Executive Overview of Origination Defects and Remedies Announcement

Today we are sharing with you an update to the representations and warranties framework that will be effective on January 1, 2016.

The Announcement introduces the origination defects and remedies framework that relates to

- how origination defects are defined (by their severity and resolution),
- lender corrections of those defects, and
- available remedies (like repurchase alternatives and price adjustments).

The framework defines how Fannie Mae will categorize defects uncovered in a full-file quality control review –

- findings,
- price-adjusted loans, and
- significant defects.

Under the remedies framework, Fannie Mae is clarifying how we define significant defects – those that make a loan unacceptable for purchase. A defect must relate to a specific set of 8 criteria in order to be considered significant – items such as underwriting the borrower’s creditworthiness or the requirements detailed in our Eligibility Matrix.

This policy update formally confirms that lenders have the right to correct defects. The process we will follow in our quality control reviews in categorizing defects, processing corrections, or offering remedies is spelled out step-by-step. It also describes multiple pathways for loans with defects to be resolved, not just through a repurchase – sometimes through providing additional or missing documentation, or via a pricing adjustment, and other times, through repurchase alternatives.

The remedies framework will provide greater certainty, clarity, and transparency to our lenders regarding the rights and obligations you retain after delivering a mortgage loan to us.

Introduction of the remedies framework is the result of many months of discussion with lenders. Fannie Mae thanks the lenders who provided input to help achieve our ongoing goal of increasing your certainty in your dealings with us.

See Announcement SEL-2015-11 for details of these updates and more.

These policy updates will be added to a future Selling Guide release. We appreciate the partnership and look forward to continuing to receive your feedback.

Thank you for your business!

Carlos Perez