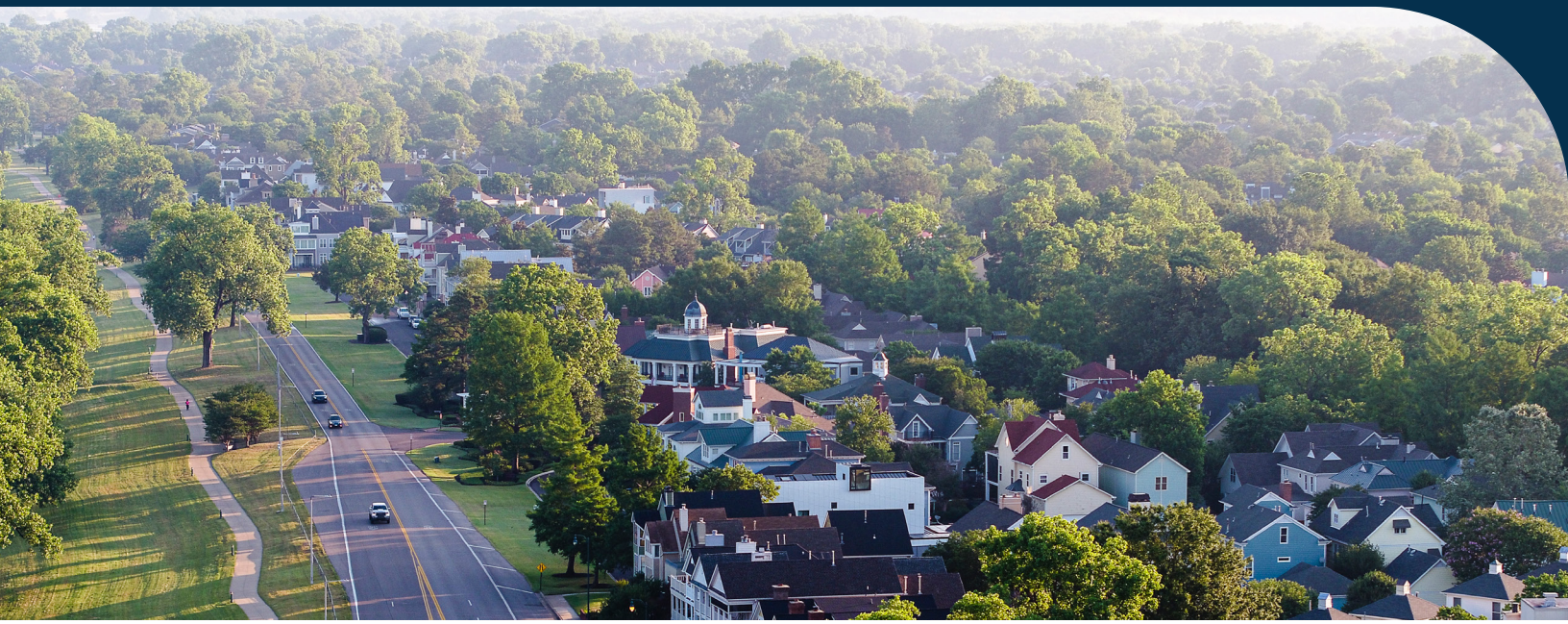


Seller/servicer risk self-assessment

Third-Party Originations

A third-party origination is any loan that is completely or partially originated, processed, underwritten, packaged, funded, or closed by an entity other than the seller (or its parent company, controlled affiliate, or subsidiary) that sells the loan to Fannie Mae. This includes mortgage brokers or correspondents, which are known as third-party originators. If a seller enters into a contract with a third party known for the quality of its underwriting (such as a mortgage insurer) to help the seller in underwriting its mortgage originations, the loans will not be considered third-party originations. Refer to Chapter E-3, Glossary for the definition of correspondent and broker. (Retail is also an origination type but is not considered a third-party origination.)

Sellers remain fully responsible to Fannie Mae for functions that are outsourced to third parties.

Certain Special Feature Codes (see Special Feature Codes) are required at delivery for third-party originations.

A seller must have effective written policies and procedures for the approval and management of third-party originations and must satisfy itself that the third-party originator is capable of producing quality loans.

In this document

- Self-Assessment Checklist
- Common Findings and Documentation

Resources

- *Selling Guide* A3-3-01, Outsourcing of Mortgage Processing and Third Party Originations
- *Selling Guide* definitions:
  - Broker Origination
  - Correspondent Origination
- Nationwide Multi-State Licensing System (NMLS)

Self-Assessment Checklist

Required

Third-party originations

- ☐ Establish effective written management procedures for third-party originations that include a system for evaluating and approving TPOs (mortgage brokers and correspondents) that they produce quality loans. Procedures must include the following:
  - ☐ A review of most recent financial statements to determine that it is financially viable and capable of meeting its obligations with established standards for approval and annual reviews.
  - ☐ A review of current licenses.
  - ☐ A review of resumes of principal officers managing the underwriting and originating process ((to ensure qualified management/staff are in place to originate quality loans), resumes for underwriting are only necessary for TPOs with delegated underwriting authority).
  - ☐ A requirement to have a written quality control (QC) plan and have a method to validate the existence of that plan, and a process to resolve QC discrepancies, and track corrective actions (the TPO QC plan should be in alignment with seller's standards for quality).
  - ☐ A process to review the results of background checks on principal officers.
  - ☐ A review of the TPO's hiring procedures in place for checking all employees involved in the origination of mortgage loans (including application through closing) against:
    - the U.S. General Services Administration Excluded Parties List,
    - the HUD Limited Denial of Participation List, and
    - the Federal Housing Finance Agency Suspended Counterparty Program list.
  - ☐ A method for verifying, and periodically reverifying, a TPO's compliance with applicable laws, licensing, and qualifications for originating mortgage loans.
  - ☐ A method to confirm that a TPO meets its contractual obligations with the seller and the seller's Lender Contract with Fannie Mae.
  - ☐ A requirement for the submission of periodic reports on activity and TPO performance issues to seller's senior management.
  - ☐ A quarterly reviews of the performance of mortgage loans originated by TPOs (for example, particularly delinquencies and foreclosures).
  - ☐ Provisions for suspending or terminating the TPO relationship. The post-closing quality control process must include a representative sample of the mortgage loans received from the third-party originator to ensure that those originations meet the lender's standards for loan quality. Review cycles must be structured to ensure that transactions originated by each third-party originator are reviewed at least once annually. See *Selling Guide* D1-1-01, Lender Quality Control Programs, Plans, and Processes for additional information.

Additional checklist items

Recommended

- ☐ An established reporting protocol for TPO performance in the form of a regular scorecard or dashboard of results.
- ☐ Nationwide Multi-State Licensing System (NMLS) licensing monitoring in place for all loan officers.
- ☐ Established communication processes with TPOs to inform them of new products, programs, and investor information/changes.
- ☐ Controls in place to restrict resubmission to the automated underwriting system once a decision has been made.
- ☐ Processes in place to share the results of ongoing monitoring with the responsible account executive(s) and TPO staff.
- ☐ Established training programs for new and existing TPOs.
- ☐ Documented contractual arrangement with TPOs that includes specific warranties related to the eligibility of mortgage loans and the TPO's responsibilities, as well as remedies that can be taken if the warranties are breached.
- ☐ Establish written processes when utilizing a vendor or vendor systems as applicable for the approval/renewal processes; written procedures should ensure proper controls and processes are followed.
- ☐ If using Loan Origination Fulfillment Services to complete loan origination or processing activities, establish processes to ensure that those entities are only performing actions in Desktop Underwriter on their behalf.
- ☐ Controls in place to ensure that DU Findings and Recommendations are shared only in accordance with the application license and in a way that makes them understandable and meaningful to customers.
- ☐ Process to track and report on exceptions to the established requirements for TPOs.
- ☐ Process for reporting fraudulent activity to Fannie Mae.

Common Findings and Documentation

Mortgage Origination Risk Assessment (MORA)

Fannie Mae conducts regular reviews to evaluate compliance with our guidelines and assess operational risks. Reviews are conducted by a team that operates independently of customer account relationship management in Fannie Mae's Single-Family mortgage business. A Mortgage Origination Risk Assessment (MORA) review is intended to be a joint activity conducted by the review team with the active participation of your organization.

The **common findings** and **required documentation** listed below are specific to the topic of this risk self-assessment, Third-Party Originations.

Common findings

- The seller does not maintain effective procedures for approving correspondents.
- The seller does not maintain effective procedures for monitoring correspondents.
- The seller does not maintain effective procedures for approving mortgage brokers.
- The seller does not maintain effective procedures for monitoring mortgage brokers.
- The seller is not sampling loans acquired from a third-party originator prior to acquisition.
- The seller's post-closing quality control plan does not have a process to ensure that all TPOs will have files reviewed at least annually.

Required documentation for a review

A. Pipeline reports – wholesale broker and/or correspondent

- Reports should detail at a minimum:
  i. Product type
  ii. Property address
  iii. Account executive
  iv. Approval status

B. Written procedures – mortgage broker and/or correspondent originations

C. Written procedures – mortgage broker and/or correspondent management

D. Approved mortgage broker list

E. Approved correspondent list

F. Written procedures for all mortgage broker and/or correspondent monitoring processes

G. Mortgage broker and/or correspondent scorecard/ performance reports

- Reports should include but not be limited to:
  i. Mortgage broker and/or correspondent name
  ii. Pull-through rates
  iii. Delinquencies, early payment defaults
  iv. Product type
  v. Quality control results

Corrective actions

Corrective actions should require implementation of required policies and procedures, the identification of a control function to ensure they are updated on a regular basis, training for responsible parties, and validation that the required activities are completed in line with Fannie Mae *Selling* and/or *Servicing Guide* requirements.

What's next?

Use the insights you have gained — especially any gaps identified in your practices and processes — to create a customized action plan.

This document is provided for informational purposes. In case of any conflict between this document and the Selling Guide and/or Servicing Guide, the Guides will govern.