

Quality Control Self-Assessment



Measuring the effectiveness of your quality control program

This document is designed to help you manage your quality risk and comply with Fannie Mae's *Selling Guide* quality control (QC) requirements and includes highly suggested QC best practices. Use this worksheet to take the QC self-assessment and add notes to help you develop or update your organization's QC plan.

NOTE: Required elements are designated with an asterisk, while recommended (but not required) elements do not have an asterisk. For full lender QC requirements, see Part D1 of the Selling Guide.

[RESET FORM](#)


Lender's Quality Control Programs, Plans, and Processes

Our senior management — and CEO and Board of Directors as applicable — are accountable and actively involved in ensuring:	Notes
☐ Our QC program includes a documented QC plan that establishes standards for quality and incorporates systems and processes for achieving those standards.*	
☐ A methodology for identifying, categorizing, and measuring defects and trends against an established target defect rate.*	
☐ A consistent methodology and terminology across all review types.*	
☐ Implementing action plans as a result of the monthly defect rate and the root causes of that defect rate.*	
☐ Continual monitoring of the target defect rate.*	
☐ Our written action plan for specific corrective actions to be taken, include root cause(s), responsible parties, the expected resolution and the time frame for implementation and completion when trends are identified through the review process.*	

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☐	There are QC standards (objective/purpose) by which we identify, remediate, and monitor the risks associated with originating quality loans (e.g., risks such as fraud, repurchase, financial losses, penalties, regulatory, product, and channel, including third-party originations [TPO]).*
☐	There is retention of all written and electronic records that are created as part of the QC review process for at least three years. These records include documentation of QC reports, QC review findings, reverification documentation, successful rebuttal documentation, and documentation related to any corrective actions. The lender must provide Fannie Mae with a copy of its records upon request.*
☐	An independent audit of the QC process happens regularly and an action plan for remediation or policy/procedure changes is the result. The audit includes an affirmative statement that no influence from other business units or bias in the QC conclusions or bias in the QC conclusion. Fannie Mae recommends an annual audit cycle.*
☐	Our QC reporting structure is independent of the production, underwriting, and closing departments. If it is not evident that our QC organizational structure is independent, we are able to demonstrate that we have a clearly defined testing protocol that is governed by change control and approval authority that supports program-level independence and that documentation at the loan level supports changes to decisions made during the review and rebuttal process.*
☐	Documentation of minimum job qualifications for staff overseeing and conducting QC reviews, including vendor oversight.*
☐	All QC personnel are adequately trained and have sufficient experience relative to the reviews being conducted, including manual underwriting and/or loans processed through any automated underwriting system. Reviewers conducting more complex or specialized reviews, such as collateral risk assessment of appraisals, property data collection, or complex income calculations have the requisite knowledge and experience to perform the reviews.*
☐	Detailed policies and procedures for the QC file review process are provided to all employees who will be involved with the QC file reviews.*
☐	Detailed standard operating procedures - including updates on industry changes - are available to all employees involved with, or affected by, the QC process.*
☐	Training content is current to our investor guidelines and reflects current industry practices.
☐	Employees' participation in training is tracked and monitored.

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Navigating Risk with Defect Rates

Senior management has established and proactively manages a target defect rate and ensures that:	Notes
☐ We have a target defect rate, at a minimum, for the highest severity level for our random, post-closing QC samples and documented rationale for establishing the target rate.*	
☐ We review (at least annually*) our target defect rate to ensure it continues to meet our credit risk needs and is aligned with our loss reserves.	
☐ We have a set of standards for loan quality, including a methodology for categorizing loan defects based on severity; our highest level of severity is assigned to defect categories that result in the loan not being eligible to deliver to Fannie Mae.*	
☐ We understand the benefits and implications associated with reporting a gross (initial) defect rate and reporting a net (final) defect rate.	

An effective way to establish loan quality targets is to model the financial exposure created at a certain defect level. The concept of “zero defects” generally will be considered challenging to achieve, and Fannie Mae does not evaluate lenders by a zero-defect-rate standard. We expect lenders to set defect rate targets as reasonably low as possible based on a formal cost–benefit analysis of meeting that target. We then expect lenders to demonstrate to us how they manage loan quality to meet their established target.

Having a **target defect rate** is required for the top severity level (ineligible for delivery to Fannie Mae) and enables the lender to regularly evaluate and measure progress in meeting its loan quality standards. Lower severity levels must be defined by the lender as appropriate for its organization, and different target defect rates may be established for different severity levels (if applicable).*

Calculating a defect rate is how you measure against your target defect rate. Some lenders use only a gross (initial) or a net (final) calculation when determining their monthly defect rate, while others use both. Gross defect rate includes loan defects at the highest severity level, even those corrected before delivery, offering a comprehensive view of internal issues and aiding process improvement. Net defect rate, by contrast, counts only uncorrected defects at delivery or post-closing, aligning better with investor and regulatory concerns but potentially masking recurring internal problems. Using both metrics together provides a fuller picture of loan quality and operational performance.

If a loan has multiple defects, count it only once in the defect rate calculation—under the highest-severity category.

Fannie Mae recommends utilizing a Defect Capture Rate (DCR). In the context of quality control for loan sampling, the DCR is a key metric used to evaluate the effectiveness of a quality control process in identifying defective or non-compliant loans and helps lenders determine if the sampling method or review criteria need adjustment.

Refer to Fannie Mae’s companion worksheet “[How to calculate a defect rate](#)” to learn more about calculating defect rates and defect capture rates.

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Using Prefunding QC to Predict and Prevent

Prefunding reviews, including those conducted prior to closing or before acquisition, provide critical and timely feedback to origination teams. These reviews play a key role in identifying and mitigating significant loan defects—such as misrepresentation, analytical or calculation errors, inaccurate data, and insufficient documentation—before the loan is finalized. Our prefunding QC plan includes:

Notes

☐ A process to ensure reviews are conducted when sufficient data and documentation is available in the file to support the required analysis.*

☐ Procedures to ensure reviews are performed by individuals who are not involved in the origination, processing and underwriting functions of the loan being reviewed.*

☐ A documented monthly loan selection process targeting risks related to origination processes, business sources, production channels, volume and product mix. This process is reviewed regularly to ensure that the sample selected is appropriate.*

☐ A process for monthly loan selection from each of our origination channels.*

☐ A process to ensure a minimum number of prefunding QC reviews are completed monthly, with loan selection meeting at least the lesser of:*

☐ 10% of the prior month's total number of loans originated, closed or acquired; or

☐ 10% of the current month's projected total number of loans to be closed or acquired (if using projections, perform a reconciliation process to ensure the 10% requirement is met); or

☐ 750 loans.

☐ If ≤ 10 loans are originated/acquired in the prior month, at least one loan will be selected. Both full-file reviews and component reviews count toward the minimum requirement.

☐ **Note:** Government loans acquired from a correspondent lender that meet the following requirements may be excluded from the 10% prefunding sample calculation:

- The correspondent lender completed the underwriting of the loan (delegated underwriting); and
- The correspondent lender obtained the required government guarantee or government insurance, as applicable.

☐ A process to ensure monthly discretionary prefunding reviews are conducted, focusing on higher-risk loans and areas prone to errors, misrepresentation, or fraud.* (see *Selling Guide* for examples D1-2-01 Lender Prefunding Quality Control Review Process)

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☐ A process to ensure full file reviews confirm the presence and completeness of required documents, the accuracy of data used in underwriting, and adequate support for the underwriting decision.* Required assessment includes: ☐ data entered into an automated underwriting system ☐ borrower Social Security number(s) ☐ income calculations and supporting documentation ☐ employment documentation, including verbal verification of employment ☐ assets needed to close or meet reserve requirements ☐ appraisal or other eligible collateral data or documentation, if applicable, including reconciliation of CU flags and messages ☐ adequate mortgage insurance coverage, if applicable ☐ occupancy	
☐ A process to review all loans - including those with validated income, employment, or assets - to ensure that data entered into Desktop Underwriter® (DU®) is appropriate, based on review of any inconsistent or contradictory information in the loan file and verification reports.*	
☐ Defined methodology, processes, and strategies for optional component reviews, targeting specific loan elements associated with high-risk factors.	
Fannie Mae recommends the following enhancements to our prefunding QC plan:	Notes
☐ Implementing fraud checks using industry tools and/or vendors.	
☐ Obtaining IRS tax transcripts prior to underwriting.	
☐ Utilizing Condo Project Manager™ to confirm the condo project meets Fannie Mae requirements and ensuring that condo project eligibility documentation is retained.	
☐ Implementing system hard stops and/or control points throughout the production cycle to ensure that loans don't close with defects.	
☐ Re-testing loans identified with defects prior to closing the loan.	

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☐ Using Fannie Mae's tools to ensure accurate delivery data, including: ☐ Uniform Collateral Data Portal ☐ EarlyCheck™ ☐ Loan Delivery edit history reports ☐ Collateral Underwriter® (CU®)	
☐ Fostering an open line of communication between QC staff and the business units such as underwriting and processing in order to close manufacturing gaps.	
☐ Remediating defects identified prior to closing.	

Note: Uniform Collateral Data Portal and UCDP are registered trademarks of Freddie Mac.



Closing Confidence: Validating Loan Accuracy Post-Closing QC

Post-closing reviews and reverifications help lenders evaluate and monitor the overall quality of their mortgage production: Is the loan you closed the loan you thought you closed? Our post-closing QC plan includes the following:	Notes
☐ A process to select a monthly Random sample using one of two methods for sampling:* ☐ A 10% sample of total monthly loan production. ☐ If 10% is less than one loan, we will select at least one loan. ☐ Our 10% random retail sample is separate from our third-party originated sample, regardless of selection method. (if applicable) —OR— ☐ A statistically valid sample of total monthly loan production. ☐ Our statistical sample uses a 95% confidence level, 2% precision rate, and a minimum six-month statistical statement (we understand that Fannie Mae recommends using a three-month statistical statement). ☐ Our stratified random retail sample is separate from our third-party originated sample, regardless of selection method. (if applicable)	
☐ A process to ensure the Random sample complies with:* ☐ Loans are randomly selected regardless of method used. ☐ Random reviews are full file reviews.	

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☐ A process to select a separate monthly Discretionary sample designed to supplement, not replace, the random sample - targeting loans with a higher risk of errors, misrepresentation, or fraud.* (see <i>Selling Guide</i> D1-3-01 Lender Post Closing Quality Control Review Process for examples)	
☐ Discretionary reviews are either full-file reviews or component reviews.	
☐ A process to ensure overall QC cycle (selection, review, rebuttal, and reporting) is completed within 90 days from the month of loan closing.*	
☐ A process to notify Fannie Mae if QC reviews are behind by more than one 30-day cycle.*	



Review of Approval Conditions, Underwriting Decisions, and Documentation

The lender must verify the accuracy and integrity of the information used to support the underwriting decision for any loan selected for QC review. Our post-closing QC plan includes the following:		Notes
☐ A review process to assess the accuracy and integrity of the information used to support the underwriting decision, and an assessment to confirm the loan complies with Fannie Mae's <i>Selling Guide</i> and related contractual terms and agreements.*		
☐ Procedures to ensure the post-closing review includes evaluation of the following:* ☐ accuracy and completeness of the loan application ☐ existence and accuracy of the underwriting documents used to support credit, income, assets, including reverifications of underwriting documents, and a data integrity review ☐ underwriting decision to confirm it is supported ☐ output from any third-party data analysis tools ☐ data entered into DU, if applicable ☐ appraisal or other eligible collateral data or documentation, if applicable ☐ property eligibility ☐ project eligibility, if applicable		

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☐ property insurance and flood insurance, if applicable ☐ compliance with the mortgage insurer's guidelines, and adequate mortgage insurance coverage ☐ existence and accuracy of legal, transaction documentation (for example, sales contract), and closing documentation ☐ compliance with applicable laws, as provided in A3-2-01, Compliance With Laws	
☐ A process to ensure Social Security Numbers (SSN) are consistent in all file documentation and that all SSN were validated prior to closing.*	
☐ A process to ensure all red flag messages found on the AUS or alerts created by sources other than AUS were reviewed and reconciled prior to closing.*	
☐ A process to ensure manually underwritten loans are reviewed for compliance with Fannie Mae's guidelines and loan eligibility criteria.*	
☐ A process to promptly correct errors if identified, update all affected documents and systems and resubmit to the AUS as applicable.*	
☐ Review requirements to confirm that all DU verification messages/ approval conditions listed in the DU Underwriting Findings report were satisfactorily resolved and supported by documentation.*	
☐ Review requirements to confirm that all data submitted to DU is true, correct, and complete.*	
☐ A process to reassess the underwriting decision based on newly verified information or discrepancies identified in the QC review.*	
☐ A process to notify Fannie Mae within 30 days of the date of confirmation that one or more defects identified through the QC file review process results in the loan being ineligible as delivered to Fannie Mae. The "date of confirmation" is the date the lender publishes its report, and the loan is included in that report.*	

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Post-Closing QC: Strengthening Loan Quality Through Reverifications

The value in reverifications is obtaining the data; without data, the process is less valuable. Our post-closing QC plan includes:		Notes
☐ A process to pay all applicable fees charged by employers, financial institutions, or other third parties used to obtain reverification information.*		
☐ A process to ensure all DU validation service requirements were satisfied to take advantage of the reverification relief for loans that achieved income, employment, and/or asset validation.*		
☐ A process to re-evaluate the loan to confirm its eligibility for delivery to Fannie Mae if the reverification process reveals information that differs from what was used in underwriting.*		
☐ A process to obtain updated records that verify that all borrowers remain employed with the employer listed on the loan application through closing and that all income of all borrowers has not changed to the point where the loan is ineligible for delivery to Fannie Mae.*		
☐ A process to ensure the reverification documentation is not a replica of the initial income/employment verification because that does not provide updated records to verify the income/employment has not changed through the Note date.		
☐ A process to ensure previous income and/or employment is reverified depending on what was utilized in DU for eligibility assessment.		
☐ A process to identify loans that were validated by the DU Validation Service and may not require reverification of the borrower(s) income, employment, or assets.		
☐ A process to obtain the IRS personal and/or business tax transcripts (if not obtained prior to closing) for all income types used in the underwriting process.*		
☐ A process to record a moderate level defect in our post-closing QC results for each unsuccessful request to obtain tax transcript(s).*		
☐ A process to request reverification of all sources of funds used for the down payment, closing costs, and any reserves required to be verified by DU using original documentation sources including financial institutions, third-party asset report providers and gift donors.*		

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| <ul style="list-style-type: none"> ☐ A process to reverify all borrowers' credit history.* <ul style="list-style-type: none"> ☐ A process to obtain a tri-merged credit report for borrowers who qualified with traditional credit. ☐ A process to reverify each of the credit references listed on a non-traditional credit report. ☐ A process to recalculate the DTI and reassess eligibility when undisclosed liabilities are identified. | |
| <ul style="list-style-type: none"> ☐ A process to complete a collateral risk assessment for all mortgage loans with an appraisal as part of our random QC sample.* The collateral risk assessment includes the following: <ul style="list-style-type: none"> ☐ Determination that the property meets eligibility requirements including LTV, CLTV, and HCLTV ratios. ☐ Assessment of the appropriateness of comparables used; appraisal comparables will not be reverified on appraisals with a CU score of 2.5 or below when the requirements for obtaining representation and warranty enforcement relief as described in A2-2-06 are met. ☐ Assessment of the appropriateness of the data presented in the appraisal report and confirmation that the appraisal report complies with B4-1.1-04 Unacceptable Appraisal Practices. ☐ Rationale for the reconciliation of value. ☐ A process to prescribe corrective actions for defects identified in the appraisal process. ☐ A process to reconcile flags and messages that were identified in CU if the property was able to be scored in CU. ☐ A process to reconcile any known quality messages (messages, alerts, flags) that are reflected in other third-party tools if utilized. | |
| <ul style="list-style-type: none"> ☐ A process to obtain either a desk review or field review from a licensed appraiser when we are unable to complete the collateral risk assessment or evaluated the origination appraisal in accordance with Collateral Risk Assessment requirements.* | |
| <ul style="list-style-type: none"> ☐ A process to ensure that a desk or field review, when utilized, accounts for all of the requirements of the Collateral Risk Assessment.* | |

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☐ A process to complete a collateral risk assessment for all mortgage loans with property data collection.* The collateral risk assessment includes the following: ☐ Assessment of the accuracy of the data obtained through the property data collection. ☐ Identification of any property eligibility issues and items of safety, soundness, or structural integrity. ☐ Determination that repairs or inspections were required when appropriate. ☐ A process to prescribe corrective actions for defects identified in the quality control process.	
☐ A process to perform an occupancy assessment on the subject property for all occupancy types.* ☐ A process to review the loan file documentation, including property insurance, appraisal, income tax returns or transcripts, to confirm that the documented occupancy is accurate. ☐ A process to further investigate occupancy red flags including use of publicly available listing or sale information or hiring a door knock service.	
☐ A process to supplement reverifications with alternative sources online, sources maintained by government agencies or other licensing authorities, and through the use of other third parties to obtain a successful reverification result.	

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QC Reporting Drives Quality Excellence

Robust reporting is a useful internal management tool for evaluating and monitoring the quality of a lender's loan manufacturing process (production). These reports provide meaningful data used to support analysis, decision-making, and remedial actions. Our QC reporting requirements are:

Notes

- ☐ Reports must be in writing and shared with management each month within 30 days of completion.*
- ☐ Reports summarize the results into a comprehensive summary report of all QC findings.*
- ☐ Reports communicate defects to responsible parties (departments or business units).*
- ☐ Reports use consistent methodology and terminology, including defect categories, defect subcategories, and severity levels.*
- ☐ Action Plans are written and describe specific corrective action to be taken, including root cause(s), responsible parties, the expected resolution and the time frames for implementation and completion.*

Our prefunding and pre-purchase reports include:

Notes

- ☐ The date the report was published.*
- ☐ A description of the sample selection, including the sample criteria, number of loans reviewed, and percentage of total eligible loans reviewed.*
- ☐ Rationale for each discretionary and each component review.*
- ☐ Summaries of monthly third-party originations, including random, discretionary, and component reviews, if applicable.*
- ☐ Defect trending for all defect severity levels.*
- ☐ The initial (gross) defect rate for, at a minimum, the highest severity level resulting from each sample for at least the last three months.*
- ☐ Defect trending by category and subcategory for at least the last three months.*
- ☐ The calculation used to determine the sample size of the population(s) reviewed.*
- ☐ The resolution of specific defects with corrective action plans to address defect trends.*

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Our post-closing reports include:	Notes
☐ The date the report was published.*	
☐ A description of the sample selection, including the sample criteria, number of loans reviewed, and percentage of total eligible loans reviewed.*	
☐ Rationale for each discretionary and each component review.*	
☐ Summaries of the results of all samples reviewed including random, discretionary, and component.*	
☐ Summaries of monthly third-party originations, including random, discretionary, and component reviews, if applicable.*	
☐ Defect trending for all defect severity levels.*	
☐ The defect rate for, at a minimum, the highest severity level results from each sample for at least the last three months. Best practice is to also include gross and net defect rate results.*	
☐ Defect trending by category and subcategory for at least the last three months.*	
☐ The resolution of specific defects with corrective action plans to address defect trends.*	
☐ Differentiation between defects related to compliance with laws and underwriting and eligibility defects.*	
☐ Reverification success rates by reverification type.*	
☐ Include final results of 10% QC Vendor oversight reviews.*	
☐ Loans required for investor self-report.*	

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QC Vendor Management and Outsourcing of the QC File Review Process

We understand that outsourcing is an option for our QC process, but Fannie Mae holds us fully accountable for our overall QC program, including the work performed by our outsourced QC service provider. If using a QC vendor, we:

Notes

- ☐ Understand that a contract for services is not a substitute for establishing and maintaining our own proprietary QC plan and procedures.*
- ☐ Ensure that the QC vendor conducts reviews in accordance with our QC plan.*
- ☐ Review the QC vendor's policies and procedures detailing its review methodologies, including selections, reverification practices, identification of defects, and trends and process for reporting those results to our firm.* We understand that an annual review cycle is recommended.
- ☐ Maintain regular communication with the QC vendor, ensuring check-ins occur at least quarterly.*
- ☐ Ensure that the vendor's QC review staff possesses the qualifications and experience required to provide quality reviews and meaningful analysis, and that the vendor's policies and procedures align with our QC policies and procedures.*
- ☐ Have a process for reviewing the QC vendor's work to ensure that our requirements and guidelines are applied consistently and that the review results accurately reflect the quality of our originations.*
- ☐ Perform a monthly review of at least 10% of the post-closing QC sample reviewed by the QC vendor to validate the accuracy and completeness of the QC vendor's work.*
- ☐ Have a process to ensure the 10% sample used to monitor the quality of the QC vendor's work includes loans for which the vendor identified defects and for which no defects were identified.*
- ☐ Complete the review of the QC vendors work using internal QC staff and we do not contract out these reviews.*
- ☐ Publish reports reflecting the final results of the 10% QC vendor reviews at least monthly and within 30 days following the publication of the final QC management report.*

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☐ Ensure the reports used to monitor the quality of the QC vendor's work are useful to management in evaluating and monitoring the quality of the outsourced QC service provider.* The reports include: ☐ A description of the sample selected for review. ☐ Concurrence rates. ☐ Discrepancies identified by our review of the QC vendor's work. ☐ Identify specific corrective action that is needed.	
☐ Incorporate the results of the QC vendor's reviews into our QC reporting and remediation processes.*	
☐ Have procedures to associate the appropriate severity levels with identified defects and to implement corrective actions.*	



QC Review of Third-Party Originations

We have a process to manage our TPO business to ensure good quality originations, which includes:	Notes
☐ A monthly post-closing stratified random sample of third-party originations.*	
☐ Completion of full-file reviews for the random sample.*	
☐ Supplemental discretionary targeted sample(s) focused on third-party originations with elevated risks identified.*	
☐ Completion of full-file or component reviews, as appropriate, for the discretionary sample.*	
☐ A process to perform discretionary targeted samples in either prefunding, post-closing, or prepurchase for delegated correspondents.*	
☐ A process to provide monthly reports to senior management of third-party originations defects and findings.*	



Resources

Lenders frequently request information on how to build effective quality control programs that manage risk, drive business decisions, and become part of their company's culture. Contact your Fannie Mae account team for further assistance or refer to the following resources on the [Fannie Mae Single-Family website](#):

- [Fannie Mae Selling Guide](#)
- [Beyond the Guide](#)
- [Loan Quality web page](#) (additional resources and training)

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