

New Rep and Warrant Process and Refi Plus/HARP Update

Florida CUREN

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An Important Note about this presentation

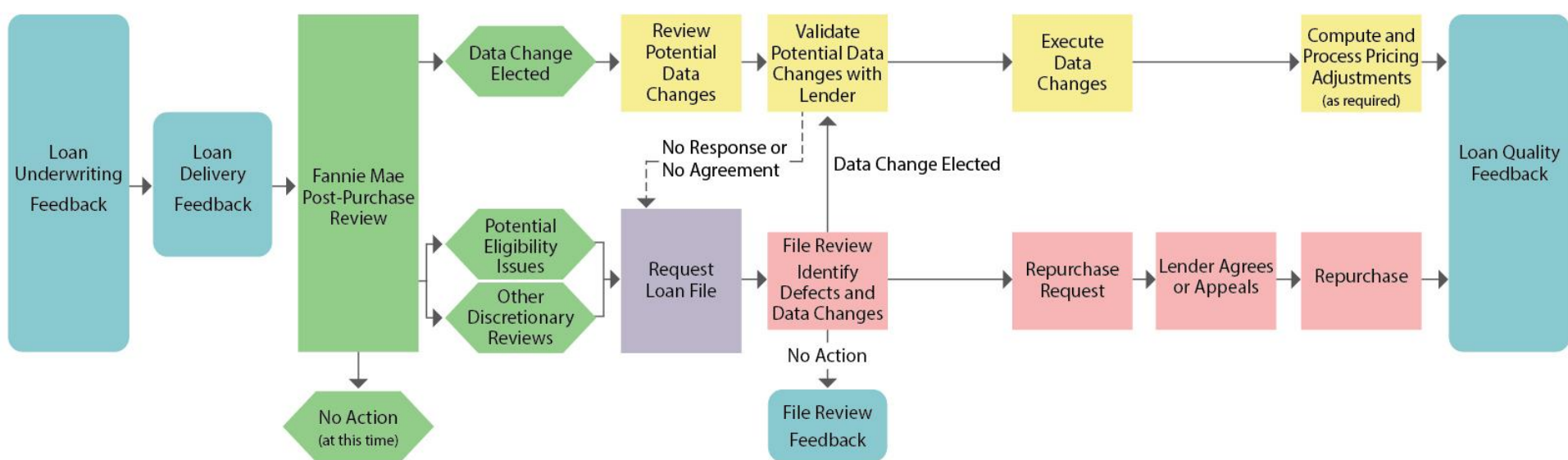
While every effort has been made to ensure the reliability of the presentation materials, Fannie Mae's *Selling* and *Servicing Guides* and their updates, including *Guide* Announcements and Release Notes, are the official statements of Fannie Mae's policies and procedures and control in the event of discrepancies between the information in this presentation and the *Guides*.

Fannie Mae's Updated Post-Purchase Review Process: Supporting the New Rep and Warrant Framework

The New File Review Process: What Are We Trying to Achieve?

In support of the new rep and warrant framework, we are updating our processes, which will help us to:

- Validate that the loans Fannie Mae purchases were originated in accordance with applicable underwriting and eligibility requirements.
- Provide lenders with tangible data and feedback about the quality of their loan origination process and loans delivered to Fannie Mae.



Mutually Beneficial Results of the Process Changes

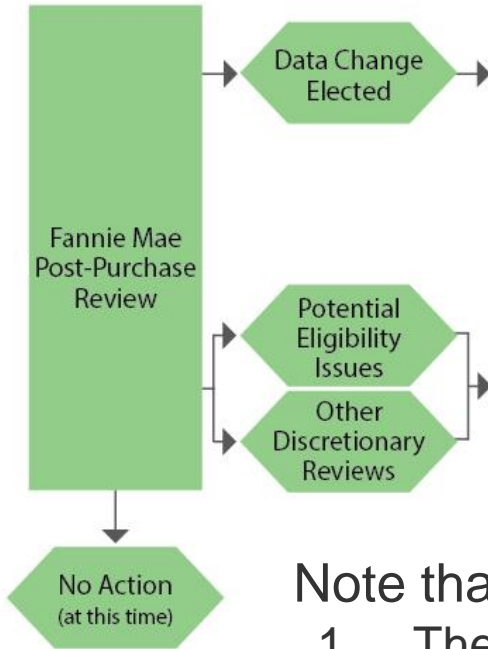
Lenders will experience:

- Fannie Mae using better diagnostic tools that consolidate delivery, appraisal, and credit data to make file selections by focusing on data anomalies, some of which may indicate eligibility violations.
- An increase in the number of file review requests compared with the prior loan post-purchase review process.
- Most loan files requested within 4 to 6 months after delivery, if selected for review.

Mutually beneficial results:

- *Earlier information about the file reviews* – most reviews and feedback are completed within 6 to 9 months of delivery.
- *Transparency in the Fannie Mae post-purchase review process* – lenders have greater certainty about what to expect once the loan has been delivered.
- *Actionable feedback loop* – feedback from the file review process can help lenders identify areas that may need attention to strengthen loan quality.

Fannie Mae's Post-Purchase Loan Review Process



Fannie Mae will review every loan delivered after January 1, 2013, by:

- consolidating delivery, appraisal, and credit data for each loan sold to Fannie Mae, and
- using technology tools and analytics to identify data anomalies that could indicate violations of the *Selling Guide*.

Note that:

1. The vast majority of loans will not be selected for further review.
2. Some loans may reflect data anomalies. If these data anomalies do not appear to have an impact on eligibility, we may elect to work with lenders to correct the data without requesting a file.
3. Some loans may be selected for discretionary file review. These loans will undergo full-file reviews to validate that they were originated in accordance with applicable eligibility and underwriting requirements.

It's About Data – and Communication



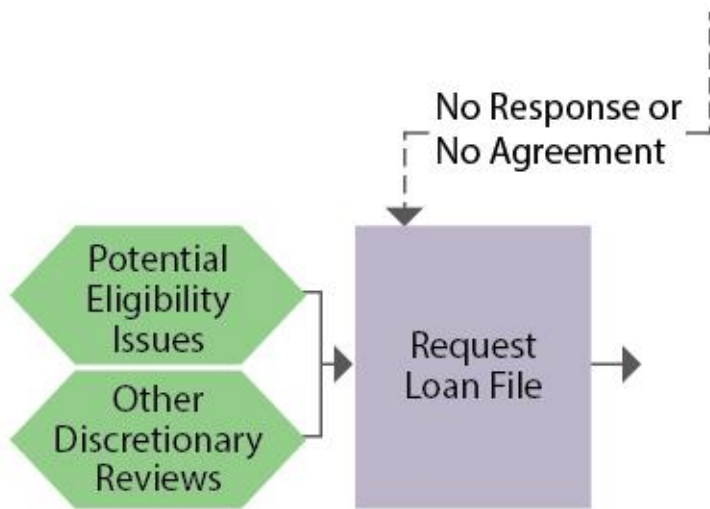
Post-Purchase Data and Pricing Adjustments

- In some cases, a loan that has a manufacturing defect may have been eligible if the correct data and pricing had been submitted at delivery.
- For these loans, a data and/or pricing change may be requested by Fannie Mae at its sole discretion (via Message Manager).
- Lenders should be prepared to respond to data correction requests within 30 days of the request.
- Fannie Mae will track lender-level volumes, and types of data changes and pricing adjustments, and provide feedback to lenders.

Data change / pricing adjustment example:

If a loan is delivered as a limited cash-out refinance (LCOR), but the amount of cash back to the borrower exceeds Fannie Mae's LCOR requirements, Fannie Mae may elect to request a pricing adjustment.

Fannie Mae's Discretionary File Selection Process




Effective for loans delivered on or after January 1, 2013, we have expanded our discretionary post-purchase reviews to support the revised representation and warranty framework described in *Selling Guide* Announcement SEL-2012-08.

- The sample size will increase in the aggregate, across all loans and lenders. Past history of discretionary reviews should not be considered an indication of the future state. Volumes will fluctuate based on lender's loan origination quality and delivery volume.
- Fannie Mae will leverage data from multiple sources including the Uniform Collateral Data Portal (UCDP – for appraisal submission), DU®, Loan Delivery, and credit reports.
- Generally, selection of files for discretionary reviews will be made within 150 days after loan acquisition.
- The lender is expected to submit the requested loan file within 30 days of the request (previously 45 days; applies to all reviews, not just discretionary).

Reminder: All loan files requested by Fannie Mae for post-purchase reviews must be submitted within 30 days. This policy became effective 1/1/13 **for all review types**, not only discretionary.

Requesting the Loan File

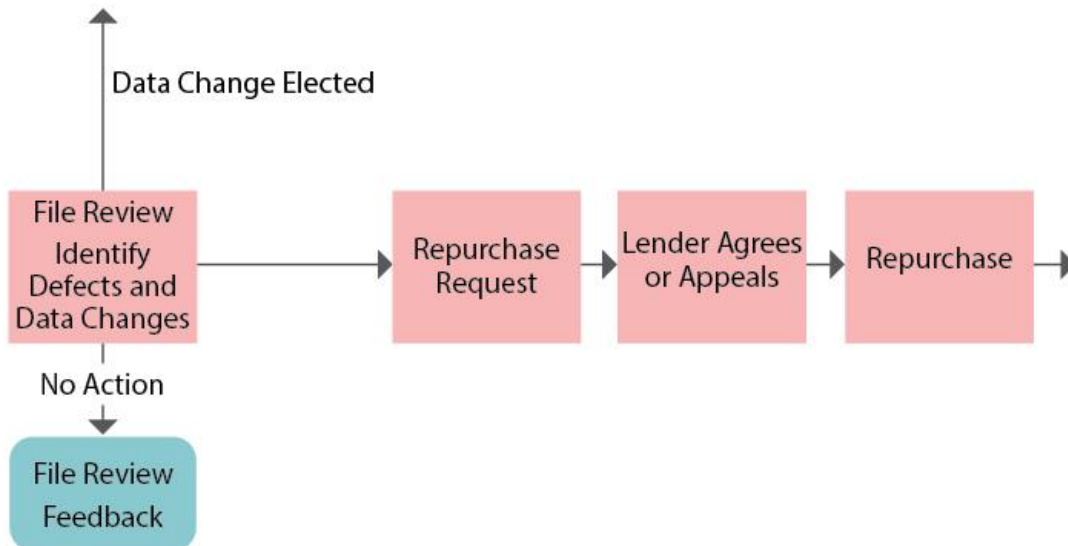


Request
Loan File

- A file request is communicated to the lender:
 - Through Fannie Mae's Quality Assurance System (QAS)*, or
 - via email, if the lender is not using QAS.

**QAS is our preferred method of communication related to file and repurchase requests. QAS tracks the status of loan files for loans that Fannie Mae has selected for post-purchase reviews. Through QAS, Fannie Mae lenders can efficiently view and respond to requests for loan files, missing documents, and any repurchase requests resulting from reviews.*

Discretionary File Review Practices



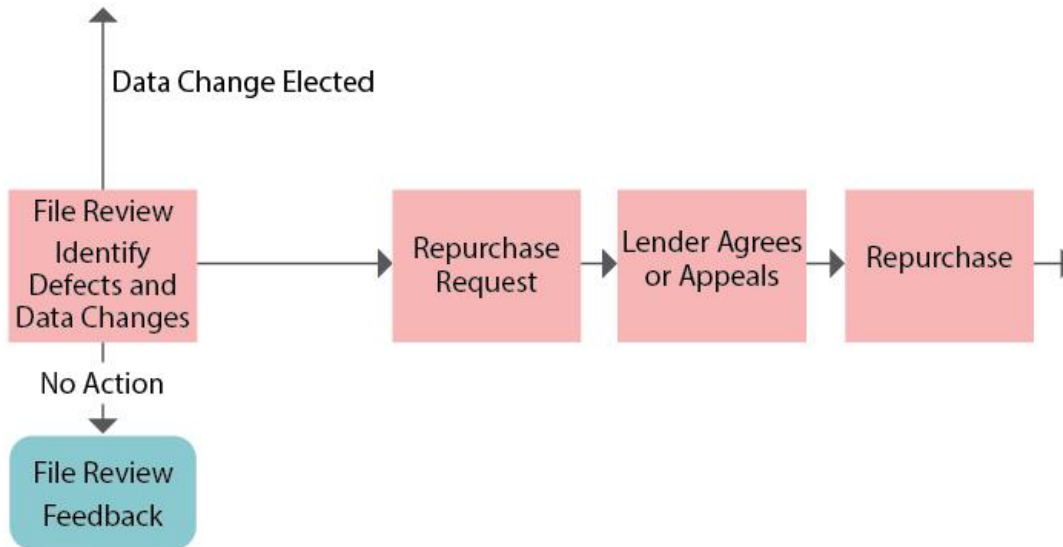
When a loan is selected for a file review, the loan will be considered on a comprehensive basis, by reviewing the mortgage file with a primary focus on identifying loan defects or eligibility violations.

File reviews will include:

- Investigation of product eligibility;
- Confirmation of property and project eligibility;
- In-depth analysis of the credit capacity of the borrower; and an
- Analysis of the underlying appraisal.

Fannie Mae intends to report back to the lender on the outcome of every file review.

Repurchase and Appeals Path



- Fannie Mae intends to issue a repurchase request for loans that do not meet Fannie Mae's underwriting and eligibility guidelines.
- The repurchase request describes the loan defects that were identified by Fannie Mae.

- The appeals process enables lenders to provide additional information, such as missing documentation, that satisfies the loan defect identified.
 - Lenders have 60 days from the date of the repurchase request to provide a rebuttal.
 - There is an additional 15 days for a second appeal if there is new information that would rebut the finding.

A repurchase letter will provide specific details about the defect and the appeals process.

Definition and Examples of Defects

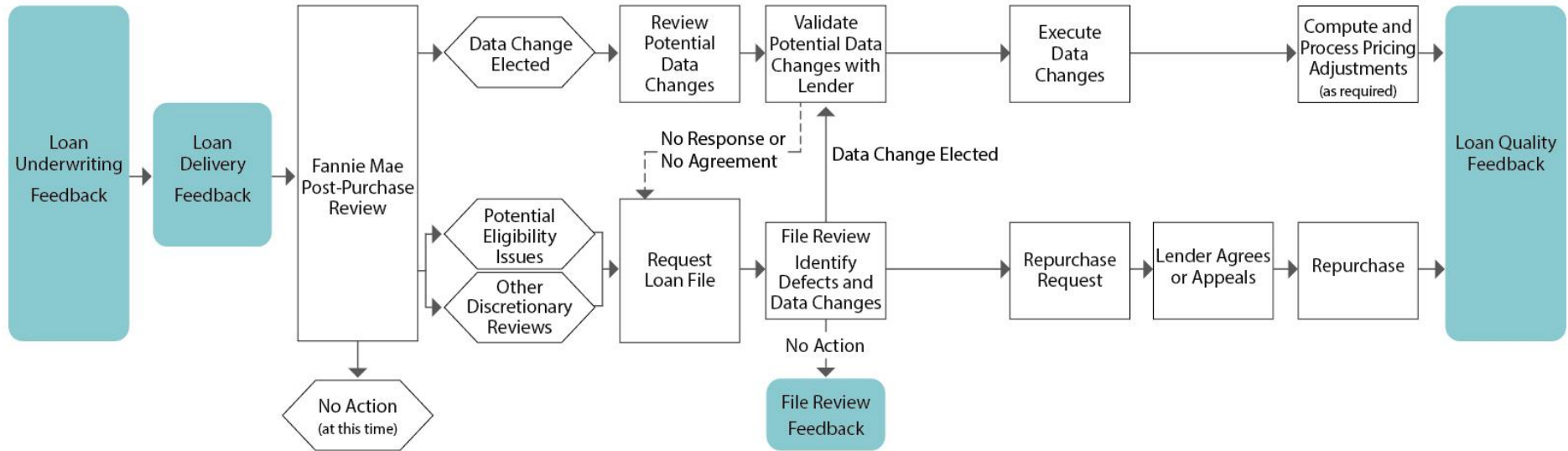
Fannie Mae defines a **defect** as an area of non-compliance with underwriting or eligibility requirements outlined in the Fannie Mae *Selling Guide* or an individual lender's negotiated contract terms.

- **Collateral defect example:** Ineligible property type, such as a barn or condotel.
- **Occupancy defect example:** Occupancy misrepresentation due to one borrower closing two, owner-occupied loans in recent period.
- **Income and Liabilities – Excessive DTI defect example:** DTI exceeds maximum due to undisclosed liability or simultaneous second lien.
- **Credit defect example:** Ineligible loan due to borrower bankruptcy or short sale in recent period.

Take Steps to Prepare: Process Considerations

- Ensure you are able to respond to file requests within 30 days of the request. (Failure to respond to a file review request in the 30-day window will lead to an automatic repurchase request.)
 - Assess your current file request turn time for efficiency improvements if necessary.
 - Consider staffing requirements.
 - Ensure you have subject-matter expertise in place for file review and fulfillment.
- Assess your processes to respond to data and pricing changes.
 - Modify your business process to incorporate data change requests.
 - Ensure you have subject-matter expertise established for data change requests and fulfillment processes.
 - Document post-delivery pricing modification trends and remediate as needed.
- Implement a process to use feedback from Fannie Mae to make any changes necessary to improve the quality of your deliveries.
- Lenders that utilize Fannie Mae's Quality Assurance System (QAS) should:
 - Ensure QAS setup is complete for all selling and servicing branch numbers.
 - Ensure QAS Notifications, Acknowledgements, and Filters are accurate for all users. (Account teams may register lenders without access to QAS.)

Leverage Feedback from Underwriting through Post-Delivery



Leverage Fannie Mae tools and resources to increase confidence in your loan and data quality and reduce defects in the manufacturing process:

- **EarlyCheck™** provides access to Loan Delivery edits at any point in the lender's process to resolve data edits early.
- **Fannie Mae proprietary messages in UCDP** provide appraisal data validation and reasonableness checks to lenders and their correspondents. Lenders can access monthly reports via Message Manager for a comprehensive view.
- **DU® Red Flag Messaging** (in the Underwriting Findings Report) raises possible data issues as detected by Desktop Underwriter®.
- **EarlyCheck Management Reports** provide trending reports on loan delivery errors detected by EarlyCheck.

Manage Your Risk: Suggested Strategies

- Evaluate current data quality and pre-/post-funding QC processes and make appropriate procedural changes:
 - Review prior pre/post funding QC findings and remediate root cause issues.
 - Review prior Fannie Mae QC audit findings and remediate root cause issues.
 - Emphasize importance of data quality and resolving pre/post-funding QC findings with production teams (processing, underwriting, closing, shipping and delivery).
- Implement or evaluate/upgrade QC process training.

Lenders are expected to use quality control results from Fannie Mae and various loan evaluation tools to continuously improve their own loan origination process.

Manage Your Risk: Consider Industry Tools/Resources

- Leverage industry tools and resources to increase confidence in your loan and data quality – consider:
 - Fraud detection, identity verification, and income verification tools
 - Tools that provide automated property valuation/collateral risk assessment
 - Regulatory compliance tools
 - Third-party evaluation services (broker, appraiser, licensing, watch lists)

Consider the tools and resources that are right for your business and that align with your QC objectives.

Fannie Mae Job Aids and Training

- Visit our new Loan Quality web page for resources and training.
- New resources specifically relating to the updated post-purchase loan review process include:
 - Discretionary Post-Purchase Review Process Steps and Flowchart
 - Post-Purchase Review Process Readiness Checklist
 - Manage Your Post-Purchase: Strategies to Increase Your Confidence in Loan and Data Quality
 - Tips for Lenders for Responding to Post-Purchase File Requests, Repurchase Requests, and Other Actions

<https://www.fanniemae.com/singlefamily/loan-quality>

Fannie Mae Loan Quality Web Page

SINGLE-FAMILY ▾

MORTGAGE PRODUCTS

ORIGINATING & UNDERWRITING

PRICING & EXECUTION

DELIVERING

SERVICING

LEARNING CENTER

TECHNOLOGY INTEGRATION

Loan Quality

Fannie Mae expects our lenders to have strong loan quality practices throughout the mortgage loan life cycle. We offer a variety of resources and training to help you build effective strategies to manage risk through a focus on loan quality.

Related Links

[Mortgage Fraud Prevention](#)

Related Applications

[Desktop Underwriter](#)

[EarlyCheck](#)

[Loan Delivery](#)

[UCDP](#)

[Quality Assurance System](#)

Announcements

[Lender Letter LL-2012-07: Fannie Mae's Quality Control Process - Additional Information](#)

[Announcement SVC-2012-21: Servicing Guide Updates to Conform to the FHFA Directive on Harmonized Contracts](#)

[Announcement SEL-2012-08: New Lender Selling Representations and Warranties Framework](#)

[Lender Letter LL-2012-05: Fannie Mae's Quality Control Process](#)

[Show All](#)

Process Flows and Checklists

[Post-purchase Process Readiness Checklist](#)

[Discretionary Post-purchase Review Process](#)

Other Key Resources

[Get the Most from Your Quality Control Program](#)

[Manage Your Post-purchase Risk](#)

[DU Potential Red Flag Message Matrix](#)

[Responding to Post-purchase File Requests and Repurchase Requests](#)

Learning Center

[Originating and Underwriting Loan Quality Training Index](#)

[Fannie Mae's Updated Post-Purchase Review Process: Supporting the New Rep and Warrant Framework Webinar | Mar. 5 at 3 PM](#)

[Effective Quality Control Webinar - Beyond the Guide: Recommendations for Getting the Most from Your Quality Control Program | Mar. 6 at 3 PM **new**](#)

[Fannie Mae's Updated Post-Purchase Review Process: Supporting the New Rep and Warrant Framework Webinar | Mar. 7 at 2 PM](#)

More Job Aids and Training

- Download Fannie Mae's publication *Beyond the Guide*, which provides recommendations for getting the most from your quality control program, and look for the companion *Beyond the Guide* live webinar in the *HFI Spotlight series*.
- Leverage Fannie Mae training resources, including
 - HFI Spotlight
 - *Beyond the Guide*
 - Pre-Funding QC
 - Lender Discretionary Mortgage Selections
 - QC Reporting
 - HFI OnDemand (recorded tutorials)
 - Quality Control Requirements for Fannie Mae Lenders
 - Using EarlyCheck™

<https://www.fanniemae.com/singlefamily/loan-quality>

Refi Plus™ / HARP

Same Servicer Opportunity

Fannie Mae's Refi Plus Initiative

- Refi Plus Initiative provides for Fannie Mae-to-Fannie Mae streamlined refinance flexibilities
- Home Affordable Refinance Program (HARP) loans fall under the Refi Plus Initiative “umbrella”
- HARP loans are defined as loans with ratios greater than 80% LTV (*Refi Plus is defined as loans with ratios less than 80% LTV*)
- A borrower benefit is required (i.e., lower payment, more secure product, etc.)
- Same guidelines apply to both Refi Plus and HARP loans
- Refi Plus / HARP flexibilities are available for eligible loans where the original loan was acquired by Fannie Mae prior to June 1, 2009
- Refi Plus / HARP offer a lot of flexibility
 - ✓ No credit score minimums
 - ✓ No LTV/CLTV maximums
 - ✓ Mortgage insurance flexibilities
 - ✓ Reduced costs

Removing Barriers Through Ongoing Policy Changes

Selling Guide Announcement
SEL-2012-08

- ✓ **Announced** September 11, 2012
- ✓ **Effective** with loans acquired on or after January 1, 2013
- ✓ **Key change:** limit lender's repurchase exposure and liability on future deliveries to 12-months

Selling Guide Announcement
SEL-2012-09

- ✓ **Announced** September 14, 2012
- ✓ **Effective** immediately
- ✓ **Key change:** limit lender's rep and warrant exposure when an appraisal is obtained

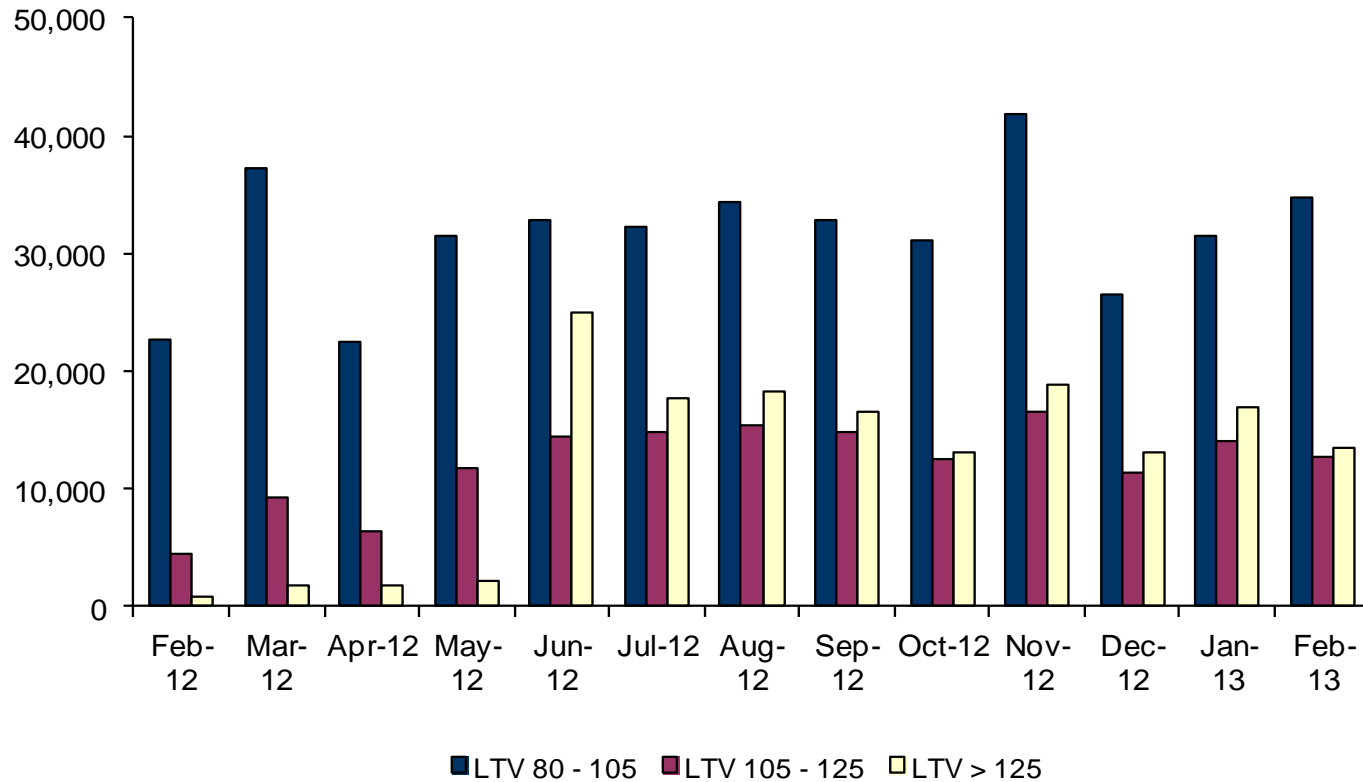
Selling Guide Announcement
SEL-2012-11

- ✓ **Announced** October 11, 2012
- ✓ **Effective** immediately
- ✓ **Key change:** provide options for loans with investor paid mortgage insurance

Selling Guide Announcement
SEL-2013-02

- ✓ **Announced** January 29, 2013
- ✓ **Effective** immediately
- ✓ **Key change:** clarify lenders' ability to provide incentives to encourage refinancing through HARP

More Borrowers Are Taking Advantage of HARP



Source: Data are is taken from the FHFA Refinance Report for February 2013. Data include Fannie Mae volumes only.

Ongoing changes have made a significant impact on HARP volume!

Refi Plus / HARP Offers Lenders Substantial Benefits

Strategic Benefits

- HARP is a remarkable tool for reducing your risks and costs
 - ✓ *HARP puts borrowers into a more secure financial situation, which may reduce your overall servicing costs due to **lower delinquencies***
 - ✓ *Borrowers who take advantage of HARP have **performed better** than borrowers who are HARP eligible but do not refinance*
 - ✓ *HARP refinancing will **significantly reduce your reps and warrants** as compared to the current reps and warrants that you are accountable for with the original loan*
 - ✓ *Your **reps and warrants on the HARP loan may be extinguished after 12-months** of on-time payments after delivery*
- *Volume is good, revenue is even better (HARP originations can be very profitable and are reported to have had a positive impact on Lenders' income statements)*

HARP is good business & an equally important loss/risk mitigation tool!

Refi Plus / HARP Lowers Origination Risks

Rep & Warrant Risks

Non Refi Plus / Non HARP

Refi Plus / HARP

Rep & Warrant: Non Refi Plus / Non HARP Loan

- Loan Eligibility
- Underwriting
- Property Value
- Property Type
- Occupancy
- Project Eligibility
- Data Accuracy
- Mortgage Insurance
- Misrepresentation & Fraud (loan and pattern fraud)
- Charter Compliance

Rep and Warrant: HARP Loan

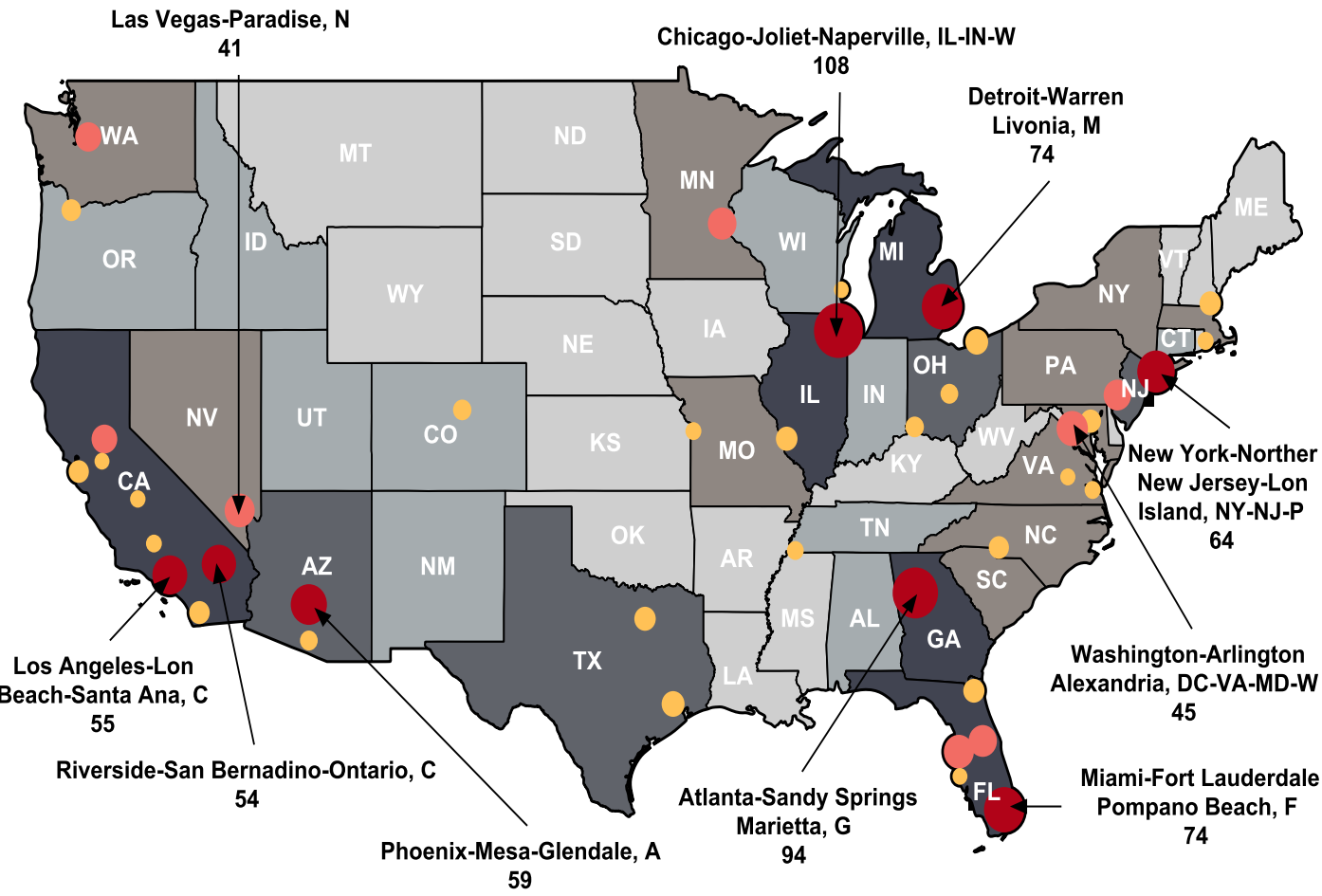
- Original loan rep & warrant
 - Loan was Charter eligible
 - Loan originated in compliance with laws
 - Loan originated/sold was not part of a fraud scheme
- If an appraisal is obtained, not responsible for rep & warrant on value, condition, or marketability
- If the property is a condo, coop, or PUD, RW is that the property met Fannie Mae requirements at the time the original loan was originated

Diagram is for illustrative purposes only. It does not and is not intended to measure actual numerical relationships between representation and warranty responsibilities between the non Refi Plus / non HARP and Refi Plus / HARP loans

Rep & Warrant relief is provided after 12 on-time payments following delivery!

Distribution of Fannie Mae Eligible HARP Loans

(as of December 31, 2012)



Top HARP State	
California	274K
Florida	268K
Michigan	126K
Georgia	120K
Illinois	118K
Ohio	92K
Arizona	87K
Texas	69K
Nevada	53K
Washington	53K
All other states	799K
Grand Total	2,060K

Eligible HARP Loans (State)

- <=10K
- 10-25K
- 25-50K
- 50-100K
- >100K

Eligible HARP Loans (MSA)

- 10-25K
- 25-50K
- >100K

The data reflect estimated Fannie Mae HARP-eligible borrowers as of 12/31/12. The data used in this report is strictly for informational purposes and Fannie Mae in no way makes any representations or warranties as to its accuracy, completeness or suitability for any particular purpose. You agree to receive the information contained in this presentation in confidence, implement appropriate measures to maintain the confidentiality, security, and integrity of such information, and use or permit the use of such information solely within the framework of our discussion about this presentation.

Best Practices to Maximize Opportunities

Internal Operations

- ✓ Communicate executive level sponsorship to entire organization
- ✓ Schedule time with your Fannie Mae account team to conduct training on Refi Plus / HARP underwriting guidelines, DU Refi Plus™ processing, and loan delivery requirements
- ✓ Create volume forecasts and clear goals to measure results
- ✓ Implement a dedicated:
 - *Call center for customer inquires*
 - *Origination and underwriting team(s) for streamlined processing*
 - *Team of Fannie Mae Refi Plus / HARP experts*

Best Practices to Maximize Opportunities

Borrower Solicitations

- ✓ Broad-based solicitations per Refi Plus / HARP guidelines
- ✓ Targeted solicitations (i.e., payment reductions, interest rate reductions, LTV, etc.)
- ✓ Solicitations should be succinct and include compelling consumer messaging
- ✓ Other solicitation best practices to think about:
 - *Sending the solicitation via FedEx/UPS with a “call to action” deadline*
 - *Sending a firm offer to refinance (i.e., pre-approval)*
 - *Including new rate and payment information*
 - *Offering no closing costs*
- ✓ Follow-up phone calls to supplement direct mail solicitations
- ✓ Multiple solicitations will be needed
- ✓ Credibility is essential – consider using Fannie Mae/Freddie Mac co-branded insert to supplement solicitation

Best Practices to Maximize Opportunities

Highlighting Borrower Benefits



Even after all of the “HARP talk” the last few years, borrowers are still feeling that they may not qualify...

Your communications should constantly focus on the benefits!

- ✓ No credit score minimums
- ✓ No LTV restrictions so you can qualify if you are underwater
- ✓ Mortgage insurance can be transferred to the new loan
- ✓ Reduced costs to refinance
- ✓ Opportunity to move to a more stable product
- ✓ Opportunity to lower monthly mortgage payment
- ✓ Ability to qualify, in most cases, without verifying or assessing borrower’s income history or the anticipated continuity of income

Refi Plus / HARP will expire on December 31, 2015!

**Thank you for
your business!**