



SELLER/SERVICER RISK SELF-ASSESSMENT

Vendor and Third-Party Oversight

Sellers/servicers often use vendors and other third-party service providers to deliver products and services that support their business and financial strategies. It is critical that third-party relationships are managed in accordance with internal policies related to strategic, reputational, operational, transactional, credit, and compliance risks.

IN THIS DOCUMENT

- Self-Assessment Checklist
- Common Findings and Documentation

RESOURCES

- *Selling Guide A1-1-01, Application and Approval of Seller/Service*

ONE SELLER/SERVICER'S STORY

To supplement our growing company's small staff, we want to outsource our technology support services to a third-party vendor. We're used to doing everything in-house — this will be our first experience with outsourcing, and we're looking for guidance. What should we know about evaluating and managing external vendors?



Self-Assessment Checklist **REQUIRED**

- Processes and procedures for the approval of vendors and other third-party service providers.
- Processes and procedures for the management of vendors and other third-party service providers.

ADDITIONAL CHECKLIST ITEMS **RECOMMENDED**

- A process to determine the potential risk with using the third party.
- A process for selecting and approving third parties (pre-contract due diligence).
- A process to monitor the performance of and/or terminate the third party.
- A process for completing an annual review of the third-party approval and oversight procedures to ensure requirements are in alignment with business needs and risk management standards.
- A centralized operating model for third-party oversight.
- Internal staff with the expertise to perform oversight and review activities.
- A third-party risk scorecard using these key third-party provider risks:
 - *Strategic Risk*
Arising from adverse business decisions, or the failure to implement appropriate business decisions in a manner that is consistent with the seller/servicer's strategic goals.
 - *Reputation Risk*
Arising from negative public opinion. Third-party relationships that result in dissatisfied customers, interactions not consistent with the institution policies, inappropriate recommendations, security breaches resulting in the disclosure of customer information, and violations of law and regulation.
 - *Operational Risk*
Loss resulting from inadequate or failed internal processes, people, and systems or from external events.
 - *Transaction Risk*
Arising from problems with service or product delivery. A third party's failure to perform as expected.
 - *Credit Risk*
A third party, or any other creditor necessary to the third-party relationship, is unable to meet the terms of the contractual arrangements.
 - *Compliance Risk*
From violations of laws, rules, or regulations, or from noncompliance with internal policies or procedures or with the institution's business standards.

ADDITIONAL CHECKLIST ITEMS (CONTINUED)**RECOMMENDED**

- A process for monitoring the overall third-party provider percentage usage within the organization.
- Maintaining a list of all active third-party providers in a central location.
- Additional controls are in place to manage offshore third parties.
- A process to ensure appropriate licensing is obtained if the third-party provider is using Desktop Underwriter® (DU®).
- A process to acquire an independent cybersecurity assessment (i.e., SSAE: Statement on Standards for Attestation Engagements) on all third-party providers.
- A process in place to confirm that any contractor, vendor, or other individual involved in activities related to the origination of loans delivered to Fannie Mae does not appear on the Federal Housing Finance Agency's Suspended Counterparty Program list.

Common Findings and Documentation

MORTGAGE ORIGINATION RISK ASSESSMENT (MORA) AND SERVICER TOTAL ACHIEVEMENT AND REWARDS (STAR)

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) or Servicer Total Achievement and Rewards™ (STAR™) review is intended to be a joint activity conducted by the review team with active participation of your organization.

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

COMMON FINDINGS

- The seller/servicer does not have comprehensive written procedures for third-party management.
- The seller/servicer does not properly monitor its third-party relationships.
- The seller/servicer does not have a process in place to confirm that any contractor, vendor, or other individual involved in activities related to the origination of loans delivered to Fannie Mae does not appear on FHFA's Suspended Counterparty Program list.

REQUIRED DOCUMENTATION FOR A REVIEW

- A. Vendor Selection:** Documentation of vendor selection process and selection criteria when engaging a new vendor, and if applicable, additional criteria when engaging with a new offshore vendor
- B. Vendor Monitoring:** Documentation of processes for managing the oversight of vendor performance, including additional controls in place for managing an offshore vendor

WHAT'S NEXT?

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