



The Notice of Potential Defect

Economic conditions, like rising mortgage rates, can create challenging market conditions. In the current environment of higher rates and low origination volumes, the economic impacts of repurchase requests are magnified. Prioritizing risk management and strong quality control can help avoid repurchase requests and support financial resiliency.

Fannie Mae is committed to loan quality and our tools and resources are designed to help lenders mitigate risk. To that end, in response to lender feedback, we have reintroduced the Notice of Potential Defect, an additional step in the post-purchase review process. The Notice of Potential Defect – similar to the retired Loan Quality Defect Notice – gives lenders additional time to work with their correspondents and internal subject matter experts to resolve significant defects before the issuance of a resolution request. If Fannie Mae cites significant defects during the full-file loan review that would lead to ineligibility and a subsequent repurchase request, we will issue the Notice of Potential Defect. The notification will be available in the Loan Quality Connect portal, and an email will be delivered to anyone in a remediation role.

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Once the Notice of Potential Defect has been issued, the lender will have a 30-calendar-day window to correct the defects. If the lender does not provide additional information or the documentation provided does not resolve all significant defects within the 30-day-window, Fannie Mae issues the lender a Resolution Request, thus initiating the repurchase process as detailed in the *Selling Guide* ([A2-3.2.03](#)).

Other key aspects of the Notice of Potential Defect process:

- Applicable to all lenders.
- Exceptions to the process include Servicing defects, MBS violations, recourse violations, voluntary repurchases, and self-reported loans.
- Does not affect the current Missing Documents framework. Those requests, including the 10-day-window to respond, will remain unchanged.
- If lenders agree with the significant defects, they may request the Resolution Request be issued early or agree to the repurchase alternative by making a comment concurring to either option.
- Loans with significant defects that are part of the Notice of Potential Defect process will still be considered in lenders' gross defect rates even if the defects are cured within the 30-day window.

The Notice of Potential Defect is being reintroduced to support lenders and reduce risk, but it is not a replacement for a strong quality control program and commitment to loan quality. Controls and guardrails in the origination process should remain intact, and QC programs should continue to seek out opportunities for continuous improvement.

Check out the additional resources linked below to find out more information on how you can leverage the Notice of Potential Defect to help offset your risk of repurchase.

Resources

[Selling Guide A2-3.2.03](#)

[Loan Quality Connect Job Aids](#)

[E-learning](#)

[Post-purchase review Infographic](#)

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