

## Loan Defect Categories\*

August 27, 2013

This list shows the loan defects, by categories, identified by Fannie Mae in post-purchase review of our acquisitions. These defects (which may be eligibility violations) are referenced in reporting to lenders on the quality of their deliveries.

\*Non-exclusive list as of June 1, 2013; subject to change.

### Loan Defects

Category	Subcategory	Defect
<b>Assets</b>	Asset Eligibility	<ul style="list-style-type: none"> <li>• IPC – excessive contribution amount</li> <li>• IPC – excessive for transaction</li> <li>• IPC – sales concessions</li> <li>• Minimum borrower investment</li> <li>• Unacceptable source of funds – general</li> <li>• Unacceptable source of funds – gift</li> </ul>
	Asset Calculation/ Analysis	<ul style="list-style-type: none"> <li>• Insufficient assets – reserves</li> <li>• Insufficient assets for reserves – 5–10 financed properties</li> <li>• Insufficient assets for reserves – investment/retirement accounts</li> <li>• Insufficient assets to close</li> <li>• Insufficient assets to pay off debt</li> <li>• Undocumented large deposit</li> </ul>
	Asset Documentation	<ul style="list-style-type: none"> <li>• Age – general assets</li> <li>• Assets – misrepresentation</li> <li>• Assets not converted to dollars</li> <li>• Illegible</li> <li>• Incomplete – assets</li> <li>• Missing – asset</li> <li>• Missing – earnest money</li> <li>• Missing – gift</li> <li>• Missing – liquidation of investment/retirement</li> <li>• Missing – sale proceeds</li> </ul>
<b>Borrower and Mortgage Eligibility</b>	Borrower eligibility	<ul style="list-style-type: none"> <li>• Legal entity</li> <li>• Social Security Number – misrepresentation – deceased/not issued/before birth date</li> <li>• Social Security Number – misrepresentation – multiple Individuals with SSN</li> <li>• Social Security Number – misrepresentation – multiple SSN with borrower</li> <li>• Social Security Number – none</li> </ul>

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		<ul style="list-style-type: none"> <li>• Strawbuyers – misrepresentation</li> <li>• Trusts</li> </ul>
	Mortgage / Program Eligibility	<ul style="list-style-type: none"> <li>• Loan amort term – exceeded maximum</li> <li>• Loan amort type – balloon</li> <li>• Loan purpose – continuity of obligation</li> <li>• Loan purpose – incorrect</li> <li>• Loan purpose – purchase – non–arms length</li> <li>• Loan purpose – refinance terms – excessive cash back</li> <li>• Loan purpose – refinance terms – land contract</li> <li>• Loan purpose – refinance terms – ownership/property history</li> <li>• Loan purpose – refinance terms – pay off sub fin</li> <li>• LTV/CLTV/HCLTV – calculation</li> <li>• LTV/CLTV/HCLTV – exceeds guidelines</li> <li>• LTV/CLTV/HCLTV – excessive HCLTV</li> <li>• LTV/CLTV/HCLTV – manufactured housing</li> <li>• LTV/CLTV/HCLTV – sub fin documentation</li> <li>• Occupancy – manufactured housing</li> <li>• Occupancy – misrepresentation</li> <li>• Occupancy – second home eligibility</li> <li>• Product parameter – borrower removal</li> <li>• Product parameter – contract variance</li> <li>• Product parameter – delinquent at or before delivery</li> <li>• Product parameter – documentation level</li> <li>• Product parameter – ineligible subordinate financing</li> <li>• Product parameter – number of financed properties</li> <li>• Product parameter – TX 50(a)(6)</li> <li>• Underwriting method</li> <li>• Underwriting method – RWC</li> <li>• Underwriting method – variance</li> <li>• Refi Plus™ – delinquent at or before delivery</li> <li>• Refi Plus – DTI exceeds maximum allowable</li> <li>• Refi Plus – min credit score requirement not met</li> <li>• Refi Plus/DU® Refi Plus – prior loan acquired after allowable date</li> <li>• Refi Plus/DU Refi Plus – prior loan ineligible for product</li> <li>• Refi Plus/DU Refi Plus – prior loan not a Fannie Mae loan</li> </ul>
Credit	Credit Calculation/Analysis	<ul style="list-style-type: none"> <li>• Insufficient/unacceptable nontraditional credit</li> <li>• Representative credit score was inaccurately calculated</li> <li>• Incorrect representative credit score delivered</li> </ul>
	Credit Eligibility	<ul style="list-style-type: none"> <li>• Minimum credit score requirement not met</li> <li>• Open collections, charge-offs, or past-due balances</li> <li>• Open judgments, garnishments, and liens</li> <li>• Significant derogatory event – extenuating circumstances</li> </ul>

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		<ul style="list-style-type: none"> <li>• Significant derogatory event – insufficient re-established credit</li> <li>• Significant derogatory event – insufficient waiting period</li> <li>• Unacceptable mortgage history</li> </ul>
	Credit Documentation	<ul style="list-style-type: none"> <li>• Fabricated/misrepresentation – nontraditional credit</li> <li>• Missing – extenuating circumstances documentation</li> <li>• Missing credit report</li> </ul>
<b>Liabilities</b>	Liability Calculation/Analysis	<ul style="list-style-type: none"> <li>• Debts not paid off</li> <li>• Monthly payments not properly calculated</li> <li>• Undisclosed liability</li> <li>• Undisclosed mortgage</li> </ul>
	Liability Documentation	<ul style="list-style-type: none"> <li>• Missing documentation to support omission of debts</li> </ul>
<b>Income/ Employment</b>	Income Calculation/Analysis	<ul style="list-style-type: none"> <li>• Declining variable income</li> <li>• Incorrect income calculation – retirement</li> <li>• Incorrect income calculation – bonus/commission/OT</li> <li>• Incorrect income calculation – business expenses</li> <li>• incorrect income calculation – other</li> <li>• Incorrect income calculation – rental income</li> <li>• Incorrect income calculation – rental loss</li> <li>• Incorrect income calculation – salary</li> <li>• Incorrect income calculation – self-employed</li> <li>• Insufficient income</li> </ul>
	Income Documentation	<ul style="list-style-type: none"> <li>• Income – misrepresentation</li> <li>• Income documentation – aged</li> <li>• Income documentation – employed by family member</li> <li>• Income documentation – missing – all</li> <li>• Income not documented – rental</li> <li>• Income not documented – bonus/commission/OT</li> <li>• Income not documented – commission +25%</li> <li>• Income not documented – other</li> <li>• Income not documented – salary</li> <li>• Income not documented – self-employed</li> </ul>
	Income Eligibility	<ul style="list-style-type: none"> <li>• Income continuance – unacceptable</li> <li>• Source of income not allowed</li> <li>• Unacceptable history of income – bonus/commission/OT</li> <li>• Unacceptable history of income – other</li> <li>• Unacceptable history of income – salary</li> <li>• Unacceptable history of income – self-employed</li> </ul>
<b>Insurance</b>	Insurance Analysis	<ul style="list-style-type: none"> <li>• Mortgage insurance – inadequate coverage</li> </ul>
	Insurance	<ul style="list-style-type: none"> <li>• Flood insurance not documented</li> </ul>

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	Documentation	<ul style="list-style-type: none"> <li>• Hazard policy not documented</li> <li>• Mortgage insurance – not documented</li> </ul>
	Insurance Eligibility	<ul style="list-style-type: none"> <li>• Flood zone – no active policy</li> <li>• Mortgage insurance – rescinded/cancelled</li> <li>• Primary MI does not meet MI company or lender origination guidelines</li> <li>• Title insurance not valid</li> <li>• USDA – Rural Housing guarantee rescinded failure to obtain</li> <li>• USDA – Rural Housing guarantee never activated at origination</li> <li>• USDA – Rural Housing not eligible for RD guarantee</li> </ul>
<b>Legal/ Regulatory/ Compliance</b>	Title/Lien Defect	<ul style="list-style-type: none"> <li>• Chain of title /clouded title</li> <li>• Impaired right, title, &amp; interest</li> <li>• Incorrect legal description</li> <li>• Loan not funded or pending rescission</li> <li>• Not first lien</li> <li>• Not first lien – life estate</li> <li>• Title – misrepresentation</li> </ul>
	Anti-Predatory Violation	<ul style="list-style-type: none"> <li>• Arbitration</li> <li>• HOEPA violation</li> <li>• HOEPA violation – purchase transaction</li> <li>• Points and fees</li> <li>• Prepayment penalties</li> <li>• Single premium credit insurance</li> <li>• State "high-cost" limit</li> </ul>
	Pool Violation	<ul style="list-style-type: none"> <li>• Amortization type – FRM in ARM pool</li> <li>• Amortization type – IO in FRM pool</li> <li>• Amortization type – IO in non-IO pool</li> <li>• Amortization type – neg am</li> <li>• ARM characteristics – adjustment frequency outside of prospectus</li> <li>• ARM characteristics – ceiling rate outside of prospectus</li> <li>• ARM characteristics – initial period outside of prospectus</li> <li>• ARM characteristics – lifetime floor outside of prospectus</li> <li>• ARM characteristics – lifetime floor outside of prospectus2</li> <li>• ARM characteristics – lifetime floor outside of prospectus3</li> <li>• ARM characteristics – mtg margin exceeds guidelines</li> <li>• ARM characteristics – periodic interest rate caps/floors outside of prospectus</li> <li>• Capitalize interest – not permitted in MBS pool</li> <li>• First payment date incorrect</li> <li>• Index does not match pool</li> <li>• Interest-only period does not match pool</li> <li>• Loan term/maturity date does not match prospectus</li> <li>• Note rate – IO period outside of pool</li> </ul>

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		<ul style="list-style-type: none"> <li>• Note rate – outside of pool</li> <li>• Payment terms – TPR in MBS pool</li> </ul>
<b>Loan package Documentation</b>	Application/Processing Documentation	<ul style="list-style-type: none"> <li>• DU or AUS findings report – missing or defective</li> <li>• Loan application defective – incorrect borrowers</li> <li>• Loan application defective – missing page</li> <li>• Loan application defective – not for subject transaction</li> <li>• Loan application defective – illegible</li> <li>• Loan application defective – not signed</li> <li>• Loan application missing</li> <li>• Other application/processing documentation</li> <li>• Sales contract missing or defective</li> </ul>
	Closing/Title Documentation	<ul style="list-style-type: none"> <li>• Final settlement statement defective – amount not matching</li> <li>• Final settlement statement defective – date not matching</li> <li>• Final settlement statement defective – missing borrower side</li> <li>• Final settlement statement defective – missing pages</li> <li>• Final settlement statement defective – missing seller side</li> <li>• Final settlement statement defective – not signed</li> <li>• Final settlement statement defective – not subject transaction</li> <li>• Final settlement statement illegible</li> <li>• Final settlement statement missing</li> <li>• Final TIL – illegible</li> <li>• Final TIL defective – missing page</li> <li>• Final TIL defective – not for subject transaction</li> <li>• Final TIL missing</li> <li>• Note – missing</li> <li>• Note defective – Illegible</li> <li>• Note defective – missing pages</li> <li>• Note defective – not for subject transaction</li> <li>• Note defective – not signed</li> <li>• Other closing/title documentation</li> <li>• Security instrument – defective</li> <li>• Security instrument – missing</li> </ul>
	Loan File	<ul style="list-style-type: none"> <li>• Loan file missing</li> </ul>
<b>Project Eligibility</b>	Condominium	<ul style="list-style-type: none"> <li>• Ineligible condominium project</li> <li>• Ineligible condominium project review</li> </ul>
	Cooperative	<ul style="list-style-type: none"> <li>• Ineligible cooperative project</li> <li>• Ineligible cooperative project review</li> </ul>
	General Project Eligibility	<ul style="list-style-type: none"> <li>• Ineligible condominium or co-operative hotel</li> <li>• Miscellaneous</li> </ul>
	PUD	<ul style="list-style-type: none"> <li>• Ineligible PUD project</li> <li>• Ineligible PUD project review</li> </ul>

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<b>Property Eligibility</b>	Manufactured Housing–Specific	<ul style="list-style-type: none"> <li>• Manufactured housing – on-frame modular</li> <li>• Manufactured housing – physical features</li> <li>• Manufactured housing – site features – leasehold estate</li> <li>• Miscellaneous</li> </ul>
	Site and Utilities	<ul style="list-style-type: none"> <li>• Accessibility/private road</li> <li>• Accessibility private road–ingress/egress</li> <li>• Encroachment/land use</li> <li>• Environmental hazards</li> <li>• Miscellaneous</li> <li>• Parcel issues</li> <li>• Utilities</li> </ul>
	Subject and Improvements	<ul style="list-style-type: none"> <li>• Miscellaneous</li> <li>• Number of units</li> <li>• Safety, soundness, and structural integrity</li> </ul>
	Zoning and Usage	<ul style="list-style-type: none"> <li>• Illegal accessory unit</li> <li>• Illegal zoning</li> <li>• Miscellaneous</li> <li>• Mixed use</li> <li>• Non-residential use – agricultural use/undeveloped land</li> <li>• Non-residential use – undeveloped land site analysis parameters site conformity</li> <li>• Zone commercial</li> </ul>
<b>Appraisal</b>	Adjustments	<ul style="list-style-type: none"> <li>• Adjustment not correctly applied</li> <li>• Failure to adequately adjust</li> <li>• Inadequate adjustment</li> <li>• Miscellaneous</li> <li>• Unsupported adjustments</li> </ul>
	Comparable Selection	<ul style="list-style-type: none"> <li>• Dated sales</li> <li>• Location</li> <li>• Location – exclusive use of sales from the subject project/development</li> <li>• Manufactured housing</li> <li>• Miscellaneous</li> <li>• Physical characteristics</li> <li>• Physical features – nontraditional property</li> <li>• Site characteristics</li> <li>• Transaction/ownership type</li> </ul>
	Appraisal Data Integrity	<ul style="list-style-type: none"> <li>• Comparable transaction – data source</li> <li>• Comparable physical features</li> <li>• Comparable physical features – photos</li> <li>• Comparable sales/listing history</li> </ul>

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		<ul style="list-style-type: none"> <li>• Comparable site features</li> <li>• Comparable transaction details – creation of comparable sales</li> <li>• Comparable transaction details – MLS data source</li> <li>• Comparable transaction details – ownership</li> <li>• Market conditions</li> <li>• Market conditions – foreclosure market</li> <li>• Miscellaneous</li> <li>• Subject physical features</li> <li>• Subject physical features – obsolescence</li> <li>• Subject sales/listing history – acquired after appraisal date</li> <li>• Subject sales/listing history – flip</li> <li>• Subject sales/listing history – listed at time of appraisal</li> <li>• Subject sales/listing history – prior sale</li> <li>• Subject site features</li> <li>• Subject site features – entire parcel not included</li> </ul>
	Appraisal Documentation	<ul style="list-style-type: none"> <li>• Expired appraisal</li> <li>• Final inspection</li> <li>• Miscellaneous</li> <li>• Missing appraisal</li> </ul>
	General Appraisal Requirements	<ul style="list-style-type: none"> <li>• Appraisal on wrong form</li> <li>• Appraiser licensing</li> <li>• Appraiser licensing – supervisory/review</li> <li>• Contract analysis</li> <li>• Exhibits/addenda</li> <li>• Incomplete appraisal</li> <li>• Incomplete appraisal – failure to use three sales</li> <li>• Miscellaneous</li> </ul>
	Reconciliation	<ul style="list-style-type: none"> <li>• Cost/income approach to value</li> <li>• Inappropriate comparable weighting</li> <li>• Miscellaneous</li> <li>• Outside adjusted range</li> <li>• Unsupported change in value</li> <li>• Value warranty – alternative collateral valuation</li> <li>• Value warranty – property inspection waiver</li> <li>• Value warranty – refinance</li> <li>• Value warranty – seasoning</li> </ul>
	Appraisal Misrepresentation	<ul style="list-style-type: none"> <li>• Development of and/or reporting an opinion of market value</li> <li>• Misrepresentation of the physical characteristics</li> <li>• Selection and use of inappropriate sales</li> </ul>