

Fannie Mae's Loan Quality Initiative and You

By Steve Spies, Vice President, Loan Quality, Single-Family Mortgage Business

Recent analysis of single-family loans owned by Fannie Mae has shown that while overall creditworthiness has improved, measures of loan quality, such as data accuracy and appropriate evaluation of the underwriting data in the loan file, remain a challenge for many lenders.

Because errors in data quality and underwriting analysis may lead to repurchase requests or funding or pooling delays due to delivery issues, Fannie Mae's Loan Quality Initiative (LQI) is aimed at reducing these errors before delivery to Fannie Mae. Our traditional reliance on the representation and warranty model often leads to discovery of these errors after delivery. LQI will facilitate early discovery, and help lenders have more certainty about repurchase exposure. Despite the consistently high-quality loan performance seen among community banks' deliveries to Fannie Mae, it's critical to ensure that banks understand the Government-Sponsored Enterprises' (GSEs') eligibility guidelines as they consider ways to pass on future interest-rate or credit risk on long-term fixed-rate assets.

Even before the market downturn and through the present, Fannie Mae consistently has found that a large percentage of its loans ending up in foreclosure have data quality issues. Fannie Mae analyzed a large number of loans to determine what drives repurchase requests and to find ways we can help reduce them. The LQI was devised to get at the root of these defects and prevent them – *earlier* in the process. Fannie Mae is seeking loan delivery data that is complete, accurate, and fully reflective of the terms of the mortgage.

Loan Quality Vs. Loan Performance

Fannie Mae only asks for repurchase on loans that do not meet its underwriting and/or eligibility requirements, as set forth in the *Selling Guide* and lenders' contracts. It's important to distinguish loan quality from loan performance. Delinquencies in newer loans certainly have come down, but in terms of loan quality – measured by whether the information in the file supports the loan delivered – Fannie Mae has seen less improvement than might be expected, which remains a big concern for us.

The LQI is a multifaceted approach to assisting lenders in originating quality loans, with a variety of resources and upgrades to come in the months ahead. Among them, Fannie Mae is transitioning a number of “warning edits” to “fatal edits” in the Loan Delivery system so more loans with defects are stopped from being delivered to Fannie Mae. To further help lenders identify and correct potential eligibility and data issues, Fannie Mae now offers [EarlyCheck™](#), an optional new service that provides access to Fannie Mae data checks prior to loan delivery.

Industry-Standard Data Program Supports Loan Quality

Another major aspect of the LQI that's designed to improve loan data accuracy is the [Uniform Mortgage Data Program](#) (UMDP), which provides an industry-standard framework for collection of expanded loan and appraisal data.

Fannie Mae's extensive analysis prior to undertaking the LQI showed issues with property value to be one of the key drivers of loan defects. To strengthen risk management related to property value, Fannie Mae moved last year to work with Freddie Mac toward standardization of appraisal data and requiring electronic submission of appraisal reports.

The [Uniform Loan Delivery Dataset](#), or ULDD, is another component of the UMDP through which Fannie Mae and Freddie Mac are implementing a common approach for loan delivery data standards to minimize implementation differences for lenders and vendors. As of September 2011, the ULDD framework will be required for delivery of loans to either Fannie Mae or Freddie Mac, so it's important for lenders to work with their loan delivery vendors now to make sure they are adequately preparing for these new requirements.

Although some additional loan data will be requested through the ULDD, it ultimately will strengthen community banks' risk management options and provide new ways to combat mortgage fraud. In addition to leveraging technology, Fannie Mae also intends to make staff and resources available to help our customers improve their quality control processes.

Through the LQI, we have made a long-term commitment to work with the mortgage industry to improve loan data accuracy and compliance with our eligibility guidelines. Fannie Mae believes this will provide benefits for all industry stakeholders – including community bankers – for years to come. [Learn more about the Loan Quality Initiative](#).

Contact [Tammy Trefny, Fannie Mae National Affinity Team](#), for more information.