SELLER/SERVICER RISK SELF-ASSESSMENT

# Third-Party Originations

Third-party originations* refers to the process of mortgage loans being completely or partially originated, processed, underwritten, packaged, funded, and/or closed by an entity other than the seller (or its parent, affiliate, or subsidiary) that sells the loan to Fannie Mae. This includes mortgage brokers and correspondents, which are known as third-party originators (TPOs). A seller's TPO business is also known as a wholesale channel. Sellers remain fully responsible to Fannie Mae for functions that are outsourced to third parties. A seller must have effective written policies and procedures for the approval and management of third-party originations and must satisfy itself that the third-party originator can produce quality loans. (*If a seller contracts with a third party solely for the purpose of underwriting, processing, and/or closing fulfillment services, those loans will not be considered third-party originations.)

## IN THIS DOCUMENT



## RESOURCES

- *Selling Guide* A3-3-01, Outsourcing of Mortgage Processing and Third-Party Originations
- *Selling Guide* D1-1-01, Lender Quality Control Programs, Plans, and Processes
- *Selling Guide* definitions:
    - Broker Origination
    - Correspondent Origination
- Nationwide Multi-State Licensing System (NMLS)

## ONE SELLER/SERVICER'S STORY

We plan to expand our retail business by offering mortgage broker loan originations. Our challenge is ensuring that the third-party originators with whom we partner are producing quality loans that meet requirements for us to deliver them to secondary market investors like Fannie Mae. What written policies and procedures should we put in place to adequately approve and monitor third-party originators?

# Self-Assessment Checklist REQUIRED

## THIRD-PARTY ORIGINATIONS

- ☐ Approval process and controls for TPOs (mortgage brokers and correspondents) in place, and includes a review of recent financial statements, current licenses, resumes of principal officers and underwriting personnel, quality control procedures, background checks, and hiring practices.
- ☐ Annual review of the TPO's financial statements takes place to determine that it is financially viable and capable of meeting its contract terms.
- ☐ Method for verifying, and periodically re-verifying, a TPO's compliance with applicable laws, licensing, and qualifications for originating mortgage loans.
- ☐ Review of compliance with third-party contracts with the lender and the terms of the lender's contractual obligations with Fannie Mae.
- ☐ Require TPO (correspondent) have a written quality control (QC) plan and have methods to validate the existence of that plan, resolve QC discrepancies, and track corrective actions.
- ☐ Submission of periodic reports on activity and TPO performance issues to seller's senior management.
- ☐ Provisions for suspending or terminating the TPO relationship.
- ☐ Process for reporting fraudulent activity to Fannie Mae.
- ☐ Review conducted of the TPO's hiring procedure for checking all employees, including management, involved in the origination of mortgage loans (including application through closing) against the U.S. General Services Administration Excluded Parties List, the HUD Limited Denial of Participation List, and the Federal Housing Finance Agency Suspended Counterparty Program list. Cover in an addendum to contract with correspondents.
- ☐ Process to track and report on exceptions to the established requirements for TPOs.
- ☐ Quarterly reviews of the performance of mortgage loans originated by TPOs (for example, particularly delinquencies and foreclosures).
- ☐ Monitoring of all approved TPO licenses on an ongoing basis.
- ☐ The post-closing quality control process must include a representative sample of the mortgage loans received from the third-party originator to ensure that those originations meet the lender's standards for loan quality. Review cycles must be structured to ensure that transactions originated by each third-party originator are reviewed at least once annually.

 

## ADDITIONAL CHECKLIST ITEMS RECOMMENDED

- ☐ An established reporting protocol for TPO performance in the form of a regular scorecard or dashboard of results.
- ☐ Nationwide Multi-State Licensing System (NMLS) licensing monitoring in place for all correspondent loan officers.
- ☐ Established communication processes with TPOs to inform them of new products, programs, and investor information/changes.
- ☐ Controls in place to restrict resubmission to the automated underwriting system once a decision has been made.
- ☐ Processes in place to share the results of ongoing monitoring with the responsible account executive(s) and TPO staff.
- ☐ Established training programs for new and existing TPOs.
- ☐ Documented contractual arrangement with TPOs that includes specific warranties related to the eligibility of mortgage loans and the TPO's responsibilities, as well as remedies that can be taken if the warranties are breached.

# Common Findings and Documentation

## MORTGAGE ORIGINATION RISK ASSESSMENT (MORA) AND SERVICER TOTAL ACHIEVEMENT AND REWARDS (STAR)

Fannie Mae conducts regular reviews to evaluate compliance with our guidelines and assess operational risks. Reviews are conducted by a team that operates independently of customer account relationship management in Fannie Mae's single-family mortgage business. A Mortgage Origination Risk Assessment (MORA) or Servicer Total Achievement and Rewards™ (STAR™) review is intended to be a joint activity conducted by the review team with active participation of your organization.

The **common findings** and **required documentation** listed below are specific to the topic of this risk self-assessment, Third-Party Originations.

### COMMON FINDINGS

- The seller does not maintain effective procedures for approving correspondents.
- The seller does not maintain effective procedures for monitoring correspondents.
- The seller does not maintain effective procedures for approving mortgage brokers.
- The seller does not maintain effective procedures for monitoring mortgage brokers.
- The seller is not sampling loans acquired from a third-party originator prior to acquisition.
- The seller's post-closing quality control plan does not have a process to ensure that all TPOs will have files reviewed at least annually.

### REQUIRED DOCUMENTATION FOR A REVIEW

**A.** Pipeline reports – wholesale broker and/or correspondent
- **a.** Reports should detail at a minimum:
  - **i.** Product type
  - **ii.** Property address
  - **iii.** Account executive
  - **iv.** Approval status

**B.** Written procedures – mortgage broker and/or correspondent originations

**C.** Written procedures – mortgage broker and/or correspondent management

**D.** Approved mortgage broker list

**E.** Approved correspondent list

**F.** Written procedures for all mortgage broker and/or correspondent monitoring processes

**G.** Mortgage broker and/or correspondent scorecard/ performance reports
- **a.** Reports should include but not be limited to:
  - **i.** mortgage broker and/or correspondent name
  - **ii.** Pull-through rates
  - **iii.** Delinquencies, early payment defaults
  - **iv.** Product type
  - **v.** Quality control results

### WHAT'S NEXT?

Use the insights you've gained — especially any gaps identified in your practices and processes — to create a customized action plan.