Fannie Mae

February 24, 2023

Prefunding and Post-Closing QC Requirements

Frequently Asked Questions

This FAQ document provides responses to anticipated questions to the March 1, 2023, *Selling Guide* Announcement which introduced updated expectations for prefunding quality control (QC) reviews and a change to the post-closing QC cycle timeline.

These enhancements to our prefunding and post-closing QC policies are being rolled out in an effort to improve overall loan quality and reduce the number of loans requiring remediation by lenders.

Effective: Lenders are encouraged to implement these changes immediately but **must** do so by Sept. 1, 2023. If implemented starting Sept. 1, 2023, the following applies:

- Prefunding: The 10% prefunding loan population in the Sept. 1 – Sept. 30 cycle must be based on the total number of loans closed in August.
- Post-Closing: The cycle that beings on Sept. 1, 2023, must be complete by Nov. 30, 2023.

Prefunding

Q1. **Do lenders have to review 750 loans or 10% of last month's closings?**

The *Selling Guide* requires lenders to review the lesser of 10% or 750 based on the prior month's total closings. Here are some examples:

- If Lender A closes 160 loans in March, the lender must complete prefunding reviews on at least 16 loans moving through the origination process in April.
- If Lender B closes 5,000 loans in March, the lender must complete prefunding reviews on at least 500 loans moving through the origination process in April.
- If Lender C closes 10,000 loans in March, the lender must complete prefunding reviews on at least 750 loans moving through the origination process in April. The lender does not have to complete a review of 1,000 loans, as 1,000 exceeds the 750-loan requirement.
  - In this instance, 750 loans is the minimum, but lenders may choose to do more based on their quality risk appetite and sampling strategy.

Q2. **Can lenders complete a statistically valid sample instead of meeting the 10% requirement?**

No. Lenders cannot replace the 10% requirement with a statistically valid sample. However, lenders are free to complete a statistically valid sample within their loan population as long as they meet the 10% requirement.

Q3. **Can both conventional and government loans count toward the minimum requirement?**

Yes. The review population can be made of loans that span multiple products.

Q4. **Can the review population span multiple channels to meet the minimum requirement?**

Yes. The review population can be made of loans that span all channels.

Q5. **What is the difference between a discretionary review and a targeted review?**

The terms “discretionary review” and “targeted review” are interchangeable. They refer to a non-random sampling approach that affords the lender the opportunity to select loans with higher probability of a defect or fraud.

Q6. **What is the difference between a full-file review and a component review?**

A “full-file review” means an analyst will look at all aspects of credit and collateral. A “component review” means an analyst will look at individual elements of the file (self-employment income, for example).

Q7. **Are component reviews required in prefunding?**

No. Component reviews are not a requirement in prefunding. We recommend using component reviews as part of strategic discretionary samples. Component reviews that target specific areas of loans allow lenders to cast a wider net and more effectively use QC resources.

Q8. **Do lenders need to make a different report for each component review?**

The results of component reviews need to be readily apparent to senior management. Fannie Mae does not mandate a style or format for QC reporting, but we recommend that lenders ensure information is delivered in a way that drives change and improvement in their organizations. Refer to the resources at the end of this document for additional information on reporting.

Post-Closing

Q9. **When does the post-closing QC cycle need to be completed?**

Lenders must complete a full post-closing QC cycle in 90 or fewer days. (Providing reporting to senior management is considered the final step in a cycle.) For example, loans that closed between March 1 and March 31 must be selected, reviewed, and reported on no later than June 30.

Q10. **Why is a 90-day cycle better than a 120-day cycle? Is there a correlation between 90 days and better manufacturing quality?**

A 90-day cycle allows for detection of errors closer to when the errors were generated. Lenders can take action sooner and prevent originating additional loans with the same error.

Q11. **With the reduction in post-closing cycle time, are there changes to the reverification process?**

No. Lenders are encouraged to order the reverifications as early in the post-closing process as possible so the information can be received and analyzed prior to the end of the 90 days. Additionally, the 4506-C should be executed early in the QC process if the transcripts were not obtained during the underwriting and processing of the loan.

Fannie Mae recommends tracking reverification and tax transcript success rates. This information can identify gaps in the reverification process and allow for action planning to ensure reverifications are performed effectively.

Resources

Review the *Selling Guide* announcement SEL-2023-02

Read the *Quality Insider* issue that focuses on QC Reporting

Watch the Boot Camp e-learning entitled: Improving Loan Quality through Effective QC Reporting