Fannie Mae®

Quality Control Self-Assessment

Measuring the effectiveness of your quality control program

This document is designed to help you manage your quality risk and comply with Fannie Mae's *Selling Guide* minimum quality control (QC) requirements and includes highly suggested QC best practices. Use this worksheet to take the QC self-assessment, and add notes to help you develop or update your organization's QC plan.

NOTE: Required elements are designated with an asterisk, while recommended (but not required) elements do not have an asterisk. For full lender QC requirements, see Part D1 of the Selling Guide.

Worksheet

Governance/Authority

Our senior management — and CEO and Board of Directors as applicable — are accountable and actively involved in:	Notes
☐ Establishing a methodology for identifying, categorizing, and measuring defects and trends against an established target defect rate.*	
☐ Establishing consistent methodology and terminology across all review types.*	
☐ Monitoring the activities related to identifying the deficiencies in the loan manufacturing process and implementing plans to quickly remediate those deficiencies and underlying issues* as well as monitoring the monthly defect rate.	
☐ Creating a QC philosophy* (objective/purpose) by which we identify, remediate, and monitor the risks associated with originating good quality loans (e.g., risks such as fraud, repurchase, financial losses, penalties, regulatory, product, and channel, including third-party originations [TPOs]).	

* Indicates *Selling Guide* requirement. This document is provided for informational purposes. In case of any conflict between this document and the *Selling Guide*, the *Selling Guide* will govern.

☐ Ensuring that an independent audit of the QC process is conducted and, if appropriate, establishing an action plan for remediation or policy/procedure changes identified from such an audit. Results of the annual QC audit include an affirmative statement that no influence from other business units or bias in the QC conclusions was apparent.*	
☐ Ensuring that the QC reporting structure is independent of the production, underwriting, and closing functions. If it is not readily apparent that our QC organizational structure is independent, we must be able to demonstrate that we have a clearly defined testing protocol that is governed by change control and that documentation at the loan level supports changes to decisions made during the review process.*	
We establish the minimum requirements for the skill set and expertise of the staff managing and performing the QC file review process, including vendor oversight, by documenting minimum job qualifications:*	**Notes**
☐ All QC personnel are adequately trained and have sufficient experience relative to the reviews being conducted, including manual underwriting and/or loans processed through any automated underwriting systems utilized.*	
☐ Detailed policies and procedures for the QC file review process are provided to all employees who will be involved with the QC file reviews.*	
☐ Detailed standard operating procedures — including updates on industry changes — are available to all employees involved with, or affected by, the QC process.	
☐ Employees' participation in training is tracked and monitored.	
☐ Training content is current to our investor guidelines and reflects current industry practices.	

* Indicates *Selling Guide* requirement. This document is provided for informational purposes. In case of any conflict between this document and the *Selling Guide*, the *Selling Guide* will govern.

Defect Rate

Senior management has established and proactively manages to a target defect rate and ensures that:	Notes
☐ We have a target defect rate, at a minimum, for the highest severity level for our random, post-closing QC samples and documented rationale for establishing the target rate.*	
☐ We review (at least annually*) our target defect rate to ensure it continues to meet our credit risk needs and is aligned with our loss reserves.	
☐ We understand the benefits and issues associated with: • Reporting a gross defect rate. • Reporting a net defect rate.	
☐ We have a set of standards for loan quality, including a methodology for categorizing loan defects based on severity; our highest level of severity is assigned to defect categories that result in the loan not being eligible as delivered to Fannie Mae.*	

An effective way to establish loan quality targets is to model the financial exposure created at a certain defect level. The concept of "zero defects" generally will be considered challenging to achieve, and Fannie Mae does not evaluate lenders by a zero-defect-rate standard. We expect lenders to set defect rate targets as reasonably low as possible based on a formal cost–benefit analysis of meeting that target. We then expect lenders to demonstrate to us how they are managing loan quality to meet their established target.

Defect Rate Tutorial

Having a **target defect rate** is required for the top severity level (ineligible for delivery to Fannie Mae) and enables the lender to regularly evaluate and measure progress in meeting its loan quality standards. Lower severity levels must be defined by the lender as appropriate for its organization, and different target defect rates may be established for different severity levels (if applicable).*

Calculating a defect rate is how you measure against your target defect rate. Some lenders use only a **gross** or a **net** calculation when determining their monthly defect rate, while others use both. The **gross** defect rate is the defect rate based on the initial findings prior to any rebuttal activity. The **net** defect rate is the defect rate based on the final findings after the rebuttal activity. **Understanding the root cause of the issues that were resolved during the rebuttal process may provide insight into how the defects can be prevented.**

If a loan has both a highest-severity level defect and a lower-severity level defect, only count the loan once — in the highest-severity category — in a defect rate calculation.

Calculations should be done for your two most severe defect types (e.g., Significant and Moderate). The following are examples of calculating **gross** and **net** defect rates for a lender that has defined its defect categories as Significant and Moderate.

* Indicates *Selling Guide* requirement. This document is provided for informational purposes.
In case of any conflict between this document and the *Selling Guide*, the *Selling Guide* will govern.

Defect Rate Tutorial (Continued)

January fundings: 1,000 loans | 10% QC sample selection: 100 loans

How to calculate a **gross** defect rate

# of loans with a defect

divided by

# of loans in the QC sample size

EXAMPLE: # of loans with a significant defect: **5**

5/100 = 5% gross significant defect rate

EXAMPLE: # of loans with a moderate defect: **10**

10/100 = 10% gross moderate defect rate

How to calculate a **net** defect rate

# of loans with a defect — **# of corrected loans**

divided by

# of loans in the QC sample size

EXAMPLE: # of loans with a significant defect: **5**
minus the # of resolved significant defects prior to the final QC report: **3**

5 — 3/100 = 2% net significant defect rate

EXAMPLE: # of loans with a moderate defect: **10**
minus the # of resolved moderate defects prior to the final QC report: **4**

10 — 4/100 = 6% net moderate defect rate

Analysis and remediation — analyzing the defect

Once initial (**gross**) defects are cured, it is important to determine root causes, analyze issues, and reconcile the difference between your **gross** and **net** defects and action plan accordingly.

Analyze the cause between the **gross** and **net** defect rates. The goal is to identify and remediate the issues to narrow the gap between the **gross** and **net** defect rates.

How was the initial finding resolved prior to the distribution of the final QC report?

EXAMPLE: **Initial defect = insufficient income**

- Defect: All income documentation used to underwrite the file was not provided to QC for review.
- Resolution: During the rebuttal process, the additional income documentation missing from the QC file was provided.
- Action Plan: Implement processes/checks to ensure that all documentation used to underwrite the loan is in the file.

* Indicates *Selling Guide* requirement. This document is provided for informational purposes. In case of any conflict between this document and the *Selling Guide*, the *Selling Guide* will govern.

Prefunding QC

Reviews performed prior to funding provide important and timely feedback to the origination staff and may prevent closing loans with significant defects, such as misrepresentation, analysis or calculation errors, inaccurate data, or inadequate documentation.

Our prefunding QC process* includes:	Notes
☐ A clearly defined prefunding quality control program that includes QC being conducted when there is sufficient documentation in the file to perform the required review of the data and documentation.*	
☐ Being performed by individuals who have no involvement in the processing and underwriting decision on the loan reviewed.*	
☐ Performing a monthly prefunding discretionary QC loan review focusing on higher-risk loans, including targeting areas identified as having potential for errors, misrepresentation, or fraud.* *Some additional areas we may target include loans:* • With multiple layers of credit risk; i.e., high LTV ratios, low credit scores, and/or high DTI ratios. • With characteristics related to defects identified in prior reviews. • Originated or processed through various business sources or newly hired personnel, or third parties involved in the loan origination process. • With complex income calculations.	
☐ A full file review to confirm that the following documents are present and complete, the data relied upon in making the underwriting decision is accurate, and the underwriting decision is adequately supported:* • Automated underwriting system (AUS) data integrity* — includes liabilities reconciliation (Form 1003 and credit report). • Employment,* including verbal verification of employment (VVOE). • Social Security Number (SSN).* • Assets.* • Appraisal.* • Income calculation and supporting documentation.* • Mortgage Insurance (MI) coverage.*	

* Indicates *Selling Guide* requirement. This document is provided for informational purposes.
In case of any conflict between this document and the *Selling Guide*, the *Selling Guide* will govern.

The following are recommended processes and controls:	Notes
☐ Fraud checks using industry tools and/or vendors.	
☐ Obtaining IRS tax transcripts prior to underwriting.	
☐ Validating that the condo project meets Fannie Mae requirements and ensuring that condo project eligibility documentation is retained.	
☐ A process to identify the root cause of the identified defects.	
☐ System hard stops/control points throughout the production lifecycle to ensure that loans don't close with defects (list the systems used).	
☐ A process to re-test loans identified with defects prior to closing the loan.	
☐ Use of Fannie Mae's tools to ensure accurate delivery data (information available on FannieMae.com/singlefamily), including: • Uniform Collateral Data Portal®.* • EarlyCheck™.* • Loan Delivery edit history reports.* • Collateral Underwriter® (CU®).	
☐ An open line of communication with the business units and the post-close QC staff.	
☐ A remediation process to correct the defects identified prior to close.	

* Indicates *Selling Guide* requirement. This document is provided for informational purposes.
In case of any conflict between this document and the *Selling Guide*, the *Selling Guide* will govern.

Post-Closing QC

Post-closing reviews and reverifications help lenders evaluate and monitor the overall quality of their mortgage production: Is the loan you closed the loan you thought you closed?

We ensure that our post-closing QC plan includes the following:	Notes
Required monthly samples:	

☐ **Random:** A minimum 10% random sample or a valid statistical sample* (see Part D1 of the *Selling Guide* for statistical sample requirements).
• If sample size results in less than one loan, at least one loan must be selected.
• Samples are representative of our originations (book of business),* including:
  • Size.
  • Production channels.
  • Geographic areas of operation.
  • Specialty products/programs.	

☐ **Discretionary:** A separate monthly discretionary sample — which supplements, but does not replace, the lender's random sample — focusing on loans with a higher potential for errors, misrepresentation, or fraud,* including, but not limited to: • Unique underwriting/processing/appraisal techniques. • Lender personnel. Patterns identified in other reviews. • TPOs. • Higher-risk property types (leaseholds, co-ops, manufactured homes).	

Timing of QC review	Notes
☐ Sampling loans within 30 days of closing.*	
☐ Completing the review and rebuttal within 60 days of the sample selection.*	
☐ Finalizing reports to senior management within 30 days of completed reviews.*	
☐ Completing the overall QC cycle within 120 days from the month of closing.* (Fannie Mae recommends a 60- to 90-day QC cycle.)	
☐ Notifying Fannie Mae if QC reviews are behind by more than one 30-day cycle.*	

* Indicates *Selling Guide* requirement. This document is provided for informational purposes. In case of any conflict between this document and the *Selling Guide*, the *Selling Guide* will govern.

EXAMPLE: Timing of QC review for loans funded in January

- Sample Selections (30 days): QC loan samples for January funding are selected during the month of February.
- Reviews (60 days): QC reviews (inclusive of rebuttals from production/operations) are completed no later than the end of April.
- Final Reporting (30 days): Final reports are distributed to senior management no later than the end of May.

Re-verify critical data and reconcile to the information in the underwriting file.* Applies to random reviews and all applicable discretionary reviews.	Notes
☐ Employment/income — directly with the source of the original documentation notwithstanding any fees the institutions may charge.* • See *Selling Guide* for additional reverification guidance specific to social security and military income.	
☐ Obtain the IRS Tax Transcripts (if not obtained prior to closing) for all income types used in the underwriting process.*	
☐ Assets — attempt to reverify all sources of funds used for down payment, closing costs, and any required reserves directly with the source of the original documentation (i.e., financial institution, gift donors, etc.), notwithstanding any fees the institutions may charge.*	
☐ We have a process in place to ensure all Desktop Underwriter® (DU®) validation service requirements were satisfied to take advantage of the reverification relief for loans that achieved income, employment, and/or asset validation.	
☐ Credit*: • New tri-merge credit report — the liability information obtained on the new credit report must be reconciled against the credit report or references used at the time of underwriting the loan.* • Nontraditional credit — reverify each credit reference listed on the report.*	
☐ Confirm that all DU verification messages/approval conditions that appear in the DU Underwriting Findings report were satisfactorily resolved and adequately supported by appropriate documentation.*	
☐ Compare supporting documentation to the AUS (data integrity),* including: • Borrower/co-borrower name. • Employment/employment type. • Assets. • Property type. • Loan/term/purpose. • SSN. • Income. • Address.	

* Indicates *Selling Guide* requirement. This document is provided for informational purposes. In case of any conflict between this document and the *Selling Guide*, the *Selling Guide* will govern.

Obtain, compare, verify, correct, and maintain:	Notes
☐ Occupancy check for all loans secured by principal residences.*	
☐ SSN is consistent in all file documentation, and any requirements for validation of the SSN were satisfied prior to closing.*	
☐ Review potential red flag messages found on the AUS or alerts created by sources other than the AUS (e.g., credit reports, SSN verifications).*	
☐ Review manually underwritten loans for compliance with Fannie Mae's guidelines and loan eligibility criteria.*	
☐ Review each closing document for completeness, accuracy, and compliance with all underwriting and eligibility requirements.*	
☐ Errors are promptly corrected once identified, and all affected documents and systems are updated and resubmitted to the AUS as applicable.*	
☐ Notify Fannie Mae within 30 days of confirmation that one or more defects identified through the QC process results in the loan being ineligible as delivered to Fannie Mae.*	
☐ Notify Fannie Mae immediately of the discovery during the QC process of misrepresentation or possible breach of selling warranty, including fraud.*	
☐ Maintain QC records for a minimum of 3 years.*	
☐ Retain all reverification documentation in either the underwriting file or the QC records, and our QC plan states where these documents are housed.*	

* Indicates *Selling Guide* requirement. This document is provided for informational purposes. In case of any conflict between this document and the *Selling Guide*, the *Selling Guide* will govern.

Fannie Mae®

Appraisals

Evaluating the quality of an appraiser's work through the normal underwriting review of all appraisal reports, as well as conducting spot-check field review appraisals, is necessary to validate the accuracy of the provided value.

We ensure that our appraisals meet generally accepted appraisal practices* and provide accurate value by doing the following:	Notes
☐ Ensuring that all loans we originate comply with the provisions of the Appraiser Independence Requirements (AIR) and are validated through the post-close QC process.*	
☐ Conducting a field review by an appropriately licensed and certified appraiser who is not affiliated with the original appraisal or appraisal firm on 10% of the loans selected for a QC review that have an appraisal.*	
☐ Completing a desk review on the remaining 90% of the remaining loan sample selected for a QC review.* • We may elect to order an automated validation model (AVM) report to validate/support the appraised value.	
☐ Having a defined process to monitor appraisers, including, at a minimum, an annual review of each appraiser's state licensing or certification.*	
☐ Having a procedure for referring appraisers to the applicable state appraiser licensing and regulatory board.*	
☐ When utilizing an appraisal management company (AMC), we: • Ensure that the AMC is complying with the AIR provisions. • Confirm that the AMC uses appraisers that have a current license, are in good standing, and have the proper insurance. • Track appraisal defects by appraisal company and appraiser. • Utilize industry tools to score the appraisals received from AMCs. • Review the AMC's policies and procedures annually. • Require the AMC to have a process to review each appraisal for accuracy prior to providing to us.	
☐ Providing an appraisal review protocol based on the results of the appraisal tools or appraised value.	
☐ Ensuring staff is trained to use and understand the appraisal tools/ AVM reports that we utilize.	
☐ Utilizing Fannie Mae's appraisal quality feedback, including loan-specific reports and messages from CU, and aggregated (trend) reports available via Fannie Mae Connect™, to identify and remediate appraisal quality issues.	

* Indicates *Selling Guide* requirement. This document is provided for informational purposes. In case of any conflict between this document and the *Selling Guide*, the *Selling Guide* will govern.

Reporting

Robust reporting is a useful internal management tool for evaluating and monitoring the quality of a lender's loan manufacturing process (production). These reports provide meaningful data used to support analysis, decision-making, and remedial actions.

Reports are shared with senior management, business units, and pre- and post-closing QC staff within 30 days after completion of the review* to be used in determining the root cause of identified defects. Our monthly reports:	**Notes**
☐ Include defects and outcome/resolution reported to senior management.	
☐ Cover each type of review (random, discretionary, and/or targeted, as applicable) and provide results using consistent methodology and terminology across review types.*	
☐ Summarize the results of each individual review type into a comprehensive report of all QC findings.*	

Prefunding reports:	**Notes**
☐ Describe the sample selection and defects found.*	
☐ Include defect trending information.*	
☐ Document the resolution of defects.*	
☐ Summarize results to report all prefunding QC findings.*	

Post-closing reports:	**Notes**
☐ Identify defects found.	
☐ Include our final defect rate* (gross and/or net as applicable) for the current review period and, if applicable, show the defect rate calculated for each severity level.	
☐ Distinguish between defects related to compliance with federal, state, or local laws and regulations and underwriting and eligibility defects.*	
☐ Identify defects by: • Branch. • Processor. • TPO. • Originator. • Funder. • Underwriter. • Closer.	

* Indicates *Selling Guide* requirement. This document is provided for informational purposes. In case of any conflict between this document and the *Selling Guide*, the *Selling Guide* will govern.

☐ Include defect rate trending issues and top defects over time.	
☐ Include root cause trending by categories and sub-categories (Income > Miscalculation) (Income > Unverified).	
☐ Show loan-level details.	
☐ If applicable, fully incorporate the results of the vendor's reviews into our QC reporting and remediation process.*	

Corrective actions:	**Notes**
Our reports include an action plan/corrective action/remediation of all identified defects,* including: ☐ Defect. ☐ Implementation date. ☐ Source of finding. ☐ Controls. ☐ Root cause. ☐ Outcome/resolution. ☐ Remediation. ☐ Re-test.	
☐ If a loan is determined to be ineligible as delivered, notification must be made using the self-report functionality in Loan Quality Connect®* (see *Selling Guide* Section D1-3-06).	

QC Vendor (Outsourced QC Service Provider)

We understand that outsourcing is an option for our QC process, but Fannie Mae holds us fully accountable for our overall QC program, including the work performed by our outsourced QC service provider.* If using a QC vendor, we:	**Notes**
☐ Understand that a contract for services is not a substitute for establishing and maintaining our own proprietary QC plan and procedures.*	
☐ Ensure that the QC vendor conducts its reviews in accordance with our QC plan.*	
☐ Review the QC vendor's policies and procedures detailing its review methodology, including selections, reverification practices, identification of defects, and trends, and process for reporting those results to us* (Fannie Mae recommends this is done annually).	
☐ Conduct ongoing dialogue with the QC vendor on a regular basis (no less than quarterly).	

* Indicates *Selling Guide* requirement. This document is provided for informational purposes. In case of any conflict between this document and the *Selling Guide*, the *Selling Guide* will govern.

☐ Have a process for reviewing the post-closing QC vendor's work to ensure that our requirements and guidelines are applied consistently and that the review results accurately reflect the quality of our loan originations.* • Perform a monthly review of a minimum of 10% of the loans reviewed by the vendor to validate the accuracy and completeness of the vendor's work.* • The 10% sample includes both loans for which the vendor identified defects and for which no defects were identified.* • This review is performed in-house (we understand it may not be contracted out).* • Reports reflecting the final results of the vendor QC reviews must be produced on a monthly basis and completed within 30 days following the publication of the final QC management reports.*	
☐ Ensure that the vendor's QC review staff possesses the qualifications and experience required to provide quality reviews and meaningful analysis, and that the vendor's policies and procedures align with our QC policies and procedures and Fannie Mae requirements.*	
☐ Confirm that the vendor has procedures to associate the appropriate severity levels to the identified defects.*	
☐ Have a process to implement corrective actions within our organization for defects identified by our vendor the same as we would if defects were identified by our staff.*	
☐ Have a process to verify that our QC vendor: • Follows Fannie Mae QC requirements and meets the required QC review timeframes. • Uses an agreed-upon severity rating system and definitions. • Captures a defect rate, not just the number of exceptions. • Follows our requirements for managing the severity rate, including not changing the initial finding. • Has a separate fraud investigation team or notifies us when fraud is identified through the QC review.	

* Indicates *Selling Guide* requirement. This document is provided for informational purposes.
In case of any conflict between this document and the *Selling Guide*, the *Selling Guide* will govern.

Third-Party Originations

We have a process to manage our TPO (broker/correspondent) business to ensure good quality originations, which includes:	Notes
☐ Reviewing a representative sample of the mortgage loans received from the TPO to ensure that those originations meet our standards for loan quality.*	
☐ Reviewing loans from all originating TPOs at least once annually.*	
☐ Conducting discretionary reviews* of the TPO's production, which include, but are not limited to, property location, LTV ratios, mortgage product types, borrowers' credit scores, and the TPO's past performance.	
☐ Completing a full-file review on a sample of loan files and analysis of data and documents prior to acquisition.*	
☐ Rigorously managing the TPO approval and oversight process. *NOTE: Ensure there is a process to conduct the required annual review of all originating TPOs.*	
☐ Ensuring the TPO has a current license.	
☐ Maintaining a TPO scorecard, including, but not limited to, loan quality (QC results), pull-through rate, number of early payment defaults, and number of repurchases.	
☐ Validating the experience of the TPO origination and QC staff (if applicable).	
☐ Reviewing the TPO's QC policies and procedures annually and ensuring they meet Fannie Mae requirements.	

Additional Guidance

☐ We continually monitor our TPOs' compliance by using tools such as internet searches, FHA Compare Ratio, GSA Excluded Parties lists, HUD Limited Denial of Participation list, and HUD Neighborhood Watch.	

Resources

Lenders frequently request information on how to build effective quality control programs that manage risk, drive business decisions, and become part of their company's culture. Contact your Fannie Mae account team for further assistance or refer to the following resources on the Fannie Mae Single-Family website:

- Fannie Mae Selling Guide
- Loan Quality web page (additional resources and training)

* Indicates *Selling Guide* requirement. This document is provided for informational purposes. In case of any conflict between this document and the *Selling Guide*, the *Selling Guide* will govern.

