

# *Partnering with Lenders to Increase Certainty*

Florida CUREN

November 13, 2014

# Agenda

- Rep & warrant relief overview and update
- Fannie Mae's discretionary post-purchase review process
- Certainty
  - Facts about repurchases
  - Feedback loop
  - Risk management tools
  - 7 Habits for Highly Effective QC Management
- Q&A

## Rep & Warrant Relief

Updated rep & warrant framework:

- Introduced in 2012, effective for 2013-forward loan deliveries, with further enhancements in 2014
- Gives lenders more clarity, certainty, and transparency about their post-delivery obligations
- Provides “sunset” on rep & warrant obligations, generally after 36 months of payments (some exceptions and limitations)
- Fannie Mae updated our discretionary post-purchase review process (DPPR) and implemented a lender feedback loop

More than 675,000 loans delivered to Fannie Mae since January 2013 have already achieved sunset of rep & warrant obligations based on a 12-month performance history (HARP loans).

# Rep & Warrant Payment History Relief Summary\*

Relief Criteria	Version 1	Version 2
Effective date	Loans acquired Jan 1, 2013 through June 30, 2014	Loans acquired on/after July 1, 2014
Required consecutive payments	36	36
Delinquencies permitted to keep relief eligibility after 36 months	0 X 30	2 X 30 and 36 <sup>th</sup> monthly payment not delinquent
Opportunity to re-establish payment history after delinquencies?	Yes, as of 60 <sup>th</sup> month; no more than 2 X 30 late pays in first 36 months and 60 <sup>th</sup> month not delinquent	Not applicable
Eligible for relief after satisfactory conclusion of full-file QC review?	No	Yes

**\*For loans *other than* Refi Plus/DU Refi Plus**

## Rep and Warrant Relief – More to Come

- More clarity on life-of-loan reps and warrants
- Third-party dispute resolution process
- Repurchase alternatives/remedies
- Rep & warrant sunset tracking reports

*“We realized these sunset provisions were good,  
but not enough.”*

– Tim Mayopoulos, Fannie Mae CEO (October 20, 2014)

# Discretionary Post-Purchase Review (DPPR) Process Overview

- Assessment of loans approximately 150 days after delivery –
  - Performs certain checks to help confirm loans were originated in accordance with applicable eligibility and underwriting requirements
  - Leverages loan-level evaluation tools to identify loans that may merit further review
- What are we looking for?
  - We are matching data from different sources to confirm that our guidelines are met
  - For example, we look to see that data provided to us at the time of loan delivery matches data entered into Desktop Underwriter® (DU®)

This review is focused on confirming that loans were eligible as delivered. We are NOT conducting targeted reviews based on risk characteristics.

## File Reviews and Data Validation

- The vast majority of loans go through the loan-level assessment process with no further review – less than 5% of the loans we acquire are selected for any further review through this process.
- For the small percentage of loans selected for further review, Fannie Mae may:
  - Request the loan file for a **full-file review**
  - Request that the lender **validate certain loan data** (which may trigger data changes and possible pricing adjustments)

## Data Validation Requests

- Most data validation requests are triggered by a loan-level assessment that does not result in a file request; in addition, some data validation requests occur following a full-file QC review\*, based on data discrepancies observed in the file
- *Data Validation Center Loan Review Reports* are posted monthly in Message Manager
- Lender has an opportunity to review any data validation requests and must provide feedback within 30 days (to accept the change or provide evidence to rebut it)

\* If a pricing adjustment is subsequently required as a result of DVC review, the lender must pay the amount due before getting rep & warrant relief on the loan via the full-file QC review path.

Monthly Data Validation Review Reports are provided to lenders via Message Manager; see job aids on the Loan Quality page



## Data Changes and Pricing Adjustments

- Based on any agreed-upon data changes as part of the validation process, corresponding pricing adjustments may apply
- A pricing adjustment (guaranty fee or loan-level price adjustment) would be required when a data discrepancy is identified but the loan is otherwise eligible for sale to Fannie Mae, as described in the example below:

### **Example of a data change with a pricing adjustment:**

A loan is delivered as a limited cash-out refinance (LCOR), but it is discovered that the amount of cash back to the borrower exceeds Fannie Mae's LCOR requirements. If the loan is otherwise eligible, it would have to be priced as a cash-out refinance (COR), and a data change and pricing adjustment would be required.

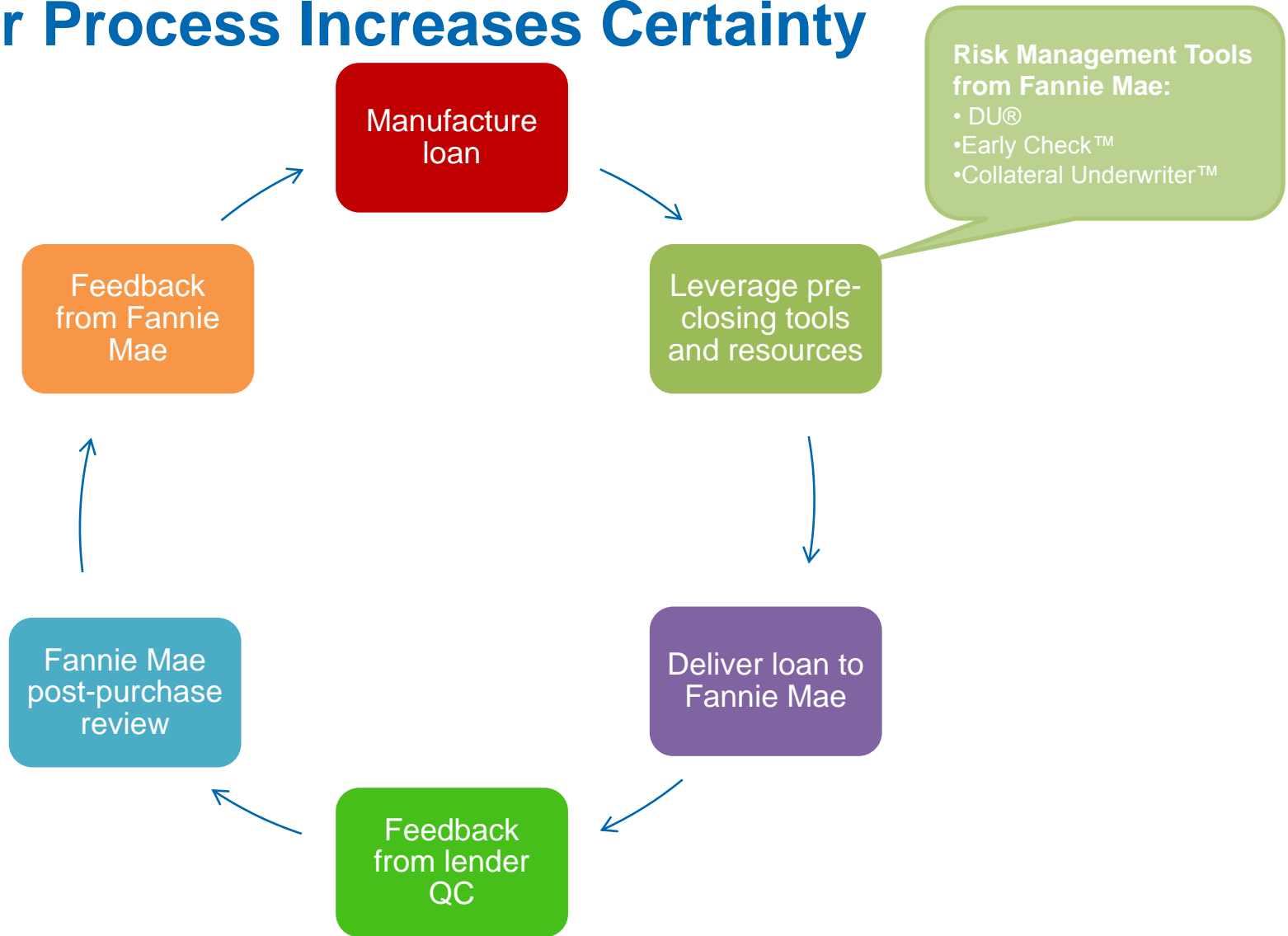
# File Submission Process Reminders and Updates

- Submit **complete loan file** within 30 days
  - Include all documentation used to underwrite the loan to avoid additional requests and be compliant with the submission deadline
- Coming soon:
  - Updated file submission checklist
  - Electronic submission requirement
  - Required use of the Quality Assurance System (QAS) – it's the easy way for tracking and notifications
    - Track the status of file reviews
    - Submit missing documents

## Certainty

- For loans delivered January–September 2013:
  - Less than 0.3% resulted in a repurchase request being issued
  - Of those loans on which a repurchase request was issued – for the first quarter of 2013:
    - About 60% of the repurchase requests were resolved with no repurchase after lenders provided data or documentation
- Common focus on data quality
- Feedback
- Lender risk management tools

# Circular Process Increases Certainty



## Feedback Loop

Input to help you refine your loan manufacturing process comes from two sources:

- Fannie Mae provides actionable feedback that can help our lenders identify and address potential issues in their business processes that impact loan quality – thus helping to manage repurchase risk:
  - Loan Quality Review Results Reports (monthly reports on full-file reviews closed)
  - *Data Validation Center Loan Review Reports* (monthly; responses required, but also look for trends or patterns)
  - Appraisal feedback – UCDP® Submission Summary Reports (immediate on appraisal submission) and monthly Appraisal Findings Reports (in Message Manager)
- Lenders should leverage the results of their own quality control process and use it to address issues.

## Risk Management Tools from Fannie Mae

- Desktop Underwriting® (DU®) – the leading automated underwriting platform in the industry
- Early Check™ – provides access to Fannie Mae delivery edits to assist lenders in identifying and correcting potential eligibility and/or data issues early in their processes and prior to loan delivery
- Collateral Underwriter™ (CU™) – coming in January 2015
  - Proprietary appraisal review application developed by Fannie Mae to support proactive management of appraisal quality
  - Performs an automated risk assessment of appraisals submitted to the Uniform Collateral Data Portal® (UCDP®) and returns a CU risk score, risk flags, and messaging
  - Fannie Mae will make CU available *at no charge* so lenders can take full advantage of the application for quality control and risk management purposes

## 7 Habits for Highly Effective QC Management

- Fannie Mae lenders are responsible for understanding and complying with our QC requirements\*
  
- A good starting point toward effective QC is to get in the habit of following seven guiding principles for lender QC\* :
  1. **It's up to you to define your own standards.**
  2. **Set target defect rate and severity levels.**
  3. **Identify and remediate.**

\* These are highlights, not an exhaustive list of Fannie Mae's expectations; refer to the *Selling Guide* for all requirements.

## 7 Habits for Highly Effective QC Management (contd)

4. **The buck stops with senior management.**
5. **Staff the QC function appropriately.**
6. **Manage vendors.**
7. **Keep your eye on the ball.**

Visit the Loan Quality page for resources:  
[FannieMae.com/singlefamily/loan-quality](http://FannieMae.com/singlefamily/loan-quality)



# Questions