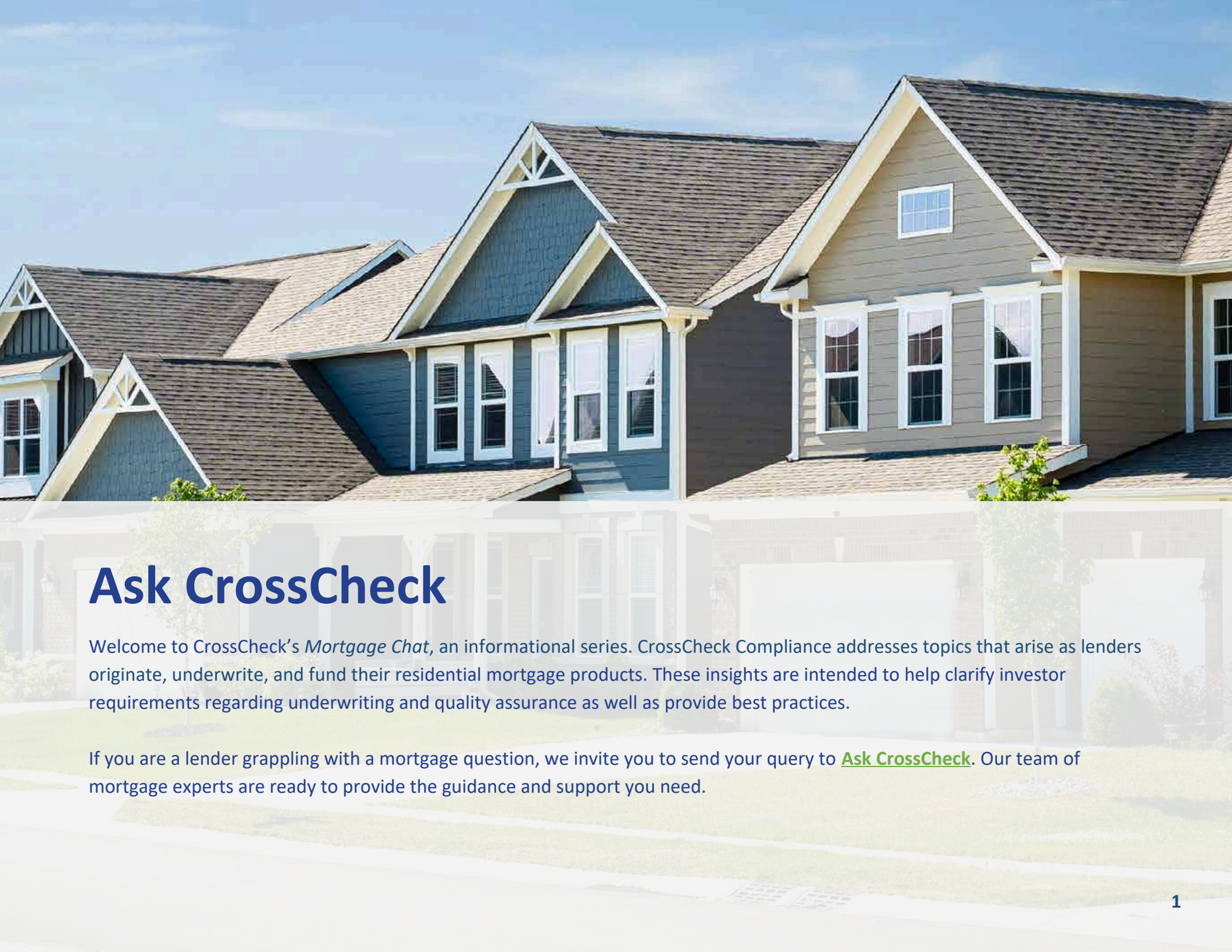




Mortgage Chat Q4 2025





Ask CrossCheck

Welcome to CrossCheck's *Mortgage Chat*, an informational series. CrossCheck Compliance addresses topics that arise as lenders originate, underwrite, and fund their residential mortgage products. These insights are intended to help clarify investor requirements regarding underwriting and quality assurance as well as provide best practices.

If you are a lender grappling with a mortgage question, we invite you to send your query to [Ask CrossCheck](#). Our team of mortgage experts are ready to provide the guidance and support you need.

What's New: Fannie Mae Rental Income Updates

Recently, Fannie Mae has issued revisions, updates, and reminders relating to rental income.

💰 ADU Rental Income Now Eligible as Qualifying Income

Fannie Mae Announcement SEL-2025-08 details that rental income from an accessory dwelling unit (ADU) is now permitted to be used as qualifying income, provided the property is a one-unit principal residence and the transaction is either a purchase or a limited cash-out refinance. Only income from one ADU can be considered, even if multiple ADUs exist on the property, and the amount used for qualification is limited to 30% of the borrower's total qualifying income.

📄 Updated Rental Income Documentation Requirements

Fannie Mae has updated its policy to align rental income documentation requirements for properties reported on Form 8825 (used by partnerships and S corporations) with those for Form 1040 Schedule E (used by individuals). If a borrower receives rental income solely through a Schedule K-1 from Form 1065, lenders must now obtain the most recent one-year federal business tax return. Additionally, all rental income reported on Form 8825 will be treated as self-employment income, regardless of whether the borrower is personally obligated on the mortgage. This revision will be effective for all applications dated on or after February 1, 2026.

🔍 Emphasis on Due Diligence and Fraud Prevention

Fannie Mae's recent *Selling News* highlighted *Best Practices for Rental Income Verification*, which was published in 2024 and is still extremely relevant today. The document outlines key red flags and due diligence steps lenders should take when evaluating rental income used to qualify borrowers, particularly in cases involving a departure property. It emphasizes the importance of identifying inconsistencies in lease agreements, such as inflated rent, unverifiable tenants, or suspicious relationships between the borrower and tenant. The document reinforces that any discrepancies—like altered lease terms, mismatched bank deposits, or implausible occupancy timelines—require thorough investigation. It urges lenders to implement strong internal controls, such as targeted quality control reviews, use of fraud detection tools, and staff training. As always, if a loan scenario simply doesn't make sense, then a lender should not proceed without resolving all red flags.

Sources: <https://singlefamily.fanniemae.com/news-events/announcement-sel-2025-08-selling-guide-updates>
<https://singlefamily.fanniemae.com/originating-underwriting/loan-quality>



AVM Quality Control Standards

New interagency rule on Automated Valuation Models (AVMs) took effect on October 1, 2025

The new rule requires mortgage originators and secondary market issuers to implement quality control standards for AVMs used in valuing a consumer's principal dwelling. Issued by the CFPB, OCC, FRB, FDIC, NCUA, and FHFA, the rule requires five key standards: (1) ensuring high confidence in valuation estimates, (2) protecting against data manipulation, (3) avoiding conflicts of interest, (4) conducting random sample testing, and—newly added by the agencies—(5) complying with applicable nondiscrimination laws.

The rule applies not only to AVMs used in credit decisions but also to those used in certain securitization determinations. While AVMs are often vendor-owned, the responsibility for compliance lies with the mortgage originators and issuers using them. Your 2026 planning is a good time to review and update your AVM-related policies and procedures accordingly.

Source: <https://www.consumerfinance.gov/rules-policy/final-rules/quality-control-standards-for-automated-valuation-models/>





Freddie Mac AML Compliance

New Guidance Reinforces AML Program Expectations

Freddie Mac recently updated its Guide requirements related to anti-money laundering (AML) compliance. Freddie Mac requires Seller/Service providers that are subject to the Bank Secrecy Act (BSA) to implement and maintain a comprehensive AML compliance program that adheres to all applicable federal AML laws and regulations.

Additionally, all Seller/Service providers—regardless of whether they are directly subject to the BSA—must have a program in place to detect and report suspicious activity related to mortgage origination, delivery, or servicing. This program must include a designated compliance officer, documented policies and procedures, employee training at hire and annually, and independent testing to ensure effectiveness. Suspicious activity must be reported to Freddie Mac in accordance with its guidelines.

Source: <https://guide.freddiemac.com/app/guide/bulletin/2025-13>



Fannie Mae QC Self-Assessment

Revised October 2025 Version Released

Fannie Mae has released a revised version of its Quality Control Self-Assessment document, offering updated guidance and best practices to help lenders align with the Selling Guide. This refreshed tool is designed to support institutions in evaluating and strengthening their quality control programs.

With 2026 planning already underway at many lenders, now is an ideal time to complete the self-assessment for your organization. It's a valuable exercise that not only promotes compliance but also helps identify areas for improvement and risk mitigation. Taking the time to review and apply these updates can enhance your QC framework heading into the new year.

Source: <https://singlefamily.fanniemae.com/media/5401/display>.

Contact Us

CrossCheck Compliance LLC is a nationwide regulatory compliance and risk management consulting firm focused on providing regulatory compliance, internal audit, fair lending, loan review, due diligence, and litigation support services for the financial services industry. The firm's professionals have deep regulatory understanding and operations experience to develop effective compliance strategies and deliver high impact outcomes for clients.



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Todd is a senior mortgage executive with over 25 years of mortgage lending experience. He has operational experience as both a portfolio investor and mortgage banker. The Loan Review practice led by Todd performs pre-funding quality assurance and post-closing quality control, as well as operational audits of origination and quality control departments, and repurchase, fraud, and servicing reviews. Due diligence services include rated securitizations, portfolio purchases/reviews, and mergers and acquisitions. The Litigation Support practice provides expert services including file review, reports, and testimony in relation to mortgage-backed securities, servicing, and repurchase matters.

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Tim is a mortgage executive with more than 20 years of mortgage lending experience. He has had operational experience with several mortgage bankers. As a compliance manager, he has been effective in minimizing regulatory liabilities through guideline development and risk management, in adherence to industry standards. Tim has worked closely with federal and state auditors to manage and improve the loan process through employee training and work flow changes.

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Andrew has been in the mortgage industry for over 20 years with varied experience in sales management, residential and consumer lending, as well as marketing, market analysis, marketing plans, and customer retention. At CrossCheck, Andrew has participated on a variety of engagements including review of loans in mortgage-backed securities subject to litigation, mortgage repurchase requests, fraud reviews, and quality control reviews. Prior to joining CrossCheck, Andrew has been an underwriter for money center banks, mortgage bankers, and mortgage insurance companies.

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