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## Introduction

The Federal Housing Finance Agency (FHFA) module for *Managing Single-Family Seller/Servicer Relationships* is designed as a resource and reference for FHFA examiners. It contains background information and a workprogram intended for the examination of Fannie Mae and Freddie Mac (the Enterprises). The workprogram includes a broad range of worksteps within five categories, and examiners should identify and perform those worksteps most relevant to reach conclusions on the level of risk and the quality of risk management given the scope of the examination.

This module covers the processes used by an Enterprise to manage new and existing contractual relationships with single-family mortgage Seller/Servicers. A Seller/Servicer, as referenced in this module, is an approved bank or non-bank entity with a contractual relationship with an Enterprise that performs selling, servicing, or both functions.

An Enterprise enters into these relationships when purchasing single-family loans from bank and non-bank counterparties and contracting with them to service the loans on an Enterprise's behalf. The Sellers originate mortgage loans and sell them to an Enterprise. An Enterprise holds these single-family mortgages in portfolio, or guarantees and securitizes the loans as mortgage-backed securities (MBS). An Enterprise executes agreements with Seller/Servicers to process payments (*e.g.*, collect principal and interest (P&I), taxes, and insurance) and perform the necessary loan administration functions. Seller/Servicers manage performing loans, delinquent loans, loss mitigation approaches, and foreclosure efforts. A Seller/Servicer may use subservicers, law firms, and other third-party vendors in order to fulfill its servicing obligations to an Enterprise.

There are many facets to an Enterprise's relationship with its Seller/Servicers. This module focuses on the basic roles and obligations of Seller/Servicers as outlined in their contracts with an Enterprise as well as guidance in the respective selling and servicing guides. This module does not attempt to address all the substantive clauses within the Seller/Servicer contracts or the representations and warranties (reps and warrants) that specifically relate to processes within the life cycle of single-family mortgages. Examiners should refer to the supplemental examination guidance on *Single-Family Mortgage Underwriting and Acquisitions* for examination guidance that discusses underwriting standards, delivery terms, and Seller/Servicer quality control processes. Additionally, examiners should see the supplemental examination guidance for *Third-Party Relationship Management* for an outline of general contract provisions and third-party relationship management practices.

An Enterprise has specific requirements for Seller/Servicers to perform the numerous and important tasks for the origination and servicing of single-family mortgage loans. Those requirements are found in an Enterprise's respective selling and servicing guide, available on an Enterprise's website, through AllRegs, or in an Enterprise's contract with the Seller/Servicer. AllRegs is the exclusive electronic provider of underwriting and loan product guidelines for Fannie Mae and Freddie Mac. The selling and servicing guides or contracts establish the scope, terms, and requirements of the relationship and describe, among other things, requirements regarding:

- Seller/Servicer eligibility;
- Terms governing the sale and servicing of mortgage loans;
- Servicing compensation;
- Maintenance of mortgage files and records; and
- Collection efforts to include insurance, taxes, and P&I.

The selling and servicing guides are periodically updated to provide updates to the selling and servicing requirements through the issuance of guide bulletins and industry letters.

**Servicing Performing Loans**

Servicing performing loans is primarily a technology-driven payment processing business. The Servicer is responsible for multiple activities that affect the borrowers, guarantors, and investors/trustees, including:

- Collecting monthly payments from the borrowers;
- Remitting P&I to the issuers/guarantors;
- Remitting the guarantee fee to the guarantors;
- Making payments from the escrow accounts to the tax authorities, insurance companies, and others;
- Performing administrative functions such as maintaining and managing loan documentation and credit reporting;
- Providing a detailed accounting of the loan balances, payments, and other activity on the accounts;
- Preparing an annual escrow account analysis;
- Reporting to investors/trustees and guarantors;
- Processing lien releases; and
- Processing payoff requests and remitting funds to an Enterprise.

These activities generally benefit from significant economies of scale from centralized processing operations, automated processes, and technology that enable Servicers to achieve operational efficiency. Advances in process improvements, automation, and technology (*e.g.*, online bill paying) continue to benefit the servicing of performing loans.

**Servicing Delinquent Loans**

In contrast to servicing performing loans, servicing delinquent loans can be labor intensive. Increased interactions with borrowers and processes that cannot efficiently be automated eliminate the economies of scale typically associated with servicing a performing loan portfolio.

In addition to the operational functions associated with servicing performing loans, servicing delinquent loans may include:

- Advancing principal or interest to issuers/guarantors, as required by the servicing guide, when borrowers do not make contractual payments;
- Ensuring that other servicing advances (e.g., taxes and insurance) are made to the appropriate parties as required;
- Working with borrowers to understand their type and length of hardship, ability and willingness to pay, their interest in staying in the home, and the condition of the property;
- Working to identify and implement solutions for borrowers who wish to keep their homes and who meet the applicable eligibility criteria for loss mitigation alternatives (e.g., loan modifications, repayment plans, and forbearances) but who do not have the capacity to make contractual payments under the original terms of the loan. The Seller/Servicer is required to collect documentation from borrowers and evaluate whether the borrowers meet the criteria set in the servicing guides for an available solution;
- Working with delinquent borrowers who do not qualify for any of the loan modification programs to evaluate other alternatives to foreclosure. The Seller/Servicer is required to collect documentation from borrowers and to evaluate whether the borrowers meet the criteria set in the servicing guides for a short sale or a deed in lieu of foreclosure;
- Referring loans to foreclosure if the borrowers do not qualify for, or choose not to pursue, foreclosure alternatives. After referring the loans to foreclosure, the Servicer is responsible for working with the foreclosure attorneys and managing the foreclosure process. (See the supplemental examination guidance on Default Legal Services); and
- Protecting the interests of investors/trustees, or guarantors as applicable, throughout the servicing and the foreclosure process. The Seller/Servicer is responsible for keeping insurance in force on the properties, paying property taxes, securing the properties to prevent vandalism, inspecting the properties at regular intervals, and maintaining the value of the properties through preservation and maintenance services.

Each Enterprise may use a scorecard with metrics to measure the larger Seller/Servicers' operational performance for delinquent loans in addition to specific operational reviews on Seller/Servicer performance. Accurate delinquency data and required notifications are important metrics. The scorecard also documents transitional stages in the loan's life cycle that can help gauge a Seller/Servicer's performance over time. For example, the scorecard may include the number of loans that roll from one monthly delinquency group to the next (*e.g.*, from 30 days to 60 days). An Enterprise may use this information to change the volume limits for a specific Servicer. An Enterprise can report the success rate, by Servicer, for loan workouts or modifications that were initiated versus closed, as well as the number of short sales and deeds in lieu of foreclosure. An Enterprise monitors performance metrics of the Seller/Servicer, including any exceptions to servicing guide requirements.

## Background

### Oversight and Risk Management Process

Advisory Bulletin AB 2014-07, *Oversight of Single-Family Seller/Servicer Relationships* provides guidance on managing counterparty risks associated with single-family Seller/Servicers and describes the elements of a board-approved risk management process that specifically includes risk-based oversight of single-family Seller/Servicers.

An effective risk management process addresses the Seller/Servicer relationship for the duration of its life cycle, including due diligence and approval, contract negotiation, ongoing monitoring (including performance review and issue resolution), and suspension/termination. Risk management can be tailored to address the risks posed by Seller/Servicers. For example, while credit and operational risk is associated with both kinds of counterparties, the level of those risks varies and the Enterprise's risk management program should take a risk-based approach

From a credit perspective both sellers and servicers must have sufficient capital to fund their operations, adequate liquidity to fund originations or servicing advances, and sufficient earnings to accrete capital and pay shareholders. Operationally, they must have secure applications to handle loan funding, payment collection, and other critical administrative functions. Legal and compliance risk encompass the potential exposure when laws and regulations are not followed. Reputation risk can result when a seller or servicer is cited for malfeasance.

Selling and servicing operations can create different types of risks. A seller is susceptible to risks that include; securing debt facilities at favorable terms to fund originations; and the effect of changes in prevailing interest rates that can impact origination and refinance volume. A servicer faces risk when prevailing interest rates decline causing an increase in prepayment speeds, increased amortization expenses, a decline in servicing income, and a decrease in the value of mortgage servicing assets. In addition, rising loan delinquency rates can create much higher servicing costs, and higher financing costs when servicing facilities are utilized. Finally, subservicers face financial risks as they are reliant on the owner of the servicing assets to maintain a contractual relationship with the company performing the servicing function.

### Selection of Seller/Servicers

Each Seller/Servicer must apply with an Enterprise prior to doing business with it. An Enterprise performs due diligence including assessing a company's financial and operational competencies, and legal and regulatory compliance, prior to entering into a contractual relationship with a Seller/Servicer. Risk factors used to assess eligibility are consistent with, and supportive of, the standards for approving Seller/Servicers articulated in an Enterprise's risk management policies. While Seller/Servicers may be either bank or non-bank entities, non-bank Seller/Servicers may present different risks to an Enterprise as they do not have the same capital requirements as regulated financial institutions and are not subject to the same regulatory oversight as bank Seller/Servicers. These differences may warrant separate policy guidance to properly manage risks associated with types of Seller/Servicers or guidance specific to a single Seller/Servicer.

As a result of changes in the servicing industry, FHFA directed Fannie Mae and Freddie Mac to update their operational and financial counterparty standards for mortgage Seller/Servicers in 2015. These eligibility requirements are intended to help ensure the safe and sound operation of the Enterprises and provide greater transparency, clarity, and consistency to industry participants and other stakeholders. The minimum standards apply to all Seller/Servicers that conduct business with the Enterprises. The financial requirements address minimum net worth, capital ratio, and liquidity criteria. Non-depository Seller/Servicers were primarily impacted by the requirements as the regulatory safety and soundness standards for depository institutions exceed these minimum financial requirements.

As part of the application process, an Enterprise may meet with the Seller/Servicer and request the Seller/Servicer to demonstrate its ability to meet specific financial and operational requirements as outlined in an Enterprise's selling and servicing guide. At a minimum, to be an Enterprise- approved Seller/Servicer, the Seller/Servicer applicant must:

- Have adequate facilities and staff that are experienced in originating, selling, or servicing single-family mortgages;
- Be properly licensed and organized to conduct business in each of the jurisdictions in which it originates, sells, and services mortgages;
- Meet the minimum capital and liquidity thresholds set by an Enterprise;
- Have the ability to meet selling and servicing guide requirements and other contractual provisions, under stable and adverse economic scenarios;
- Have internal audit and management controls for evaluating and monitoring the overall quality of its loan production or servicing;
- Have an acceptable post-closing quality control program (e.g., quality control independence);
- Have written procedures to approve and manage vendors and other third-party service providers; and
- Provide a fidelity bond and an errors and omissions insurance policy that meets the relevant Enterprise's insurance and threshold requirements.

An Enterprise will validate the above requirements on at least an annual basis through ongoing monitoring, which may include a financial analysis, onsite operational audit, quality control assessment, and periodic site visit. The oversight methodology may vary based on the size of the entity with a different review protocol used for the selling and servicing processes.

**Master Agreements**

After approval of a Seller/Servicer has been granted, an Enterprise negotiates specific contract terms with each Seller. Once the terms are agreed upon, the Seller or Servicer may enter into a Master Agreement (MA) or a Pooling and Servicing agreement (PSA) with an Enterprise. A MA is an "umbrella" document that supplements the general guidelines and requirements of an Enterprise's selling and servicing guides. It sets forth the additional terms under which the Enterprise purchases loans from originators whether the business relates to mortgage backed securities pools or whole loan deliveries. The PSA is a legal document that contains the responsibilities and rights of the servicer, trustee, and others over a pool of mortgage loans. Also, an Enterprise may have programs for particular lenders that do not require master agreements. Both the MA and the PSA are master contracts that must be customized to include terms specific to the Seller/Servicer (*e.g.*, routine servicing responsibilities, loan delivery terms, pricing, and volume) and establish the obligations of both parties. For each MA, the Seller/Servicer agrees to reps and warrants regarding the characteristics and eligibility of the mortgage loans that the Seller/Servicer is selling or servicing.

When authorized by an Enterprise, an approved Servicer may execute a contract with a subservicer to perform servicing activities on behalf of the Seller/Servicer for the benefit of an Enterprise. Generally, the contractually-liable Servicer of record will be subject to the servicing reps and warrants made by the original Servicer under the MA or the PSA. (See the module on Third-Party Relationship Management for more specific examination guidance on third-party risks.)

The MA and the PSA, in combination with the selling and servicing guides, define or describe the basic legal relationship between each Seller/Servicer and an Enterprise. The MA and the PSA incorporate by reference, general provisions, and reps and warrants in an Enterprise's selling and servicing guides and announcements, technology licensing agreements, and other agreements. The approved use of an Enterprise's proprietary systems, such as an automated underwriting system, may also subject the Seller/Servicer to these general provisions, including reps and warrants. The MA or PSA may provide general terms and conditions for acquisitions and servicing, state the types of mortgages that the Seller may sell to an Enterprise, and define certain default events and contract termination provisions. Seller/Servicers may enter into supplemental agreements with an Enterprise that further describe specific credit support obligations, repurchase obligations, and agreements for excess servicing financing structures, recourse, loss sharing, and indemnification.

In addition to the conditions required to obtain Enterprise-approved Seller/Servicer status, the Seller/Servicer is subject to several explicit reps and warrants contained in the MA and the selling and servicing guides. For example, as noted above, the Seller/Servicer must represent that it has a fidelity bond and errors and omissions insurance coverage. A fidelity bond protects the Seller/Servicer against economic loss from dishonest acts of its employees. Errors and omissions coverage protects the Seller/Servicer against negligence, errors, and omissions in maintaining hazard and flood insurance, maintaining any loan guarantee or mortgage insurance, and paying real estate taxes and special assessments. In addition, the Seller/Servicer represents and warrants as to the accuracy and completeness of the borrower data, to clear title, to meeting an Enterprise's underwriting and delivery standards, and to the enforceability of legal documentation underlying the mortgage. Breaches of the reps and warrants entitle an Enterprise to various remedies and rights, which are discussed later in this module.

**Seller/Servicer Business Model**

When a loan is part of an MBS pool, the Seller/Servicer pays a fee for an Enterprise to assume the credit risk and guarantee timely payment of principal and interest in the event of default. The amount of the guarantee fee is calculated as a discount factored into the purchase price. The Seller/Servicer earns revenue based on the price it receives from an Enterprise and from fees charged to the borrower for originating the loan. For whole loan acquisitions (*i.e.*, loans that are not part of an MBS pool), the price is based on the value of the expected cash flows coupled with the credit characteristics of the loans.

The revenue model for a Seller/Servicer also includes a servicing fee, but the fee is an all-in fee, net of the cost to service the loans and the guarantee fee. The Seller/Servicer will realize a lower return than expected if the servicing costs are higher than expected. Servicing nonperforming loans can pose cash flow challenges if no payments are being made while expenses continue to accrue. These expenses may include taxes and insurance, P&I, or maintenance expenses.

Generally, the larger Seller/Servicers benefit from economies of scale, reducing the marginal cost of servicing per loan. Due to the routine nature of processing payments on performing loans, after the fixed investment in infrastructure, the cost of servicing for a high-volume Seller/Servicer decreases for each loan serviced when compared to a low volume Seller/Servicer.

Large Seller/Servicers add complexity to the industry from a loan pricing and business standpoint because they aggregate loans and servicing rights from smaller banks and correspondent lenders and sell these loans to an Enterprise. High-volume Seller/Servicers, known as conforming loan aggregators to an Enterprise, compete with an Enterprise to buy whole loans, but may also earn a profit on the subsequent sale of the whole loans via the servicing fee obtained from an Enterprise. The large Seller/Servicer can earn a higher profit from an Enterprise on the spread between servicing fees less the cost of servicing and the guarantee fees through economies of scale including efficient technology platforms.

The incentives to sell loans to an Enterprise include: reallocating capital (in this case, the principal of the loan) for reinvestment, off-loading credit risk, performing portfolio asset management, and reducing interest rate risk. For mortgage originators that do not service loans, their earnings rely on one-time origination fees collected from the borrower and the spread between the sales price and the cost of funding the loan. An Enterprise calculates its price, in part, on the expected future cash flows.

**Breach of MA and Remedies under Representations and Warranties**

Breaches of reps or warrants may allow an Enterprise to pursue remedies, possibly including requiring the repurchase of a loan, and may ultimately result in the termination of a Seller/Servicer if repurchase requests represent a material percentage of the Seller/Servicer's equity, thus compromising its capacity to buy the loan(s) back. There are also servicing reps and warrants that represent liabilities to a servicer in cases of noncompliance. Examples of breaches may include: failing to follow the requirements of the selling and servicing guides, failing to meet an Enterprise's net worth and other financial requirements, failing to develop contingency plans for service interruption, and failing to meet any of the other Enterprise-approved Seller/Servicer eligibility requirements.

Effective January 1, 2013, the Enterprises implemented a new representation and warranty framework at the direction of FHFA to provide sellers with more clarity in repurchase exposure and liability on future loans sold to the Enterprises. The new framework, referred to as "Contract Harmonization," relieves sellers from certain representations and warranties, such as those relating to credit underwriting and eligibility of the borrower and property that were formerly effective for the life of the loan. Under this initiative, repurchase relief is granted to sellers if loans acquired by an Enterprise on or after January 1, 2013, meet specific acceptable payment history criteria of 12, 36, or 60 months, depending on the loan product and when it was acquired. The initiative also categorizes servicing defects and lists the remedy for each specific defect. Remedies range from making a correction, indemnifying the Enterprise, or in worst case scenarios, a make-whole, or a required repurchase of the mortgage loan.

Certain breaches of reps or warrants are not eligible for relief from enforcement remedies. These "life-of-loan" exclusions fall into six categories: 1) misrepresentations, misstatements, and omissions; 2) data inaccuracies; 3) charter compliance issues; 4) first-lien priority and title matters; 5) legal compliance violations; and 6) unacceptable mortgage products. For loans identified with misrepresentations or data inaccuracies, two additional criteria must be met to trigger the life-of-loan exclusion. First, there must be a pattern of misrepresentations or data inaccuracies that is identified in a minimum number of loans. Second, a significance test requires an Enterprise to determine that the loan would have been ineligible for purchase initially if the loan information had been accurately reported.

**Suspension or Termination of a Seller/Servicer**

A Seller/Servicer agreement may be suspended or terminated at an Enterprise's sole discretion. A breach of reps and warrants, often results in the suspension or termination depending on the extent and dollar amount of the violations. An Enterprise may terminate a Seller/Servicer agreement without cause by providing advance written notice to the other party of the intent to do so. Also, an Enterprise must engage with its legal division when terminating the selling or servicing arrangement and may not terminate retroactively. An Enterprise also may not transfer servicing or reject an eligible loan delivery until the termination has been completed. Termination of a selling arrangement is effective immediately upon notice. However, the termination of a servicing arrangement requires a specified period of time during which the Seller/Servicer may organize a sale of the servicing rights to another Enterprise-approved Seller/Servicer.

Termination of a Seller/Servicer agreement does not release the Seller/Servicer from a breach of reps and warrants. This applies even if the breach is not discovered until after the termination, did not result in a loss, or the selling warranty was assumed in connection with an earlier transfer of servicing to another Enterprise-approved Seller/Servicer. Servicing obligations related to mortgages or MBS pools that preceded the termination will continue to exist after the termination unless an Enterprise expressly agrees in writing to release these obligations. For example, a Seller/Servicer may be required to repurchase a mortgage when a breach of a selling warranty is identified, even after the Seller/Servicer's arrangement with an Enterprise has been terminated. Additionally, an Enterprise's termination of a Seller/Servicer does not affect any whole loan commitments or pool purchase contracts that the Seller/Servicer has outstanding with an Enterprise at the time of the termination.

As an alternative remedy to terminating a selling or servicing arrangement, an Enterprise may penalize or suspend a Seller/Servicer who does not meet the requirements of its selling or servicing agreement. An Enterprise may restrict buying loans with certain characteristics by providing the Seller/Servicer official notice of its deficiencies and an opportunity to correct the findings. Alternatively, an Enterprise may opt not to restrict future business and take immediate action to suspend the agreement. Suspension may apply to a selling arrangement, to all products, or to specific products, depending on the type and seriousness of the Seller/Servicer's failure to perform. As part of a suspension, an Enterprise may require the Seller/Servicer to transfer the servicing to another Enterprise-approved Servicer. If the Seller/Servicer is unable to identify an Enterprise-approved Seller/Servicer to buy the servicing rights during the prescribed time, an Enterprise may transfer the servicing to a Seller/Servicer of its own choice.

Because an Enterprise does not perform its own servicing, it may encounter a variety of operational challenges when transferring servicing between Servicers. This includes obtaining timely payment data and borrower documentation. Although an Enterprise may be in the midst of transferring servicing, it must ensure that payments to its MBS investors continue without interruption. An Enterprise is also responsible for ensuring that Servicer advances are reimbursed after the servicing is transferred.

**Monitoring Seller/Servicers**

To maintain status as an Enterprise-approved Seller/Servicer, the Seller/Servicer must be in compliance with the respective terms of the MA, PSA, and any supplemental agreements, as well as the terms outlined in the selling and servicing guides. Among those requirements, a non-bank Seller/Servicer must submit quarterly financial information to an Enterprise supporting its financial condition and describing changes in certain operational information.

1) Seller/Servicers must also have the operational capability to perform their responsibilities. For example, when a loan is sold to an Enterprise, the Seller/Servicer identifies both the amount and timing for when the borrower's payments are to be passed through to an Enterprise. The Seller/Servicer must have the capability to appropriately track, sort, and remit the portions of the loan payments as required by an Enterprise. There are generally three remittance types: actual/actual, scheduled/scheduled, and scheduled/actual. For actual/actual remittances, the Seller/Servicer must remit the actual principal and interest collected from the borrower, net of servicing fees, to an Enterprise.

2) For scheduled/scheduled remittances, the Seller/Servicer must remit scheduled interest (net of servicing fees) and scheduled principal due, whether or not payment is collected from the borrower.

3) For scheduled/actual remittances, the Seller/Servicer must remit the scheduled interest (net of servicing fees) regardless of actual collections from the borrower and actual principal collected the month following receipt of funds.

Based on these three remittance options, Seller/Servicers must have the financial and operational capability to process delinquency and servicing advances where Seller/Servicers have yet to collect on the payments from borrowers. They are also responsible for having the operational capability to process scheduled payments on loans sold to an Enterprise.

An Enterprise has oversight processes for monitoring Seller /Servicer performance, especially for consistency with current business practices and as part of its counterparty risk management process. As part of ongoing monitoring, an Enterprise has risk-based procedures that require an evaluation of quarterly financial information, acquisition metrics, and servicing performance to identify any changes to a Seller/Servicer's risk profile.

Key Seller metrics may include loan quality, repurchase rates, and sales volume. Key Servicer metrics in monitoring performance often include default and delinquency roll rates, retention rates for modifications, liquidation efficiency of pre-foreclosure sales, and workout effectiveness rates. An Enterprise has various metrics on operational events that impact the performance of its Seller/Servicers.

An Enterprise may also elect to perform a comprehensive servicing review to evaluate the Seller/Servicer's performance. An Enterprise would notify the Seller/Servicer of its intention to perform a remote review or an on-site review. The Seller/Servicer must send the requested documentation or make it available for an on-site review within the time frame specified in the notification. During an Enterprise's interactions with Seller/Servicers and during any reviews or audits it may undertake, it may ask to review the Seller/Servicers' written policies and procedures, as well as examples of the application of those policies and procedures to specific instances. A Seller/Servicer that fails to maintain adequate quality control measures may be in breach of its MA, PSA, and the selling and servicing guide requirements.

An Enterprise may assess compensatory fees for noncompliance with specific requirements for origination, delivery, or servicing of loans. Examples of noncompliance could include delayed remittances of cash from borrowers, delays in connection with a completed foreclosure, failure to comply with commitment provisions, failure to identify loans subject to loan-level price adjustments or late payment of commitment, pair-off, or extension fees. A Seller/Servicer may also be subject to compensatory fees when it fails to properly apply and monitor payments for a bankrupt borrower, to monitor bankruptcy status, or to stop attempts to collect from a borrower in bankruptcy in contravention of any automatic stay on collections. The compensatory fees are generally calculated based on the length of the delay or failure and any additional costs that are directly attributable to the Servicer not timely performing its obligations. Compensatory fees may also take into consideration the outstanding principal balance of the mortgage loan and the applicable pass-through rate.

While the monitoring processes are an important tool for assessing performance, poor performance does not necessarily inform an Enterprise that the Seller/Servicer has breached its agreements or selling and servicing guide representations and warranties. An Enterprise relies on the Seller/Servicer to monitor its compliance with Enterprise requirements through regular post-closing quality control (QC) reviews, which is a critical loss mitigation strategy. The QC review process includes a review of loans to assess the accuracy and integrity of the information used to support the lending decision, the documentation of any defects identified through the review, and an assessment as to whether or not the loan complies with the Enterprise's selling guide. At a minimum, the Seller/Servicer should continue to maintain adequate internal audit and management control systems, for purposes of meeting the eligibility requirements and ensuring that the mortgage loans are serviced in accordance with sound mortgage banking and accounting principles. Further, the Seller/Servicer should be diligent in guarding against dishonest, fraudulent, or negligent acts and be alert to errors and omissions by officers, employees, or other authorized persons.

Separately, results from QC reviews conducted by an Enterprise may also provide vital information in assessing Seller/Servicer performance. As part of its own QC function, an Enterprise performs loan reviews across its Seller/Servicers. Enterprise compliance and QC reviews conducted as part of ongoing monitoring or targeted reviews include a risk-based focus on Seller/Servicers' compliance with consumer protection laws as detailed in Advisory Bulletin AB 2014-07, *Oversight of Single-Family Seller/Servicer Relationships*. Based on the extent of the deficiencies discovered in a QC review, an Enterprise may request that a Seller/Servicer repurchase a loan. Although there are several reasons for repurchase requests, they can generally be attributed to the following four categories: 1) a breach of a selling warranty (except as discussed in the section above regarding enforcement relief.); 2) improper servicing; 3) converting an adjustable rate mortgage in an MBS to a fixed- rate mortgage; or 4) certain circumstances which require a loan underlying an MBS to be purchased out of the pool. (See the supplemental examination guidance on *Single-Family Mortgage Underwriting and Acquisitions* for additional discussion on repurchases.)

The Enterprise should also have established criteria for identifying high-risk or high-volume Seller/Servicers to assess whether the deterioration in the condition of a Seller/Servicer would result in a significant disruption to their operations. A written contingency plan for these Seller/Servicers should provide a variety of actions that can be followed in the event limits established by the Enterprises are breached to allow for a reduction in exposures to the Enterprises or an effective exit strategy.

## Regulatory Environment

Regulated depositories that originate or service loans are supervised by their primary federal regulator based on the individual bank charter that allows the depository to operate. Regulators perform regular examinations and also conduct analyses when applicable.

The Consumer Financial Protection Bureau (CFPB) is the primary regulator responsible for the oversight of nonbank Seller/Servicers. The federal consumer financial regulations fall under the authority of the CFPB, which is authorized to conduct investigations, bring administrative enforcement proceedings or civil actions in federal district court. Seller/Servicers who originate, sell, or service loans on behalf of Fannie Mae and Freddie Mac are required to comply with all applicable laws and regulations per the guidelines contained in their respective selling and servicing guides. As such, state-licensed mortgage originators, brokers, lenders or servicers as well as banks, nonbanking affiliates, thrifts, and credit unions with assets over $10 billion can be subject to CFPB regulatory and rulemaking authority. The CFPB has no criminal enforcement authority, but it can and does refer cases to the appropriate agency including Department of Justice, Internal Revenue Service, and state attorneys general.

Each state requires that Seller/Servicers obtain a license to originate or service loans according to applicable state regulations. The Nationwide Multistate Licensing System (NMLS) is the system of record for non-depository, financial services licensing or registration in participating state agencies. NMLS is for companies and individuals seeking to apply for, amend, renew and surrender license authorities managed through by 62 state or territorial government agencies. State regulators use the NMLS to analyze and supervise companies in mortgages, money services, debt collection and consumer finance.

The primary rules, regulations, and other references pertaining to the examination of Seller/Servicer relationships with an Enterprise are listed below. Other resources that may be helpful to examiners are also listed.

**Rules and Regulations Relevant to Managing Single-Family Seller/Servicer Relationship Management Activities:**

- 12 CFR Part 1227 Suspended Counterparty Program
- 12 CFR Part 1233 Reporting of Fraudulent Financial Instruments
- FHFA Prudential Management and Operations Standards, Standard 8: Overall Risk Management Processes; Appendix to 12 CFR Part 1236
- FHFA Prudential Management and Operations Standards, Standard 9: Management of Credit and Counterparty Risk; Appendix to 12 CFR Part 1236
- U.S. Department of Housing and Urban Development - 24 CFR Part 81, Subpart C – Fair Housing
- Department of the Treasury Financial Crimes Enforcement Network, Final Rule titled Anti-Money Laundering Program and Suspicious Activity Report Filing Requirements for

Housing Government Sponsored Enterprises, 79 FR 10365 (Feb. 25, 2014), codified at 31 CFR Parts 1010 and 1030.

**FHFA Examination Resources Relevant to Managing Single-Family Seller/Servicer Relationship Activities:**

FHFA Advisory Bulletins:

- AB 2017-02: Information Security Management (September 28, 2017)
- AB 2017-01: Classifications of Adverse Examination Findings (March 13, 2017)
- AB-2014-07: Oversight of Single-Family Seller/Servicer Relationships (December 1, 2014)
- AB-2014-06: Mortgage Servicing Transfers (June 11, 2014)
- AB-2014-02: Operational Risk Management (February 18, 2014)
- AB-2013-01: Contingency Planning for High-Risk or High-Volume Counterparties (April 1, 2013)
- AB-2012-03: FHFA Examination Rating System (December 19, 2012)

**Non-FHFA Examination Resources Relevant to Managing Single-Family Seller/Servicer Relationship Activities:**

An Enterprise issues announcements, Seller and Servicer letters, and bulletins periodically and as needed. Many of these issuances are used to communicate updates to certain selling and servicing guide sections.

- Fannie Mae Single-Family Selling Guide. Available at https://www.fanniemae.com/content/guide/selling/index.html
- Fannie Mae Single-Family Servicing Guide. Available at: https://www.fanniemae.com/content/guide/servicing/index.html
- Freddie Mac Single-Family Seller/Servicer Guide. Available at: http://www.freddiemac.com/singlefamily/guide/

## Examination Workprogram

The workprogram for *Managing Single-Family Seller/Servicer Relationships* is detailed below. Examiners are expected to develop procedures that satisfy the specific objectives of the examination. The procedures should support the examination work program and, when executed, provide sufficient evidence to support a conclusion regarding the objective. Examiners should not exclusively rely upon representations made by management or work performed by other internal or external parties to support conclusions regarding an examination objective.

Examination procedures should include testing designed to confirm that policies, processes, controls, or models operate as intended. This may be achieved through transaction testing or other testing methods. In limited circumstances, examiners may determine that testing cannot be reasonably conducted. Examples of such circumstances include cases where there is insufficient data, a program or product is too new to test, or when testing cannot be scaled to a manageable level. In these instances, examiners are expected to document in the examination procedures, with the examination manager's approval, the rationale for not conducting testing.

An examiner may leverage testing performed by internal and external parties, such as internal or external audit functions, if (i) the testing used to support the examiner's conclusions is clearly applicable in the scope of the examination activity, and (ii) the examiner has assessed the methodology and results of any testing that is used to support the examiner's conclusions.

FHFA has no statutory authority to directly examine service providers to an Enterprise, such as Seller/Servicers. An Enterprise may, however, include terms authorizing FHFA's review in contractual agreements with the service providers. Such reviews might evaluate the internal control process, the financial capacity, and operational viability of the service provider.

**NOTE:** ***Text in italics referenced in a work step represents illustrative guidance that serves as suggestions for specific inquiry.***

### 1. Scope of Examination Work Performed

1) Review workpapers from the most recent examination when the scope included a review of single-family Seller/Servicer relationships.

2) Assess the status or review the remediation progress based on management's commitments of any outstanding examination findings (e.g., Matters Requiring Attention, Violations, or Recommendations) pertaining to the Enterprise's management of single-family Seller/Servicer relationships.

3) Review internal audit or quality assurance reports for outstanding issues relating to management of single-family Seller/Servicer relationships.

4) Review meeting minutes of the board of directors and relevant board and management committees for any issues related to an Enterprise's oversight and management of single-family Seller/Servicer relationships.

5) Review publicly available materials regarding single-family Seller/Servicer relationships as well as publicly produced articles of interest regarding single-family Seller/Servicer relationships. This information could include 10K and 10Q financial reports, the selling and servicing guide for an Enterprise.

6) Review any non-public internal risk analyses and metrics produced by FHFA staff.

7) Evaluate any significant changes in policy that have been implemented since the last examination or are being considered that may affect an Enterprise's risk profile related to an Enterprise's oversight and management of single-family Seller/Servicer relationships.

8) Access the Division of Conservatorship Status Tracking and Reporting (DOC STAR) system to determine if outstanding decisions (e.g., directives, orders) by the Conservator should be considered in the scope of single-family Seller/Servicer relationships examination work. (Refer to the module on *Compliance with Conservatorship Directives* for additional information.)

9) Review internal management reports, watch lists, internal risk ratings and classification analyses, scorecards, and operational incidents that address single- family Seller/Servicer relationships.

10) Collaborate with the model risk examiners if the examination scope includes an independent assessment of the model results produced by an Enterprise's credit models or an assessment of model governance. (See the module on Risk Modeling for additional details.)

11) Review internal management reports, assessments, and scorecards that address areas, such as Seller/Servicer asset quality, loan defect rates, master agreements (if applicable), and volume of mortgage loan acquisitions.

12) Review for and address any applicable portions of FHFA issued Advisory Bulletins or other examination guidance (Supervisory Directives or Examiner Practices Bulletins).

Summarize the work performed in the examination of the *Managing Single-Family Seller/Servicer Relationships* workprogram. To the extent there were modifications to the originally planned scope based on concerns identified during the examination, document those changes and the reasons for such changes.

## 2. Description of Risks

The following identifies key areas of risk to an Enterprise. If within the scope of the exam, the examiner should use these to evaluate changes within the organization or industry affecting risk and evaluate the entity's own risk-identification practices and conclude on their adequacy.

1) Consider the adequacy of the board of directors', relevant board committees', and management's level and quality of oversight and support, in their respective roles, of the Enterprise's management of single-family Seller/Servicer relationships, including the involvement of internal audit, legal, quality control or assurance groups, and other risk management functions.

2) Consider whether the Enterprise has a risk management process in place to monitor and manage the Seller/Servicer relationship for the duration of its life cycle, including due diligence and approval, contract negotiation, ongoing monitoring, and suspension/termination.

3) Consider the quality and effectiveness of strategic planning with respect to managing and monitoring single-family Seller/Servicer relationships.

4) Consider the adequacy of, and conformance with, appropriate internal policies and controls addressing the operations and risks of significant activities.

5) Consider the adequacy and appropriateness of management's record of identifying or correcting deficiencies.

6) Consider the soundness of credit administration practices with respect to monitoring Seller/Servicer contract representations and warranties, variances, repurchases, and servicing performance.

7) Consider the volume and nature of Seller/Servicer documentation exceptions.

8) Consider whether an Enterprise is monitoring its Seller/Servicer assessment standards to control for appropriate mortgage file creation, custody, and maintenance.

9) Consider whether the Enterprise has appropriately established the procedures to evaluate the Seller/Servicer's compliance with selling and servicing representations and warranties on servicing performance, loan quality, and Seller/Servicer eligibility (including warranties on compliance with applicable federal or state laws, regulations or other requirements on consumer credit, equal opportunity, and truth-in-lending.)

## 3. Risk Management

***Risk Identification Process***

1) Based on work steps performed under Description of Risks, consider the adequacy of the organization's risk identification process design. (*Has the Enterprise appropriately identified significant areas of potential risk resulting from the Enterprise's Seller/Servicer relationships? Is risk exposure monitored on an ongoing basis? Has the identification of potential risk resulted in establishing appropriate controls for the Enterprise's processes to manage single-family Seller/Servicer relationships?*)

2) Determine if an Enterprise has appropriately identified, monitored, and managed the credit and operational risk issues related to managing Seller/Servicer relationships. (*Do Enterprise personnel coordinate the mitigation of such risks appropriately throughout the organization and among the divisions of an Enterprise?*)

***Organizational Structure***

1) Identify the key personnel and their primary duties, responsibilities, and technical expertise to determine if resources are effectively deployed to manage Seller/Servicer relationships.

2) Evaluate the segregation of duties and cross-training of personnel to determine if resources are sufficient to manage single-family Seller/Servicer relationships. (*What steps has an Enterprise taken to address identified deficiencies in resources?*)

3) Evaluate the board of directors' committee structures to understand the level of risk in the loan portfolio from Seller/Servicers. (*Do board committees report pertinent information to the full board appropriately?*)

4) Evaluate management committees and delegated authorities to determine if they are effective in identifying and reporting the level and trends of risk in the performing loan portfolio by Seller/Servicer. (*Are there instances of risk (or potential risk) that were not identified by Enterprise personnel or were not considered by management? If so, what action was taken to prevent the recurrence of such events in the future?*)

***Policy and Procedure Development***

1) Assess if the Enterprise has established adequate policies for Seller/Servicer relationship management. (*Do the policies address:*

- *Risk identification;*
- *Due diligence (including in the assessment of eligibility requirements);*
- *Contract responsibilities and obligations;*
- *Oversight and monitoring;*

- *Procedures and standards (including guidelines for escalating significant concerns and standards for remedial action);*
- *Roles, responsibilities, authorities, and accountabilities;*
- *Documentation requirements; and*
- *Reporting requirements (performance metrics, key risk indicators)?*)

2) Evaluate an Enterprise's policies and practices for maintaining consistency across management of different single-family Seller/Servicer relationships (including those related to collecting payments for performing and delinquent loans and monitoring Seller/Servicer contract responsibilities). (*Have there been instances where policies or processes have not been consistently applied to all Sellers/Servicers? Have Enterprise personnel identified such instances? Did Enterprise management take appropriate corrective action? If the inconsistent application was related to approved variances, did the Enterprise perform a risk analysis prior to granting the variance?*)

3) Review any new collection or payment incentives and initiatives related to servicing performing and delinquent loans that are offered by the Enterprise. (*Are internal controls sufficient to ensure compliance with applicable policies, regulations, and risk limits? What new risks are presented to the Enterprise as a result of these new incentives and initiatives? Have appropriate policy and procedural controls been established to address these additional risks?*)

4) Review an Enterprise's policies and processes for the assignment of servicing and transfer of servicing.

5) Evaluate whether or not the Enterprise has procedures to appropriately monitor compliance with its policies for managing single-family Seller/Servicer relationships.

***Risk Metrics***

1) Evaluate any risk metrics established related to managing single-family Seller/Servicer relationships (including those related to collecting payments for performing and delinquent loans and monitoring Seller/Servicer contract responsibilities). (*Do the metrics appropriately consider significant aspects of potential risk to the organization? Are there metrics regarding concentrations, delinquency rates, and modification measures, for example?*)

2) Determine if risk metrics are consistent with the risk appetite of the organization and sound risk management practices. (*Do risk parameters established for managing single-family Seller/Servicer relationships (including those related to collecting payments for performing and delinquent loans and monitoring Seller/Servicer contract responsibilities) result in risk exposure beyond the Enterprise's overall risk appetite?)*

3) Determine the reasonableness of established risk metrics and management's efforts to ensure compliance with their limits. (*Is information reported to the board, board committees, and to*

*management accurate and comprehensive? What actions have been taken when risk metrics are not met by the Enterprise?*)

***Reporting***

1) Evaluate whether management reports to the board or relevant board committees on significant potential risks to an Enterprise resulting from managing single-family Seller/Servicer relationship activities are adequate (including those related to collecting payments for performing and delinquent loans and monitoring Seller/Servicer contract responsibilities). (*Is reporting adequate? Is information communicated in a comprehensive and meaningful fashion?*)

2) Review regularly produced reports related to managing single-family Seller/Servicer relationships. (*Do regularly produced reports include an evaluation of the Enterprise's compliance with established risk metrics? Are reports produced for loan repurchase requests and other breaches of Seller/Servicer requirements? Are the oversight reports by Seller/Servicers used appropriately to evaluate potential risk?*)

***Internal/External Audit***

1) For internal audits completed on processes for managing single-family Seller/Servicers since the previous examination, consult with the Office of the Chief Accountant (OCA) regarding any findings about the adequacy of the scope and testing performed by internal audit.

2) If there are no prior findings, select internal audits related to management of single-family Seller/Servicers and determine whether or not the scope of audit work was adequate and assess the adequacy of workpapers to support findings. (*Does the scope include an assessment of internal policies and procedures? Does the scope include testing compliance with policies? Does the scope include an evaluation of internal controls and testing of operational processes? Do the workpapers include a clear trail to conclusions? Do the workpapers identify areas for further review?*)

3) Coordinate with OCA to determine whether or not external audit performed work on processes for managing single-family Seller/Servicer relationship risk management and whether or not OCA performed an evaluation of the adequacy of the scope and testing completed by external audit.

***Information Technology***

1) Identify and assess the Enterprise's automated and manual systems and applicable controls for overseeing the processing of payments for performing loans. (*Has the Enterprise appropriately monitored Seller/Servicer payment processes for permitted payment changes?*)

2) Determine if the Enterprise's information systems are aligned with its goals and strategies managing Seller/Servicer relationships (including those related to monitoring Seller/Servicer contract responsibilities and collecting payments for performing and delinquent loans.)

3) Determine if an Enterprise has developed and tested its business continuity plan for the processes performed by the Seller/Servicer related to monitoring Seller/Servicer contract responsibilities and collecting payments for performing and delinquent loans. (*Is the testing of systems specific to the Seller/Servicer's collection of payments on performing loans considered in the Enterprise's business continuity plan? Does the Enterprise have appropriate actions in place to ensure the processes continue to operate when Seller/Servicers experience unexpected interruptions?*)

***Compliance***

1) Determine whether the Enterprise has processes in place to identify compliance risk associated with Seller/Servicers.

2) Assess the efforts of management or a board committee to ensure a Seller/Servicer has a program to ensure compliance with consumer protection and other laws and regulations. (*Have the board or management taken appropriate steps to address instances of non-compliance?*)

## 4. Testing

***Seller/Servicer Contracts and Performance***

1) Review a sample of new or renewed MAs and PSAs to determine whether or not the Enterprise has included explicit and enforceable reps and warrants. (*Does the MA/PSA include clear requirements as to the characteristics of mortgage loans eligible to be sold to the Enterprise or serviced for an Enterprise? Does adequate governance exist at the Enterprise to ensure that Seller/Servicer contracts are consistent with an Enterprise's business plan and charter?)*

2) Review a sample of new MAs and PSAs to determine if the Enterprise considers appropriate factors when negotiating Seller/Servicers' MAs and PSAs (*e.g.*, amount of the guarantee fee, certain loan eligibility attributes that may require variance approvals, financial capacity for volume limits). *(Does an Enterprise consider the individual Seller/Servicer's performance history? Does an Enterprise perform an analysis of the loan quality delivered by the Seller/Servicer? Are specific performance metrics reviewed prior to negotiating the Seller/Servicer's MA or PSA?)*

***Seller/Servicer Eligibility***

1) Review a sample of recently approved Seller/Servicers and determine whether an Enterprise performs appropriate due diligence in assessing a company's financial risk prior to its becoming an approved Seller/Servicer. (*Does the Enterprise consider factors such as:*

- *Overall financial strength and financial ratios trends;*
- *Business plan, expertise, and loan production sources;*
- *Ability to meet selling and servicing guides and contractual provisions, including representations and warranties, under stable and adverse economic scenarios;*
- *Existing and anticipated sources of income, capital, and liquidity;*
- *Quality of loans;*
- *Projected levels of loans, mortgage servicing rights (MSRs), and other servicing assets (e.g., MSR strips, servicing advances);*
- *Adequacy of fidelity bond and errors and omissions insurance coverage; and*
- *Complexity of the Seller/Servicer's financial structure, including the terms of any financial arrangements with other parties?)*

2) Review a sample of recently approved Seller/Servicers and determine whether the Enterprise performs appropriate due diligence in assessing a company's operational risk prior to its becoming an approved Seller/Servicer. *(Does the Enterprise consider factors such as:*

- *Current and prospective resources and capacity regarding staffing, facilities, technology infrastructure, and any sub-servicing arrangements;*
- *Organizational structure, complexity, and ownership, including affiliates;*
- *Key personnel, principals, and controlling shareholders, including information from background checks, when appropriate;*
- *Reliance on, exposure to, and performance of subservicers, location of subservicers, and the Seller/Servicer's ongoing monitoring program and quality control testing of subservicers;*
- *Seller/Servicer oversight of third-party service providers (e.g., mortgage brokers, appraisers) contractually obligated to the Seller/Servicer, not an Enterprise;*
- *Risk management program, internal controls and results of audits or reviews, including independent post-closing loan review process;*
- *Business continuity and contingency planning; and*
- *Information technology management program, including an information security process?)*

3) Review a sample of recently approved Seller/Servicers and determine whether the Enterprise performs appropriate due diligence in assessing a company's legal and compliance risk prior to its becoming an approved Seller/Servicer. *(Does an Enterprise consider factors such as:*

- *Maintenance of the appropriate federal and state charters or licenses required for or relevant to operating their business;*
- *Scope of federal and state regulatory oversight, both prudential and consumer protection;*
- *Compliance programs for applicable laws and regulations, including consumer protection laws;*
- *Record of compliance with applicable laws and regulations, based upon publicly available information;*

- *Publicly available information about supervisory and legal actions, including criminal and civil actions, taken against the Seller/Servicer, key personnel, principals or controlling shareholders, and affiliates;*
- *Publicly available information about investigations and litigation initiated by federal and state authorities, and agreements reached in conjunction with those actions, including the assessment of fines;*
- *Orders issued under the FHFA Suspended Counterparty Program; and*
- *Significant consumer complaints or a pattern of consumer complaints?)*

***Seller/Servicer Monitoring***

1) Evaluate whether an Enterprise performs appropriate risk-based monitoring of its Seller/Servicers. (*Verify that ongoing monitoring includes, as appropriate, based on the risk associated with a particular Seller/Servicer, factors such as:*

- *Factors assessed during the approval process;*
- *Volume of loans sold; MSRs retained, sold, transferred, or pledged; and servicing transfer activity, noting rapid or significant changes;*
- *Outstanding obligations and past performance regarding repurchase requests and compensatory fees;*
- *Adherence to approved terms of business, including minimum capital and liquidity requirements, sales volume, and product limitations;*
- *Delivery and servicing performance record;*
- *Contractual ability of the Enterprise to access Seller/Servicer records and conduct onsite visits:*
- *Results of operational reviews performed by an Enterprise;*
- *Results of the Enterprise's review of a Seller/Servicer or information about a Seller/Servicer's compliance with consumer protection and other laws where the Enterprise may have liability as a result of the Seller/Servicer's noncompliance;*
- *Record of compliance with Seller/Servicer guides and other contractual terms, including compliance with laws and regulations, based on Enterprise compliance and quality control reviews;*
- *Results of fraud and data integrity reviews;*
- *Volume, type, and pattern of Seller/Servicer guide waivers considering documented justification for waivers and results of ongoing performance reviews of loans with waivers relative to justification and expectations;*
- *Sufficiency and timeliness of performance data to evaluate the quality and effectiveness of Seller/Servicer processes for actual and projected volumes;*
- *Accuracy and completeness of loan recordkeeping, including loan data systems and loan documentation, throughout the life of the loan;*
- *Changes in the Seller/Servicer's business model, strategies, or practices; and*
- *Operational and system complexity, including after an acquisition or merger involving multiple locations, systems, and processes.*)

2) Select a variety of Seller/Servicers to determine whether or not an Enterprise is adequately monitoring their adherence to its MA. (*Are they consistently complying with the MA? If variances are noted, are they appropriately documented and supported? What happens with unapproved variances? Does the Enterprise appropriately monitor eligibility and consistently review new applications for eligibility from potential Seller/Servicers in accordance with the selling guide and servicing guide?*)

3) Review the financial condition for a sample of Seller/Servicers to determine if an Enterprise has adequate governance processes to monitor their financial condition and capacity to perform under their MA or PSA. (*Does the Enterprise require and review regular financial statement submissions and evaluate capital adequacy and liquidity? Does an Enterprise prepare contingency plans for adverse events that could lead to insolvency?*)

4) Review the latest cash management reviews conducted by the Enterprise regarding Seller/Servicer payment systems and controls. (*Are the processes used by Seller/Servicers for collecting payments on performing and delinquent loans consistent with key Enterprise requirements? Do the payment systems and controls of these Seller/Servicers present identified risks to an Enterprise? If the recent reviews indicated previously unidentified risk, have risk mitigation strategies and controls been developed?*)

***Contract Representations and Warranties***

1) Review a sample of repurchases due to breaches of the MA or PSA. (*Has an Enterprise appropriately monitored compliance with reps and warrants? Are remedies and rights resulting from breaches of MA or violations of reps and warrants being consistently applied or exercised, respectively? Is there adequate governance to identify breaches of the MA or violations of reps and warrants?)*

2) Review a sample of repurchases due to breaches related to document warranties (i.e., legal documents used for a mortgage, such as security instruments, notes, and assignments). (*Has an Enterprise appropriately monitored document warranties? Has the Enterprise performed controls regarding document warranties to gain comfort over the Seller/Servicer processes?)*

## 5. Conclusions

1) Summarize conclusions for all examination work performed, including work performed by other FHFA staff as it relates to an Enterprise's management of Single-family Seller/Servicer relationships. Develop a memorandum describing the risks to the Enterprise resulting from the Seller/Servicer and an Enterprise's management of the related Seller/Servicer risks. The memorandum describes the basis of conclusions reached and summarizes the analysis completed. Within the memorandum, discuss the types of risk the Enterprise is exposed to (e.g., asset quality, management, operational); the level of risk exposure; the direction of risk (stable, decreasing, increasing); and the quality of Seller/Servicer relationship management

practices (strong, adequate, weak). A memorandum must be prepared irrespective of whether the examiner's assessment is positive or negative.

2) Conclude on the responsiveness to previous examination findings. Evaluate the adequacy of an Enterprise's response to previous examination findings and concerns.

3) Develop findings and prepare findings memorandums, as appropriate. Based on examination work performed, develop findings communicating concerns identified during the examination. Findings should identify the most significant risks to the Enterprise and the potential effect on the Enterprise resulting from the concerns identified. Significant findings should describe a specific end result that will resolve the issue. Communicate preliminary findings to the Examiner-in-Charge. Discuss findings with Enterprise personnel to ensure the findings and analyses are free of factual errors.

4) Develop a list of follow-up items to evaluate during the next examination. In addition to findings developed in the steps above, include concerns noted during the examination that do not rise to the level of a finding. Potential concerns include issues the Enterprise is in the process of addressing but require follow-up work to ensure actions are completed appropriately. In addition, potential concerns should include anticipated changes to the Enterprise's practices or anticipated external changes that could affect an Enterprise's future oversight of Seller/Servicer relationship management practices.