	<p>The amount of verified reserves documented in the loan file is \$95 less than the amount of reserves required by DU.</p>	<p>Generally, no action required by lender at the loan level; however, lenders are encouraged to review their manufacturing process to ensure the defect was not the result of a deficiency in their loan manufacturing process. Data corrections may be required by the lender.</p>
Significant defect	<p>Deficiencies in the underwriting or delivery of the loan (including missing documents in the loan file) that result in the loan falling into one of the following two categories: 1) or 2).</p> <p>A significant defect is labeled as an “Eligibility Violation” in loan-level reports to lenders (without reference to category “1” or “2”).</p>	<p>See 1) and 2) below.</p>	<p>For all significant defects, Fannie Mae may exercise its available remedies for a breach of selling representation and warranty.</p> <p><i>NOTE: Lenders may provide corrected data or additional information during a rebuttal period to determine whether the loan is eligible for sale to Fannie Mae. Fannie Mae will determine if the loan is eligible for sale under the same or different terms.</i></p>

QC Result	Definition of Result	Example	Action Required of and Available to the Lender
	<p>1) The loan would not have been eligible for sale to Fannie Mae under the terms of either the <i>Selling Guide</i> or the lender's contract with Fannie Mae in effect at the time of delivery of the loan, had the true and accurate information about the loan been known.</p>	<p>1) Repurchase required: The QC credit report obtained by Fannie Mae reflects a car loan obtained two months prior to loan closing that was not disclosed by the borrower. The debt-to-income ratio, including the car payment, exceeds 50%.</p> <p>Repurchase alternative may be offered: A judgment was identified on the origination credit report and DU required it to be paid off at or before closing. The loan file contains no evidence that the judgment was satisfied and it is still reflected as outstanding on the QC credit report obtained by Fannie Mae. However, the borrower had sufficient assets to cover the amount of the judgment, in addition to funds needed for closing and reserves. Fannie Mae may offer a repurchase alternative to the lender if the lender can show that the judgment was paid and discharged.</p>	<p>1) For significant defects that fall into this category, generally the lender will be required to repurchase the loan. However, in consideration of the nature of the defect and compensating factors, Fannie Mae may elect to offer a repurchase alternative on performing loans in lieu of requiring an immediate repurchase if Fannie Mae determines that the loan is still an acceptable investment and the lender performs its obligations under the repurchase alternative.</p>
	<p>2) The loan would have been eligible for sale to Fannie Mae under the lender's contract with Fannie Mae but under different terms, had the true and accurate information about the loan been known.</p>	<p>2) A loan secured by an investment property is delivered as a principal residence; if the loan meets all of the required eligibility criteria for an investment property, Fannie Mae will not require repurchase but will charge the</p>	<p>2) For significant defects that fall into this category, Fannie Mae may charge the lender the necessary pricing or fee adjustments that apply to the loan, taking into account the true and accurate information.</p>

QC Result	Definition of Result	Example	Action Required of and Available to the Lender
		investment property loan-level price adjustment.	

Additional Resources

Fannie Mae provides many resources and training tools on its website to inform and educate lenders about the technology tools and processes described above. This information can help lenders build effective strategies to manage risk through a focus on loan quality:

- [Loan Quality](#) Web page.
- [Loan Defect Categories](#) and Loan [Defect Categories Spreadsheet](#) – These documents list the categories that are referenced in reporting to lenders on the quality of their deliveries.
- Fannie Mae posts monthly Reps and Warrants Tracking Reports in [Message Manager](#). These reports notify lenders of loans that have become eligible for representation and warranty relief based on the loan payment history in accordance with the *Selling Guide*.
- [Representations and Warranties Framework Summary](#).
- Information about the [post-purchase adjustment](#) process (data changes).
- Fannie Mae [Selling Guide](#):
 - [A2-2.1-06, Life-of-Loan Representations and Warranties](#);
 - [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#); and
 - [Chapter D2, Fannie Mae QC Process](#).

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

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