



Adapting QC for *Selling Guide* Policy Changes

Fannie Mae periodically makes origination and quality control *Selling Guide* policy changes to meet market needs. Some policy changes are temporary, in response to situations such as the COVID-19 pandemic in 2020, and may require quicker implementation than is typical. Policies may be mandatory or optional, depending on the scenario.

Ask yourself:

- How does your organization effectively manage policy changes and drive alignment between Operations and Quality Control (QC) functions?
- Is your QC function nimble and able to quickly pivot to properly test in real-time when Fannie Mae makes *Selling Guide* policy changes, including temporary policies?
- What controls do you have in place to comply with updated policy requirements as efficiently as possible and in alignment with your quality standards?

Examples—temporary policy updates

From Lender Letters [LL-2020-03](#) and [LL-2020-04](#) (not all-inclusive)

Continue reading for examples of temporary policy updates, driven by COVID-19, that required strong alignment with lender QC processes and proper QC testing protocols to validate compliance.

- **Verbal verification of employment**
Lender may accept an e-mail from the employer’s work email address, a paystub, or bank statements showing direct payroll deposits immediately preceding the note date.
- **Self-employment income qualification analysis**
Lender must obtain additional documents; review any profit and loss statement and applicable business depository account(s); and assess COVID-19 impacts of 1) business operations, 2) business income, and 3) business stability.
- **Verification of self-employment**
Lender must confirm the borrower’s business is open and operating within 20 business days of the note date (or after closing but before delivery).
- **Age of documentation**
Income and asset documentation must be dated within 60 days of note date (rather than 120 days).
- **Appraisal inspection and reporting**
Appraisal flexibilities, including desktop and exterior-only appraisals, are allowed on some loans. Lender must confirm the appropriate inspection type and form are used given the loan purpose, loan-to-value ratio, and occupancy.

Ask yourself:

- How is your prefunding QC validating that the changes are being properly addressed and providing timely insights to Operations?
- Has sampling methodology for post-closing discretionary selections been modified to identify and test loans that could be impacted by the changes or that leveraged temporary flexibilities?

QC best practices

- Host regularly scheduled alignment meetings between Operations and QC to ensure that any policy changes are discussed and closely monitored.
- Incorporate a policy change reconciliation process and feedback loop, along with effective defect taxonomy, to quickly identify and correct flaws in loan manufacturing.
- Review your QC testing protocols and checklists and adjust, as needed. For example, for revised document expiration dates, change the document expiration clock in your loan origination system to match the revised timeframes.
- Be very intentional with your sampling strategy to specifically target potentially impacted loans.
- Use available data sources to refine your targeted samples. For example, use third-party data sources to identify potential recently unemployed borrowers or recently closed businesses.
- **Prefunding QC**
Use targeted component-only reviews to supplement your regular prefunding sample. For example, only review the income analysis component on loans using self-employed income; or only test verifications of employment to ensure documentation has not expired. If possible, reallocate general or post-closing QC resources to prefunding to obtain faster feedback and to prevent defective loans from closing.
- **Post-closing**
Leverage your discretionary sample to specifically target loans that could be impacted by recent policy updates.
- **QC vendor oversight**
Hold monthly alignment meetings with vendors. Target the 10% vendor QC sample to test for accuracy.

Next Steps

With record volume, a changing industry landscape, and numerous updates to manage the challenges of today's market, now is the time to take action to maintain strong loan quality:

- Complete an in-depth, holistic review of your control environments between Operations and QC to verify that you are properly testing for compliance with *Selling Guide* flexibilities and policy changes.
- Intentionally target loans in QC that have used a flexibility or loans that might be impacted by policy changes.
- Ensure your QC feedback loop is timely, actionable, and aligned to your quality risks.

For more resources, visit fanniemae.com/loanquality.