

Loan Defect Taxonomy*

Fannie Mae utilizes a standard defect taxonomy during our post purchase file review process. The taxonomy is structured to support an accelerated root cause analysis of loan quality data. These defects (which may be eligibility violations) are referenced in reporting to lenders on the quality of their deliveries. This information is also available in a [spreadsheet](#).

*Non-exclusive list as of October 9, 2019; subject to change.

Loan Defects

Defect Category	Defect Subcategory	Defect Name
Appraisal	Appraisal Adjustments	<ul style="list-style-type: none"> Appraisal adjustments not correctly applied Comparable adjustments Failure to adjust comparables Inadequate comparable adjustment(s) Unacceptable comparable adjustment(s) – sales/financing concessions
	Appraisal Data Integrity	<ul style="list-style-type: none"> Comparable sale(s) physical features reported inaccurately – age Comparable sale(s) physical features reported inaccurately – bedroom/bathroom count Comparable sale(s) physical features reported inaccurately – condition/quality of construction Comparable sale(s) physical features reported inaccurately – design/appeal Comparable sale(s) physical features reported inaccurately – gross living area Comparable sale(s) physical features reported inaccurately – other Comparable sale(s) site characteristic(s) or location reported inaccurately Comparable sale(s) transaction details reported inaccurately Comparable transaction details – creation of comparable sale(s) Failure to report and/or analyze subject sales history Failure to report comparable sales history Failure to report pending sale for the subject Failure to report subject listing history Insufficient data source for comparable sale(s) Market conditions reported inaccurately Subject physical features reported inaccurately – age



Appraisal (continued)	Appraisal Data Integrity (continued)	<ul style="list-style-type: none"> • Subject physical features reported inaccurately – bedroom/bath count • Subject physical features reported inaccurately – condition/quality of construction • Subject physical features reported inaccurately – design/appeal • Subject physical features reported inaccurately – gross living area • Subject physical features reported inaccurately – other • Subject site characteristic(s) or location reported inaccurately • Subject site features – entire parcel not included • Subject site size reported inaccurately • Subject view or location reported inaccurately • Unfavorable conditions not reported and/or analyzed
	Appraisal Documentation	<ul style="list-style-type: none"> • Appraisal - expired • Appraisal – missing • Appraisal not uploaded to UCDP • Appraisal update – missing or non-compliant • Completion report – missing • Homestyle renovation – evidence of completion not provided
	Appraisal Reconciliation	<ul style="list-style-type: none"> • Adjusted value of comparable(s) failed to support appraised value • Appraised value outside adjusted sales price range • Value warranty – ineligible property inspection waiver • Value warranty – value seasoned loan
	Comparable Selection	<ul style="list-style-type: none"> • Exclusive use of sales from subject’s subdivision or project • Failure to use a sale from subject’s new subdivision or project • Inappropriate comparable sale(s) selection – dated comparable sale(s) • Inappropriate comparable sale(s) selection due to location • Inappropriate comparable sale(s) selection – MH Advantage® • Use of dissimilar comparable sale(s) - non-traditional property • Use of dissimilar comparable sale(s) due to site characteristics • Use of dissimilar comparable sale(s) due to type of ownership • Use of physically dissimilar comparable sale(s) – age • Use of physically dissimilar comparable sale(s) – bedroom count • Use of physically dissimilar comparable sale(s) – condition/quality of construction • Use of physically dissimilar comparable sale(s) – design/appeal • Use of physically dissimilar comparable sale(s) – gross living area • Use of physically dissimilar comparable sale(s) – other



Appraisal (continued)	General Appraisal Requirements	<ul style="list-style-type: none"> • Appraisal not complete or compliant • Appraisal on wrong form • Appraiser – unlicensed / not qualified • Failure to report sales contract information in the appraisal • Failure to use required number of manufactured home comparable sales • Failure to use required number of properties with similar accessory unit • Failure to use three comparable sales • Supervisory / review appraiser not qualified
	Appraisal Misleading	<ul style="list-style-type: none"> • Misrepresentation of physical characteristics • Unacceptable appraisal by use of inappropriate comparable sales • Unsupported or misleading market data
Assets	Asset Calculation/Analysis	<ul style="list-style-type: none"> • Asset validation – conflicting and contradictory information • Asset validation – insufficient assets for 30 day charge accounts • Asset validation – insufficient assets for reserves • Asset validation – insufficient assets to close • Asset validation – insufficient assets to pay off debt • Asset validation – undocumented large deposit/increase • Insufficient assets for 30-day charge accounts • Insufficient assets for reserves • Insufficient assets to close • Insufficient assets to pay off debt • Undocumented large deposit/increase
	Asset Documentation	<ul style="list-style-type: none"> • Asset documentation aged • Asset documentation incomplete/illegible • Asset documentation – missing all • Assets misrepresentation • Asset validation – borrower not confirmed as account holder • Asset validation – verification form missing or defective • Earnest money missing • Gift documentation missing • Liquidation of asset missing • Sale proceeds missing
	Asset Eligibility	<ul style="list-style-type: none"> • Gift funds unacceptable • Gift on investment transaction not permitted • Interested party contributions exceed borrower’s costs • Interested party contributions exceed percentage allowed • Interested party contributions – sales concessions • Minimum contribution from borrower’s own funds not met • Unacceptable source of funds



Borrower & Mortgage Eligibility	Borrower Requirements Not Met	<ul style="list-style-type: none"> Excessive number of financed properties Multiple financed properties – requirements not met Non-Occupant borrower requirements not met Social security number discrepancy Social security number not validated Trusts ineligible
	General Eligibility	<ul style="list-style-type: none"> Delayed financing exception requirements not met Delinquent at or before delivery Delivered with excessive DTI ratio Excessive cash-out – refinance Financing of real estate taxes – escrow account not established Installment land contract cash-out refinance not permitted Manufactured home requirements not met Non-arms length purchase Power of attorney ineligible or ineffective Property listed for sale on refinance transaction Special approval not obtained Variance requirements not met
	LTV/CLTV/HCLTV	<ul style="list-style-type: none"> Excessive LTV/CLTV/HCLTV ratio LTV/CLTV/HCLTV calculated incorrectly Manufactured housing – LTV/CLTV/HCLTV calculated incorrectly
	Occupancy	<ul style="list-style-type: none"> Misrepresentation of investment occupancy Misrepresentation of primary occupancy Second home eligibility requirements not met
	Product Eligibility	<ul style="list-style-type: none"> Affordable housing income limits exceeded Affordable housing requirements not met Homeownership education/landlord education certificate missing HomeReady® requirements not met HomeStyle® Renovation requirements not met TX 50(a)(6) requirements not met
	Subordinate Financing	<ul style="list-style-type: none"> Evidence of subordination or release of existing lien not provided Excessive cash-out – payoff subordinate financing Subordinate financing terms not provided Subordinate financing unacceptable Undisclosed subordinate financing
Credit	Credit Documentation	<ul style="list-style-type: none"> Credit documents aged Credit report missing or defective Misrepresentation of credit Mortgage payment history missing or defective
	Credit Eligibility	<ul style="list-style-type: none"> Minimum credit score requirement not met Non-traditional credit history requirements not met Outstanding collections, non-mortgage charge-offs, or past due balances Outstanding judgement(s) Outstanding lien(s)



		<ul style="list-style-type: none"> • Significant derogatory credit event – requirement not met • Unacceptable mortgage history
Income/Employment	Income/Employment Calculation/Analysis	<ul style="list-style-type: none"> • Income validation – conflicting and contradictory information • Income validation – tax transcript conflicting and contradictory • Incorrect income calculation – base • Incorrect income calculation – bonus/commission/overtime • Incorrect income calculation – employed by family member or interested party • Incorrect income calculation – other income sources • Incorrect income calculation – rental income/loss • Incorrect income calculation – retirement/pension/social security • Incorrect income calculation – self-employed • Incorrect income calculation – unreimbursed business expenses
	Income/Employment Documentation	<ul style="list-style-type: none"> • Income documentation aged • Income documentation illegible • Income documentation missing – all • Income misrepresentation • Income not documented – age of tax return requirements not met • Income not documented – alimony/child support • Income not documented – base • Income not documented – bonus/commission/overtime • Income not documented – employed by family member or interested party • Income not documented – other income sources • Income not documented – rental income/loss • Income not documented – retirement/pension/social security • Income not documented – secondary employment/multiple jobs • Income not documented – self-employed • Income validation – tax transcript verification form missing or defective • Income/employment validation – verification form missing or defective
	Income/Employment Eligibility	<ul style="list-style-type: none"> • Borrower not employed • Continuance of income unacceptable • Employment validation – DU close by date not met – borrower employed – VOE expired • Employment validation – DU close by date not met – borrower not employed – VOE expired • Employment validation – DU close by date not met – borrower not employed – VOE updated • History of bonus/overtime income unacceptable • History of commission income unacceptable • History of other income sources unacceptable • History of secondary employment income unacceptable • History of self-employment income unacceptable • Source of income unacceptable



<p>Insurance</p>	<p>Insurance - Selling Violation</p>	<ul style="list-style-type: none"> • Fidelity/crime and/or liability insurance policy not documented for the project/HOA • Flood cert or evidence not in a flood zone missing • Flood insurance not documented • Flood insurance not obtained • Mortgage insurance – inadequate coverage • Mortgage insurance – never in force • Mortgage insurance – not documented • Mortgage insurance was rescinded • Property insurance not documented • Title insurance policy requirement not met
<p>Legal/Regulatory/Compliance</p>	<p>Anti-Predatory Lending Violation</p>	<ul style="list-style-type: none"> • Amortization Ineligible • Home Ownership and Equity Protection Act Documentation Missing • Home Ownership and Equity Protection Act Violation – APR • Home Ownership and Equity Protection Act Violation – APR and Points and Fees • Home Ownership and Equity Protection Act Violation – Points and Fees • Maximum Points and Fees Exceeded – Third Party Notification of Violation • State Higher-Priced Mortgage Loan
<p>Liabilities</p>	<p>Liabilities Calculation / Analysis</p>	<ul style="list-style-type: none"> • Debts not paid off • Monthly payments not properly calculated • Undisclosed liability • Undisclosed mortgage(s)
	<p>Liabilities Documentation</p>	<ul style="list-style-type: none"> • Monthly payment amount not verified • Omission of debts documentation missing
<p>Loan Documentation</p>	<p>Application / Processing</p>	<ul style="list-style-type: none"> • AUS findings report missing or defective • Loan application missing or defective • Power of attorney – loan application not signed by borrower • Sales contract missing or defective
	<p>Closing Documentation</p>	<ul style="list-style-type: none"> • Closing disclosure – defective • Closing disclosure – missing • Final Truth in Lending missing or defective • HUD-1 settlement statement missing or defective • HUD-1 settlement statement provided in lieu of Closing Disclosure • Note missing or defective • Power of attorney missing or defective • Security instrument missing or defective • Seller settlement statement missing or defective
	<p>Loan File</p>	<ul style="list-style-type: none"> • Loan file missing
<p>Project Eligibility</p>	<p>Project Documentation</p>	<ul style="list-style-type: none"> • Missing, inadequate or incomplete project document
	<p>Project Eligibility</p>	<ul style="list-style-type: none"> • Excess investor occupancy • Ineligible project – condotel • Ineligible projects – litigation



		<ul style="list-style-type: none"> • Ineligible projects – other charter violation • Ineligible projects – commercial space • Ineligible projects – single entity ownership • Presale <50% • Project reserve requirement not met
	Project Review	<ul style="list-style-type: none"> • Expired project review • Limited review requirements not met • PERS approval not obtained
Property Data Collection	Property Data Collection – Data Integrity	<ul style="list-style-type: none"> • Subject Gross Living Area Reported Inaccurately by Data Collector • Subject Age Reported Inaccurately by Data Collector • Subject Site Characteristic (s) or Location Reported Inaccurately by Data Collector • Subject Condition/Quality of Construction Reported Inaccurately by Data Collector • Subject Physical Features Reported Inaccurately - Other by Data Collector • Subject Bedroom/Bath Count Reported Inaccurately by Data Collector • Unfavorable Conditions Not Reported and/or Analyzed by Data Collector
	Property Data Collection Requirements	<ul style="list-style-type: none"> • Property Data Collector Not Eligible
Property Eligibility	Leasehold Estate	<ul style="list-style-type: none"> • Ineligible leasehold estate
	Manufactured Housing-Specific	<ul style="list-style-type: none"> • Ineligible manufactured housing • Ineligible manufactured housing – addition or structural modification • Ineligible manufactured housing with leasehold estate • Ineligible MH Advantage – failure to meet requirements • Ineligible MH Advantage – missing HUD data plate or certification label • Ineligible MH Advantage – missing MHA sticker
	On-frame Modular Home	<ul style="list-style-type: none"> • Ineligible on-frame modular home • Ineligible on-frame modular home – neighborhood non-conformity
	Site and Utilities	<ul style="list-style-type: none"> • Ineligible property – environmental hazards • Ineligible property – inadequate accessibility • Ineligible property – parcel issues • Ineligible property – site and utilities • Ineligible property – utilities
	Subject and Improvements	<ul style="list-style-type: none"> • Ineligible property – number of units • Ineligible property – safety, soundness, and structural integrity • Ineligible property – subject and improvements
	Zoning and Usage	<ul style="list-style-type: none"> • Ineligible property – accessory unit • Ineligible property – commercial zoning • Ineligible property – condo/co-op • Ineligible property – highest and best use • Ineligible property – land use



		<ul style="list-style-type: none">• Ineligible property – non residential use• Ineligible property – site conformity• Ineligible property – unacceptable mixed use• Ineligible property – zoning and usage• Ineligible property – zoning non-compliance
Title/Lien	Title/Lien Selling Violation	<ul style="list-style-type: none">• Clouded Title• Incorrect legal description (Origination)• Land Locked Parcel• Lender obligated or loan sold to another investor• Loan not funded or pending rescission• Loan not in first lien position at origination• Manufactured home – certificate of title not provided• Misrepresentation of title• Property encroachment