
FEDERAL HOUSING FINANCE AGENCY



NEWS RELEASE

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FHFA, Fannie Mae and Freddie Mac Launch New Representation and Warranty Framework Increased Transparency and Certainty for Lenders

Washington, DC – The Federal Housing Finance Agency (FHFA) today announced that Fannie Mae and Freddie Mac are launching a new representation and warranty (rep and warranty) framework for conventional loans sold or delivered on or after Jan. 1, 2013. The new rep and warranty approach, part of a broader series of strategic initiatives called seller-servicer contract harmonization, aims to clarify lenders' repurchase exposure and liability on future deliveries.

“Ultimately, better quality loan originations and underwriting, along with consistent quality control, help maintain liquidity in the mortgage market while protecting Fannie Mae and Freddie Mac from loans not underwritten to prescribed standards,” said Edward J. DeMarco, Acting Director of FHFA. “These efforts contribute to a firm foundation for a new, sustainable housing finance system for the future.”

The objective of the new framework, developed at the direction of FHFA, is to clarify lenders' repurchase exposure and liability on future deliveries. The new rep and warranty approach does not affect loans sold to Fannie Mae or Freddie Mac prior to Jan. 1, 2013. With this new framework:

- Lenders will be relieved of certain repurchase obligations for loans that meet specific payment requirements, for example, rep and warranty relief will be provided for loans with 36-months of consecutive, on-time payments;
- Home Affordable Refinance Program (HARP) loans will be eligible for rep and warranty relief after an acceptable payment history of only 12 months following the acquisition date;
- Information about exclusions for rep and warranty relief, such as violations of state, federal and local laws and regulations will be detailed;
- Fannie Mae and Freddie Mac will continue to make available for lenders a range of tools to help improve loan quality.

The new model moves the focus of quality control reviews from the time a loan defaults up to the time the loan is delivered to Fannie Mae or Freddie Mac. An FHFA review of past repurchase requests issued by Fannie Mae and Freddie Mac revealed that these requests were

based on substantive underwriting and documentation deficiencies. These deficiencies have led to substantial losses for Fannie Mae and Freddie Mac, and hence, taxpayers. Fannie Mae and Freddie Mac will continue to work with their lenders to resolve contractual claims resulting from such deficiencies, arising primarily from loans originated before the conservatorships in September 2008. With the new model FHFA is directing Fannie Mae and Freddie Mac to:

- Conduct quality control reviews earlier in the loan process, generally between 30 to 120 days after loan purchase;
- Establish consistent timelines for lenders to submit requested loan files for review;
- Evaluate loan files on a more comprehensive basis to ensure a focus on identifying significant deficiencies;
- Leverage data from the tools currently used by Fannie Mae and Freddie Mac to enable earlier identification of potentially defective loans;
- Make available more transparent appeals processes for lenders to appeal repurchase requests.

Fannie Mae's [*Selling Guide Announcement*](#) and [*Lender Letter*](#), and Freddie Mac's [*Guide Bulletin*](#) and [*Industry Letter*](#) will provide further details.

The improvements to the representation and warranty process are key elements of the seller-servicer contract harmonization project that supports [*FHFA's Strategic Plan for Enterprise Conservatorships*](#) announced earlier this year. Additional contract harmonization projects directed by FHFA, including servicer performance metrics and remedies for servicing breaches, will be announced in coming months.

As Fannie Mae, Freddie Mac, FHFA, and market participants gain experience with this new approach, it is expected that there will be continued enhancements and improvement in the quality of mortgages delivered.

FAQs attached

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The Federal Housing Finance Agency regulates Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks. These government-sponsored enterprises provide more than \$5.7 trillion in funding for the U.S. mortgage markets and financial institutions.

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FREQUENTLY ASKED QUESTIONS

New Selling Representation and Warranty Framework

1. What are seller representations and warranties?

Seller representations and warranties provide the assurance to Fannie Mae and Freddie Mac that a mortgage sold to them complies in all respects with the standards outlined in the Fannie Mae *Selling Guide* and Lender Contracts and Freddie Mac's Purchase Documents, including underwriting and documentation standards. If a mortgage is not compliant, Fannie Mae and Freddie Mac may exercise their respective remedies, including the issuance of a repurchase request.

2. Why is there a focus on changing selling representations and warranties now?

We have listened to lenders and heard their concerns about the repurchase process. Addressing selling representations and warranties now is a natural next step in addressing FHFA's strategic plan for conservatorships and Fannie Mae and Freddie Mac business goals. With an increased level of certainty, clarity, and transparency, lenders can be confident that the loans they deliver to Fannie Mae and Freddie Mac will not be subject to the enforcement of remedies for breaches of certain representations and warranties, as long as the mortgages meet an acceptable payment history and other eligibility requirements.

In adopting the new selling representation and warranty framework for future deliveries, it is important to note that we are not modifying the representations and warranties currently required. Sellers continue to be responsible for underwriting and delivering investment-quality mortgages according to the requirements of Fannie Mae's *Selling Guide* and Lender Contract and Freddie Mac's Purchase Documents.

Instead, the new framework will provide lenders with relief from Fannie Mae and Freddie Mac's enforcement of remedies for breaches of certain representations and warranties for new loan acquisitions commencing in 2013 that meet specific payment history requirements.

3. Is this change indicative of other changes to the current Fannie Mae and Freddie Mac business model?

Under the guidance of FHFA, Fannie Mae and Freddie Mac are discussing a number of changes in the process for conducting quality control reviews. A preview of the changes to come is discussed in the *Lender Letter* and *Industry Letter* also released today.

4. Will the new selling representation and warranty framework positively address industry and lender concerns around repurchase risk? Will it alleviate some of the challenges lenders face today with repurchases?

Yes, with better data and improved loan quality, Fannie Mae and Freddie Mac have been working with FHFA to develop a framework that will provide lenders a consistent approach around repurchase exposure, repurchase timelines and remedies.

With a common definition and clear up-front expectations, lenders should experience consistency when dealing with Fannie Mae and Freddie Mac. The fundamental responsibility of lenders to meet the contractual requirements for loan quality remains the same.

5. Does this new framework impact repurchase remedies for servicing breaches of representations and warranties?

The new framework only impacts certain selling representations and warranties. However, Fannie Mae and Freddie Mac are working closely with FHFA to make changes that will provide more efficient standards for the servicing of Fannie Mae- and Freddie Mac-eligible mortgages. The goal is to work towards a common set of servicing performance metrics and breach remedies for performing loans, investor reporting, and management of non-performing loans, to be communicated at a future date.

6. Will borrowers benefit from this new framework?

The end goal of the new framework is enhanced transparency for lenders and other industry participants that translates to greater business efficiencies and improved access to mortgage financing.

7. How does the new framework impact mortgage rates and origination costs?

Fannie Mae and Freddie Mac will not be assessing additional costs or fees to lenders as a result of the new framework. They do not control mortgage rates, origination costs and fees that may be charged by lenders.

8. What are the effective dates?

The new framework goes into effect for conventional loans funded, acquired, securitized or guaranteed on or after January 1, 2013.

9. Why does the new selling representations and warranties framework eligibility require an acceptable payment history of 36 months following the acquisition date? Why not sooner?

Among industry members consulted, there were various suggestions on the timing of the relief, the most prevalent being 36 months. Freddie Mac and Fannie Mae, in consultation with FHFA, concluded that 36 months would enable Fannie Mae and Freddie Mac to conduct sampling and analyses needed to confirm the eligibility of the mortgage loans acquired, and would show the borrower's ability to repay the loan according to its terms.

10. Do Fannie Mae's Refi Plus/DU Refi Plus and Freddie Mac's Relief Refinance Mortgages, which include HARP loans, fall under the new selling representations and warranties framework?

Yes, they do. All single family mortgage loans that meet the specified eligibility requirements are included in this new framework.

However, Fannie Mae's Refi Plus/DU Refi Plus and Freddie Mac's Relief Refinance for Same Servicers and Open Access will be eligible for relief after an acceptable payment history of only 12 months following the acquisition date.

These streamline refinance programs are designed to assist borrowers who are current on their loans who may not have been able to refinance to obtain a lower payment, move to a more stable product, or shorten their terms to rebuild equity faster. Providing lenders with an eligibility for relief at the 12 month point should encourage lenders to participate even more fully in HARP and reach more borrowers.

11. Are loan modifications, including HAMP, included as well?

Since loan modifications are not new deliveries, they are not part of the new framework.

12. How is the Quality Control process changing for Freddie Mac and Fannie Mae with this announcement?

Currently, Fannie Mae and Freddie Mac select a statistically valid random sample of new loan deliveries, which is augmented by targeted sampling. Going forward, it is likely they will increase their targeted sampling as they employ a number of technology tools and internal models to identify loans that merit further scrutiny earlier in the review process. Because loans will be targeted earlier in the review process, lenders will also likely experience an increase in the number of performing loans that are selected for review. In addition, the quality and volume of mortgage loans delivered to Fannie Mae and Freddie Mac will directly impact the size of the targeted sampling. Lastly, each loan file that is selected will be reviewed on a comprehensive basis.

13. When will we learn more about the other changes to the QC process?

Fannie Mae and Freddie Mac, under the direction of FHFA, are working to develop a consistent approach to certain quality control matters, which will be released in a future announcement. More detailed information regarding quality controls, file reviews, and repurchase processes will be forthcoming. A preview of those changes is provided in Freddie Mac's *Industry Letter* and Fannie Mae's *Lender Letter*.

Contract Harmonization

14. What is Contract Harmonization?

Contract Harmonization is an effort by Fannie Mae, and Freddie Mac, undertaken at the direction of the Federal Housing Finance Agency, to generally align a set of common principles, standards, and requirements (and/or tools) for lender representations and warranties, the delivery of quality loans, contract breaches and remedies, servicing metrics, and overall customer performance management.

Contract Harmonization efforts aim to provide the industry with a higher degree of certainty and clarity for future acquisition of Fannie Mae- and Freddie Mac-eligible mortgages and servicing performance. It also seeks to lay a firm foundation for a new, sustainable housing finance system.

Contract Harmonization supports the 2012 Strategic Plan for Enterprise Conservatorships.

15. Why is it called Contract Harmonization?

To achieve FHFA's goal of establishing clear and efficient standards, several key Fannie Mae and Freddie Mac requirements will be aligned through changes in their contracts with lenders.

16. When and how will we receive more information and details?

The initial details on the new representation and warranty framework are being released today. Information can be found on FHFA's, Freddie Mac's and Fannie Mae's websites.

Contract Harmonization will be phased in over the next year. As new phases are completed, Fannie Mae and Freddie Mac will provide operational information to their customers.

17. How or what impact/effect will Contract Harmonization have on borrowers?

One of FHFA's primary missions for Contract Harmonization is to make doing business with Fannie Mae and Freddie Mac more efficient, transparent, and predictable for lenders. This transparency should increase the certainty for lenders in dealing with Fannie Mae and Freddie Mac. As a result, it may help some lenders make their own operations more efficient so they can compete more successfully for borrowers and improve access to mortgage financing.

18. How does Contract Harmonization support Fannie Mae and Freddie Mac's mandate to both protect taxpayer investment and assist borrowers in danger of default and foreclosure?

Contract Harmonization will help strengthen the nation's housing market by making key Fannie Mae and Freddie Mac business operations more transparent, consistent, and efficient for lenders. A stronger market will naturally help protect the taxpayers' investment in both Fannie Mae and Freddie Mac.

Contract Harmonization will generally align the way Fannie Mae and Freddie Mac measure how well servicers help delinquent borrowers avoid foreclosure and keep their homes. This is intended to help servicers dedicate their resources more efficiently to this critical objective.

19. How does Contract Harmonization relate to FHFA's responsibilities as Conservator and safety and soundness regulator of Fannie Mae and Freddie Mac?

The new framework encourages better quality loan originations and underwriting, along with consistent quality control, which will help maintain liquidity in the mortgage market – a key component of FHFA's strategic plan for the conservatorships. It also protects Fannie Mae and Freddie Mac and taxpayers from the credit risk of loans not underwritten to prescribed standards. These efforts along with other programs under the Contract Harmonization umbrella, contribute to a firm foundation for a new, sustainable housing finance system for the future.