



Bankers Advisory

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Quality Control Requirements: Recap of the Fannie Mae Rules

By Anna DeSimone

This article was originally published by the Compliance Monitor on July 30, 2013. However, due to the majority of mortgage bankers drafting their QC policies for the year ahead, I thought it would be helpful to revisit this important information. Please email me directly at anna@bankersadvisory.com to obtain information on our recently updated quality control plans that cover the requirements of Fannie Mae, Freddie Mac, VA, USDA and the FHLB.

July 30, 2013 Fannie Mae published SEL-2013-SEL-05 to announce changes to Lender Quality Control Requirements and miscellaneous *Selling Guide* Updates. The updates for quality control are summarized below. The Guide has been updated to describe the following key elements that Fannie Mae requires lenders to include in their QC programs and practices:

- **QC Plan Contents**
- **Quality Standards and Measures**
- **QC File Reviews**
- **Selection of Loans for QC Review**
- **Reporting and Remediation**

There are numerous new policies and changes and clarifications to existing policies throughout the updated Subpart and like content has been reorganized. The major updates are highlighted below.

Chapter D1-1, Lender Quality Control Program

Requirement that the lender develops and implements a QC program that provides a structure for identifying deficiencies and for implementing plans to quickly remediate those deficiencies and underlying issues.

Requirement that the lender establishes specific standards for loan quality in the form of target defect rates, and to categorize defects by severity levels (with the highest severity level indicating that the loan is not eligible as delivered to Fannie Mae).

- Requirement that the lender develops and implements a QC program that provides a structure for identifying deficiencies and for implementing plans to quickly remediate those deficiencies and underlying issues.
- Requirement that the lender establishes specific standards for loan quality in the form of target defect rates, and to categorize defects by severity levels (with the highest severity level indicating that the loan is not eligible as delivered to Fannie Mae).
- Clarification of the requirements for the components of prefunding and post-closing loan file reviews, loan selections, reporting on results, and taking action to remediate issues.

- Clarification that when a lender's file review identifies discrepancies between the data (including the property value) that was used in the underwriting decision and the data verified through the QC process, the lender must reassess the underwriting decision based on the newly verified information to determine whether the loan remains eligible as delivered.
- Clarification of the existing requirement that if the lender determines that the mortgage loan was not eligible as delivered, the lender must advise Fannie Mae of these findings.
- Establishment of a new requirement (previously a recommendation) that the lender report on the results of both prefunding and post-closing reviews to senior management on no less than a monthly basis, and that a plan for specific correction action must be developed.
- Requirement that the lender establish minimum requirements for the skill set and expertise of the staff performing the QC file reviews.
- Establishment of a new requirement that the lender ensure that the QC vendor conducts its reviews in accordance with the lender's QC plan and Fannie Mae's requirements.
- Establishment of a new requirement that the lender review at least 10% of the loans reviewed by vendors, including those with and without findings. This review must be conducted by the lender and not contracted out.

Chapter D1-2, Lender Prefunding Quality Control Mortgage Review

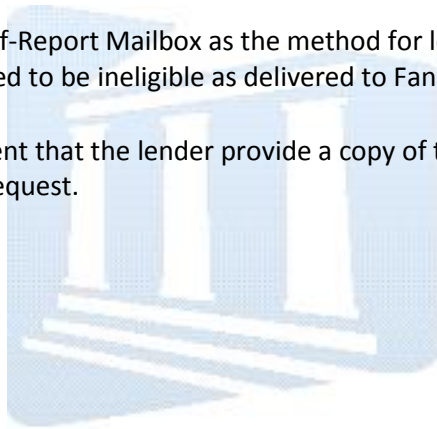
- Clarification that prefunding QC should operate independently of lender's production, but at a minimum must be conducted by someone independent of the decision on the loan being reviewed.
- Clarification that the lender's prefunding QC plan must contain requirements for full reviews of loan files and analysis of data and documents prior to funding once there is sufficient documentation in the file to perform the required review.

Chapter D1-3, Lender Post-Closing Quality Control Mortgage Review

- Clarification of the minimum requirements for the evaluation of the loan.
- Clarification that the full QC process including rebuttals must be completed within 120 days from the month of the loan closing.

- Clarification of the random and discretionary selection requirements and that mortgage loans must be selected for post-closing QC reviews on at least a monthly basis through both a random and a discretionary selection process.
- Changes to requirements for post-closing reviews, including those related to the review of approval conditions, credit reports, owner-occupancy, reverifications of assets, data integrity reviews, and review of closing documents.
- Clarification that the lender must have a process for an annual review of an appraiser's state licensing or certification status, a procedure for suspending or terminating business with individual appraisers, and a procedure for referrals of appraisers to the applicable state appraiser licensing and regulatory board.
- Establishment of a new requirement for the lender to only use Fannie Mae's appraisal field review forms.
- Establishment of new requirements for the contents of the monthly post-closing QC reports.
- Addition of the Lender Self-Report Mailbox as the method for lenders to notify Fannie Mae of loans that were determined to be ineligible as delivered to Fannie Mae.

Establishment of a new requirement that the lender provide a copy of the QC audits and the audits of the QC process to Fannie Mae upon request.



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