

Announcement SEL-2010-03**March 29, 2010*****Selling Guide* Updates for Lender Quality Control Standards**

On February 26, 2010, Fannie Mae issued Lender Letter LL-2010-03, *An Introduction to Fannie Mae's Loan Quality Initiative*, which identified policy, process, and technology enhancements aimed at enhancing the lender's ability to deliver mortgage loans that meet Fannie Mae's underwriting and eligibility guidelines and thus mitigate repurchase risk. As part of that effort, Fannie Mae conducted a comprehensive review of its quality control (QC) policies in the *Selling Guide*. That review resulted in a complete update of Part D, Ensuring Quality Control, with the intent to provide a higher-level of specificity to existing lender requirements, update outdated policies, and reorganize topics to help the lender locate information more efficiently. This Announcement describes the changes impacting Part D, as well as one revision to Part A. Specifically:

- Requirement for lenders to have written procedures for the approval of third-party originators and management procedures for third-party originations
- Revisions to requirements related to the lender's QC process and the lender's QC plan
- Revisions to requirements related to lenders that outsource their QC process
- New requirement for a prefunding QC review process
- Updates to the timing for lenders to select and conduct post-closing QC reviews and to loan sampling methodologies
- Revisions to the post-closing QC mortgage review process
- Addition of the Mortgage Loan File Document Submission Requirements exhibit
- New requirement for a QC process audit review

Each of these changes is briefly described below. The affected *Selling Guide* topics are noted for each policy change and are linked to the updated *Selling Guide*. Lenders should review each topic to gain a full understanding of the policy changes. The updated topics are dated March 29, 2010.

Lender Accountability for Third-Party Originations

Before entering into an agreement with a third-party originator, the lender must be certain that the third-party originator is capable of producing quality mortgages. Therefore, Fannie Mae is requiring the lender to have written procedures for the approval of third-party originators, and that those procedures include the lender's review of specific documents, such as the third-party's recent financial statements and current licenses. In addition, Fannie Mae is updating its requirements related to the lender's management of third-party originations to include a requirement for lenders to perform quarterly (instead of annual) reviews of the performance of mortgage loans originated by third-party originators. The updated third-party management procedures have been moved from Part D to Part A.

Updated *Selling Guide* Topics

[A3-3-01](#), Outsourcing of Mortgage Processing and Third-Party Originations

[D1-1-02](#), Lender QC Process

Lender's QC Process and QC Plan Contents

Based upon Fannie Mae's Loan Quality Initiative, Part D is being revised to highlight Fannie Mae's expectations for a lender to develop and maintain a QC program that defines the lender's standards for quality and establishes processes and controls designed to achieve those standards throughout its entire origination book of business. In addition, the contents for an acceptable QC plan provide a higher-level of specificity.

Updated *Selling Guide* Topic

[D1-1-02](#), Lender QC Process

Outsourcing of the QC Process

Previously, the *Selling Guide* stated that lenders may outsource their QC processes, and that Fannie Mae holds the lender fully accountable for the work performed by its QC contractors. This policy is being updated to require lenders to establish a process to review the QC contractor's work and procedures to address findings identified in the QC contractor's mortgage loan reviews. This topic also specifies the knowledge and competencies that the QC contractors must possess and the information that must be included in the QC contractor's written QC policies and procedures, such as the details of the contractor's review methodologies.

Updated *Selling Guide* Topic

[D1-1-03](#), Lender QC Staff and Outsourcing of the QC Process

Lender Prefunding QC Review Process

Fannie Mae is requiring that the lender's QC plan includes a prefunding QC review process. Those reviews are expected to provide information that should prevent closing mortgage loans with significant defects such as misrepresentation, inaccurate data, or inadequate documentation. Lenders may choose a QC method appropriate for monitoring their origination policies and ensuring the accuracy of the loan data; however, Fannie Mae provides lenders with recommendations for an effective prefunding QC review process. The recommendations include establishing a loan selection process, reviewing specific data and documentation, and reporting results of the QC reviews to senior management.

Updated *Selling Guide* Topic

[D1-2-01](#), General Information on Lender Prefunding QC Review Process

Post-Closing QC Timing and Loan Sampling

Previously, lenders were required to select mortgage loans for QC review on at least a monthly basis, and complete those reviews within 90 days of selection. Fannie Mae is updating its policy to require that selections must be made within 30 days of closing and reviews must be completed within 60 days of selection. Lenders are also required to notify Fannie Mae if their QC cycle is in arrears more than a 30-day cycle.

Lenders may now use statistical sampling for their selection process instead of the standard minimum 10% random selection process without having to request approval from Fannie Mae. However, the lender must provide written justification of the methodology used, if requested. In addition, discretionary mortgage selections are now a requirement and must include a review of all property types, such as condominiums, cooperatives, and manufactured housing.

Updated *Selling Guide* Topic

[D1-3-02](#), Lender Mortgage Selection Process for Post-Closing QC Mortgage Reviews

Lender Post-Closing QC Review Process and Data Integrity

Fannie Mae is establishing a policy that requires the lender to attempt to verify owner-occupancy. In addition, the lender's QC process must include a review of potential red flag messages or alerts provided by Desktop Underwriter[®] or other sources. The lender must ensure that all potential red flag messages have been addressed and documented, and that the loan is eligible for delivery to Fannie Mae. Fannie Mae's policy for the lender's review of closing documents has been revised and includes specific data elements for each closing document that lenders must review.

Updated *Selling Guide* Topics

[D1-3-03](#), Lender Post-Closing QC Review of Underwriting Documents

[D1-3-04](#), Lender Post-Closing QC Review of Data Integrity

[D1-3-07](#), Lender Post-Closing QC Review of Closing Documents

Mortgage Loan File Document Submission Requirements

The 2007 *Selling Guide* contained an exhibit that listed the document requirements for submitting loan files to Fannie Mae in response to Fannie Mae's QC review process. That exhibit, Mortgage Loan File Document Submission Requirements, is now being added back to the *Selling Guide* to help ensure that mortgage loan files contain consistent and complete mortgage loan documentation.

Updated *Selling Guide* Topics

[D2-1-02](#), Fannie Mae QC File Request and Submission Requirements

[E-2-07](#), Post-Closing Mortgage Loan File Documentation

Fannie Mae is requiring that the results of the lender's QC reviews be reported to the lender's senior management within 30 days after the review has been completed. In addition, Fannie Mae has added a requirement for lenders to have an audit process to ensure that their QC process and procedures are followed and that assessments, conclusions, and findings are consistent and accurately recorded. Results of the audit must be distributed to senior management and to the appropriate areas within the organization, and an action plan must be established for remediation or changes to policies or processes.

Updated *Selling Guide* Topic

[D1-3-08](#), Lender Post-QC Review Reporting, Record Retention, and Audit

Effective Date

The policy changes identified in this *Selling Guide* Announcement are effective July 1, 2010.

Fannie Mae is offering training to help lenders implement the changes to the lender QC process. Lenders should contact their Fannie Mae Account Team for training and other information.

Marianne E. Sullivan
Senior Vice President
Single-Family Chief Risk Officer