



Fannie Mae®

Independent Audit Requirements for Document Custodians (IARDC)

January 2022



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1 Document Revision History

Date	Version	Change Description
February 2020	1.0	Initial Creation
January 2022	2.0	<p>Section 2: Written Procedures for Certification & Custody</p> <ul style="list-style-type: none"> • (l) Added: Co-Issue & Custodian to Custodian Transfers (in & out bound) • (s) Revised: Recertification of documents (including D, I and C codes) <p>Section 2: Practices Transfer</p> <ul style="list-style-type: none"> • Revised the requirement to include co-issue transfers & custodial transfers • (c) Revised to include 'servicing transfer and custodial transfers' • Added: New requirement - Evidence that the Document Custodian completes the recertification of loans within the 30-day period required by Fannie Mae for Co-Issue servicing transfers <p>Section 2: Practices Monthly QC</p> <ul style="list-style-type: none"> • (a) Added: 'Does the Document Custodian have evidence that monthly OIs are reported with the QC results?' • (b) Added: 'Does the Document Custodian have evidence that reflects monthly QC reporting on statuses of open I & C code transaction types?' <p>Section 2: Practices Funding</p> <ul style="list-style-type: none"> • (b) Added: Question related to second level review <p>Section 2: Added new requirements for Operating Standards</p> <p>Section 2: Added new requirement "Conflict of Interest"</p> <p>Removed Section 3: Independent Audit Report Template</p>

2 Independent Audit Requirements

The independent auditor must document that it has completed the following steps, including obtaining any evidence. Any gaps or findings should be included in a report to the Document Custodian at the conclusion of the audit. In addition, the report should include validation of all sections for which no gaps or findings were identified. For example, a statement such as "there were no findings related to General Custodian Data" would suffice if no findings were identified in this area.

Section 1: Include a quality review on a statistically valid sample of loans	
Complete a loan sample test to ensure the quality of certification practices and procedures.	<ol style="list-style-type: none"> 1. Retrieve a loan sample from Fannie Mae. 2. Complete a full certification of all loans in the sample following the certification guidelines established in Fannie Mae's <i>Requirements for Document Custodians</i>, while taking into account previously granted waivers that are documented in existing Letters of Instruction or Exhibit A to the Custodial Agreement. <ol style="list-style-type: none"> a. Document any issues discovered for inclusion in the Findings Report. b. Obtain copies of all loan documents containing issues for submission with the Findings Report. c. Communicate issues to the Document Custodian for remediation upon discovery. Do not withhold the issues identified until the findings report is published. 3. Include the identified errors in the final report to be submitted to Fannie Mae. The report should: <ol style="list-style-type: none"> a. Identify each error discovered b. Establish error rates for: <ol style="list-style-type: none"> i. Data errors; ii. Document errors; and, iii. Combined errors. c. Include copies of documents as attachments containing evidence of all issues discovered during testing of the loan sample.
Section 2: Examine each of the following to ensure compliance with Fannie Mae's eligibility and operational requirements including, but not limited to:	
General Custodian Data	<ol style="list-style-type: none"> 1. Request and review executed Form 2001 (<i>Annual Statement of Eligibility for Document Custodians</i>) for any existing waivers granted to the: <ol style="list-style-type: none"> a. Document Custodian

	<ul style="list-style-type: none"> b. Lender (related to certification) <ol style="list-style-type: none"> 2. Verify that the Document Custodian has appropriate controls in place to ensure compliance with all active waivers (Document Custodian and/or Lender). <ul style="list-style-type: none"> a. Request evidence of waiver compliance controls (identified above) for the review period and determine if non-compliance was identified through control execution. b. Include the identified instances of non-compliance in the final report to be submitted to Fannie Mae. The report should: <ul style="list-style-type: none"> i. Identify each instance of non-compliance with waivers discovered. ii. Include copies of documents as attachments containing evidence of all instances of non-compliance with waivers discovered during evaluation of the control(s).
General Compliance	<ol style="list-style-type: none"> 1. Request copies of executed Custodial Agreement between the Document Custodian and each of its Fannie Mae Lender customers. 2. Verify that all variances are documented in the form of a Letter of Instruction (which represents a variance granted to Lender) or Exhibit A (which represents a variance granted to the Document Custodian) to the Custodial Agreement.
Reporting and Organizational Structure	<ol style="list-style-type: none"> 1. Review Document Custodian organizational structure. <ul style="list-style-type: none"> a. Verify that the Document Custodian operates as a physically separate department from departments that perform mortgage origination, selling and servicing functions. b. Verify that duties are completely segregated between lending and custodian activities. c. Verify that the Document Custodian maintains separate personnel files and operations.
Trust Powers	<ol style="list-style-type: none"> 1. If the Document Custodian is self-affiliated, obtain evidence of their Trust Powers. 2. Verify and document if there are custodial officers who are authorized to act for the institution in a trust capacity.
Physical Facilities	<ol style="list-style-type: none"> 1. Observe that the location and layout of the vault facility effectively limit access to the area. 2. Verify that the Document Custodian is able to account for the control of the keys, access to, and all external vault exits. 3. Review the procedures for granting access to vault facilities to assure that access is granted to personnel on as-needed basis. Personnel not working directly in custodian functions should not have access to the vault. <ul style="list-style-type: none"> a. Verify there are procedures in place for terminating the access of employees who no longer need access. 4. Observe the location in which documents are stored, while awaiting filing, to assure that it is secure. 5. Review and observe the vault's primary access control. 6. Review and observe that the vault has secondary access control. 7. Review and observe that there are controls in place to prevent unauthorized access by non-custodial employees to custodial facilities and systems.
Written Procedures for Certification and Custody	<ol style="list-style-type: none"> 1. Review the following written procedures to assure that they meet Fannie Mae's requirements, as specified in the <i>Requirements for Document Custodians</i>: <ul style="list-style-type: none"> a. Receipt of documents b. Registration into the document tracking system c. Certification of all required data elements d. Verification of all required documents e. Process for certification and custody of Fannie Mae Long Term Standby Commitment (LTSC) Class I and/or Class IV loans, if applicable f. Bailee letter processing, if applicable g. Satisfaction of prior creditor interests in Fannie Mae loans, if applicable

	<ul style="list-style-type: none"> h. Process for handling missing/incorrect documents and/or data errors found during the document-to-data review (including communication, tracking, and follow-up until certification or removal) i. Document release practices (including execution of Form 2009) j. Document reinstatement k. Servicing transfers (in and out) l. Co-Issue & Custodian to Custodian Transfers (in & out bound) m. Details regarding how vault access is controlled and secured n. Process for moving documents within vault/file room as loans are sold to investors o. Process for granting/removing/periodic review (at least annually) of authorized access to the document tracking system and that administration of the system is controlled by the Document Custodian p. Certification that Fannie Mae is listed in the “controller” and “location” fields for eNotes q. Follow-up and receipt of original Form 3269 Balloon Loan Modifications and verification that the document is endorsed in blank (RDC Section 8.5) r. Process for monthly QC s. Recertification of documents (including D, I and C codes) t. Process for handling rejected loans in all loan states (pending, certified, qualified-cert and revised) u. Other
Practices - Certification	<ol style="list-style-type: none"> 1. Review certification practices. Assure that these practices meet Fannie Mae’s requirements and the Document Custodian’s documented procedures. Observe and document any process change or enhancements since previous review/audit. 2. Verify and document the certification method used by the Document Custodian. <ol style="list-style-type: none"> a. If certification is performed on an "As Submitted" basis: <ol style="list-style-type: none"> i. Request evidence to show that certification is performed against Loan Data obtained from the Fannie Mae certification application. ii. Request evidence to show that all Fannie Mae-required fixed and adjustable rate certification fields as wells as servicer name and # (for assignment) are included in the data comparison. b. If pre-submission certification (meaning that certification is performed prior to submission of Loan Data to Fannie Mae) is performed using Lender data: <ol style="list-style-type: none"> i. Request evidence to show that data used in pre-submission certification is compared to Loan Data obtained from the Fannie Mae certification application prior to certification. This comparison may be an automated comparison. Any exceptions should have been noted and communicated to the Lender for resolution prior to transmission of a certification status to Fannie Mae. ii. Request evidence to show that all the Fannie Mae-required data fields are included in the data certification process and in the data comparison, if applicable, including the Bailee Letter name and/or the Form 2004A name as wells as Servicer Name and # (for assignment). iii. Request evidence that demonstrates how the Document Custodian ensures that all pre-certified loans are in their possession at the time of loan certification. iv. Request evidence that demonstrates how the Document Custodian ensures that all loans identified as Fannie Mae deliveries are not allocated to any other investor. 3. Request evidence to show that the Document Custodian validates all Lender data corrections in the applicable Fannie Mae certification application and that the Document Custodian has updated its tracking system as applicable to reflect the corrections for data exceptions of non-editable fields in Document Certification. 4. Request evidence to show that the Document Custodian has ongoing feedback and communication regarding outstanding items with its Lender customers. 5. Verify that all notes are endorsed in blank from the Lender.

	<ol style="list-style-type: none"> 6. If facsimile signatures are used on blank endorsements: <ol style="list-style-type: none"> a. Obtain and review the Corporate Resolution recognizing the use of such signatures. 7. If the Document Custodian certifies and holds loans delivered as Long Term Standby Commitment (LTSC) Class I and/or Class IV, review the documentation that supports that: <ol style="list-style-type: none"> a. The Document Custodian communicates certification status to the Lender and Fannie Mae Single Family Custody Operations within the agreed upon SLA; and, b. The Document Custodian identifies LTSC Class I and/or Class IV loans in their tracking system with Fannie Mae as the investor after loans are funded. 8. Review the Document Custodian’s practices and policies to assure that all practices and procedures comply with Fannie Mae requirements and any updates are promptly incorporated. 9. If the Document Custodian certifies eNotes, verify that the Document Custodian’s certification practice includes validation that Fannie Mae is listed in the “controller” and “location” fields for all eNotes. 10. Review the Document Custodian’s procedure and tracking process to assure that the Document Custodian has a process in place to ensure receipt of the original Form 3269 (Balloon Loan Modification Agreement, endorsed to blank) when certification was based on a certified true copy of this document.
Practices - Custody	<ol style="list-style-type: none"> 1. Ask the Document Custodian to provide an overview and walk through of the system they use to track the physical location of all Fannie Mae documents and files. Determine if the system has sufficient controls in place or document any gaps. 2. Determine if the Document Custodian is able to identify Fannie Mae loans by a physical location and/or through use of a document tracking system. 3. Verify that appropriate access controls are in place to protect the document tracking system from unauthorized viewing and updating. 4. Verify that appropriate access controls are in place to protect Document Certification from unauthorized viewing and updating.
Practices - Funding	<ol style="list-style-type: none"> 1. If indicated in the executed Form 2001 that Bailee letters are delivered to the Document Custodian request evidence that shows that the Document Custodian has a process in place to withhold certification until Fannie Mae has validated and approved the wiring instructions for circumstances that require the “Bailee Exception Processing” (see Document Custodian Certifications Job Aid). 2. Inquire if the Document Custodian issues trust receipts. If yes, obtain evidence that loans are removed from the trust receipts prior to certification. 3. Inquire if loans are funded through a warehouse line prior to sale to Fannie Mae. If yes, obtain evidence that: <ol style="list-style-type: none"> a. Bailee letter Name or 2004A Name is validated in Document Certification prior to certification to Fannie Mae. b. Second level review is performed prior to updating the mortgage loan to a certified status in Document Certification. 4. Inquire if the Document Custodian has knowledge of, or operational involvement in, satisfying prior creditor interests of Fannie Mae loans. If yes, verify that: <ol style="list-style-type: none"> a. The Document Custodian has a process in place to ensure that the loans are released prior to funding. b. The process is documented in a procedure. c. The procedure is testable.
Practices - Releases	<ol style="list-style-type: none"> 1. Verify that the Document Custodian receives a Form 2009 (Request for Release of Documents) or equivalent prior to document release. Further verify that the form: <ol style="list-style-type: none"> a. Contains all the required data elements. b. Is maintained in either hard copy or electronic format. <ol style="list-style-type: none"> i. If electronic, verify that the Form can be printed in a suitable format upon request.

	<ol style="list-style-type: none"> 2. Request evidence to show that releases are processed only when the Form is signed and dated by authorized personnel. 3. Request evidence to show that the Document Custodian includes either Form 2009 or a loan manifest with the release package. 4. Request evidence to show that the Document Custodian is tracking documents that have been released for non-liquidation purposes (e.g., not paid in full, repurchased or liquidated as a result of foreclosure, short sale, or Mortgage Release) for more than 90 days.
Practices - Transfers	<ol style="list-style-type: none"> 1. Inquire if the Document Custodian processed incoming document transfers (including servicing transfers, co-issue transfers & custodial transfers). If yes, document the following: <ul style="list-style-type: none"> • Evidence of the recertification completion date(s). • Evidence the Document Custodian began a reconciliation of Documents to a loan trial balance within 30 days of receipt of the Loan Data and at least some of the Documents, including a Form 2009 when a loan has been released for non-liquidation purposes. • Evidence that the Document Custodian completes the recertification of loans within the 6-month period required by Fannie Mae for servicing transfer and custodial transfers. • Evidence that the Document Custodian completes the recertification of loans within the 30-day period required by Fannie Mae for Co-Issue servicing transfers. • Evidence of tracking system's ability to indicate whether loans have been recertified following an incoming transfer. • Evidence that all Mortgage Loans received as a result of a transfer have been reported to Fannie Mae via a "Recert Start" and "Recert Completion" file. 2. Inquire if the Document Custodian has any transfer recertifications that remain open, including any for transfers with effective dates prior to the review period. <ol style="list-style-type: none"> a. If yes, what were the initial due dates? Have the due dates passed? b. Does the Document Custodian have evidence of an extension approved for any expired due dates? Obtain evidence. c. For each outstanding transfer recertification not granted an extension, please document the following: <ol style="list-style-type: none"> i. Log number and effective date of transfer. ii. Transferor servicer and transferee servicer. iii. Original Document Custodian and new Document Custodian. iv. Outstanding issues. 3. Inquire if the Document Custodian performs certification of Mortgage Loans as a part of Concurrent Sale of Servicing transactions. <ol style="list-style-type: none"> a. Is the Document Custodian certifying on behalf of the Seller? b. If yes, does the Document Custodian have an executed Form 2017 Master Custodial Agreement with the new servicer of record? c. If yes, proceed to next section. d. If no, does the Document Custodian have evidence to confirm the Mortgage Loans were shipped to the Transferee Document Custodian within 30 days of certification? 4. Inquire if the Document Custodian performs certification of Mortgage Loans as a part of Concurrent Sale of Servicing transactions. <ol style="list-style-type: none"> a. Is the Document Custodian recertifying on behalf of the Servicer of record? b. If yes, does the Document Custodian have evidence of I-Code request from Fannie Mae? c. Does the Document Custodian have evidence that the respective list of Mortgage Loans was provided to Fannie Mae for each I-Code request? d. Did the Document Custodian submit a Recert Start File and Recert Completion File to Fannie Mae?

	<p>e. Does the Document Custodian have evidence that recertification for all Mortgage Loans was completed within 30 days of receipt of data & documents?</p>
Practices – Monthly QC	<ol style="list-style-type: none"> 1. Verify that the Document Custodian has a monthly QC process in place at each location that certifies loans. Provide a summary of the QC processes. <ol style="list-style-type: none"> a. Does the Document Custodian have evidence that monthly OIs are reported with the QC results? b. Does the Document Custodian have evidence that reflects monthly QC reporting on statuses of open I & C code transaction types?
Operating Standards	<ol style="list-style-type: none"> 1. Inquire if the Document Custodian is engaged in any outsourcing or offshoring (Fourth Party to Fannie Mae Mae) production activity. <ol style="list-style-type: none"> a. If yes, request verification from the Document Custodian that there have been no changes with respect to any previously approved outsourcing or offshoring arrangements or if the Document Custodian is engaged in new outsourcing or offshoring arrangements not previously disclosed or approved involving Fannie Mae Confidential Information. b. Request evidence of Fannie Mae prior approval of any new outsourcing or offshoring arrangements. c. Request evidence that the Document Custodian provided a list of all active Fourth Parties performing functions on Fannie Mae work. d. Request verification from Document Custodian that it has maintained policies and procedures that provide appropriate oversight of these Fourth Parties.
Conflict of Interest	<ol style="list-style-type: none"> 1. Request evidence to show that the Document Custodian has a conflict-of-interest policy that would identify any potential conflicts with Fannie Mae.
Business Continuity and Disaster Recovery	<ol style="list-style-type: none"> 1. Request evidence of the existence of the Document Custodian's (or affiliated entities) written business continuity/disaster recovery plan. 2. Ensure the plan: <ol style="list-style-type: none"> a. Identifies critical functions, resources dependencies, and emergency contacts. b. Includes internal and external communication procedures and responsibility assignments, including a "Call Tree" to identify whom to call during an emergency and in what order. c. Includes provisions for off-site retention of critical systems and data file resources. d. Outlines a plan for the existing documents in the vault in the event of fire, water damage or any other disaster such that there is a need to move documents to a back-up facility or restore the documents. e. Includes alternate processing facilities, and network and telecommunication capabilities. f. Covers restoration of facilities and backup and recovery of data processing systems. g. Outlines a plan in the event MERS becomes inoperable. h. Includes recovery strategies for a loss of facility, personnel, technology and third parties. 3. Request evidence to show that the business continuity/disaster recovery plan is tested at least annually and note the date of the last test.