The Scoop on Self-Reporting

A key tenet of Fannie Mae's mission is to promote the stability of the housing market. Robust quality control (QC) standards are key to the mortgage industry's health, and self-reporting is a vital component of those standards.

Fannie Mae requires lenders to engage in the practice of self-reporting. Lenders should self-report a loan to Fannie Mae if they find the loan:

- Is in breach of selling warranty.
- Is not in compliance with federal or state laws.
- Exhibits traits of misrepresentation, fraud, and/or money laundering activities.

Most self-reported transactions are identified through lenders' post-closing QC processes. The *Selling Guide* stipulates in section D1-3-06 that lenders must self-report to Fannie Mae within 30 days of identifying one or more defects that result in the loan being ineligible for sale to Fannie Mae.

Lenders should leverage Loan Quality Connect™, the Fannie Mae app that manages the post-purchase review process, to self-report loans. Once Fannie Mae receives a lender's self-report, we review various loan-level characteristics and determine what action or remedy is required, if any. Self-reporting doesn't always trigger a repurchase obligation.

Testing Self-Reporting

Fannie Mae audits lenders' self-reporting in the Mortgage Origination Risk Assessment (MORA) and QC calibration reviews. In past MORA reviews, Fannie Mae has discovered some lenders' QC plans do not include procedures to self-report. QC calibrations have found that some lenders are not self-reporting within the required 30-day timeframe. And both reviews have found situations in which lenders are simply not self-reporting loans.

Lenders may benefit from an internal log that tracks self-reporting. The log can include data points such as the date the finding was cited and the date the loan was self-reported. The log can be utilized as a historical record to confirm self-reporting was completed.

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Self-Reporting Requirements

Effective self-reporting from a lender will tell a comprehensive story and will fully document the *Selling Guide* breach. For example, if tax transcripts obtained as part of a post-closing review confirm Schedule E losses that were not included in the borrower's DTI, and further research confirms the loan requires a self-report, then the tax transcripts should be provided to Fannie Mae as part of the self-report submission.

The most efficient self-reporting is inclusive of all the relevant information and supporting documents. Ineffectual self-reporting might only provide a sentence indicating a breach occurred, without any additional details or documentation.

For example, "We confirmed the statements are not factual" is not an effective self-report.

Such a submission doesn't meet the requirements of the *Selling Guide* because it doesn't identify the breach that makes the loan ineligible.

As a result, the lender and Fannie Mae must continue to engage to identify and resolve the issue.

The inefficiencies created as part of this process are detrimental to both the lender and to Fannie Mae.

A well-written example of effective self-reporting related to a breach of credit underwriting guidelines can be simple but will always contain key facts. For example:

> Insufficient assets to close.
>
> The borrowers needed to bring in $64,237 cash to close and the Desktop Underwriter® (DU®) findings report required $74,577 in assets to be verified.
>
> However, the majority of the funds were in a "custodian" account. Funds from "custodian" accounts aren't allowable. Without the funds in this account, the borrowers do not have sufficient funds verified or to close the transaction.

The narrative is descriptive and documents the eligibility breach: the required assets to close were from an unacceptable source.

Ask Yourself

- ✓ Are you properly self-reporting significant defects discovered in QC? And are you reporting them within 30 days of their discovery?
- ✓ Is self-reporting covered in your QC plan?
- ✓ When you self-report to Fannie Mae, are you explaining why you're self-reporting and including key documentation?
- ✓ Are you utilizing the dashboard reports in Loan Quality Connect to better understand your self-reporting practices?

Resources

Self-Report job aid

Selling Guide A2-2-01, Representations and Warranties Overview

Selling Guide A3-4-03 for Fraud Self-Reporting

Selling Guide D1-3-06, Lender Post-Closing Quality Control Reporting, Record Retention, and Audit

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