



Compliance Check

Q&A: MERS® Audit and Reporting Requirements

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Ask CrossCheck

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In the following sections, we outline the key requirements and considerations for completing the Mortgage Electronic Registration Systems (MERS®) Annual Report, a mandatory process for all MERS® Members to demonstrate compliance with MERSCORP's rules and procedures. This overview explains when a Member must use an internal versus external reviewer, which areas the audit assesses, and common issues identified during the review process with guidance to help institutions maintain accuracy, consistency, and compliance.

Internal or External MERS® Audit Reviewers

- ❓ How does a Member know if they need an internal or external Annual Report reviewer to complete a MERS® Annual Report?
- ✅ If a MERS® Member is named as a Servicer on 1,000 or more active Mortgage Identification Number records (MINs) as of March 31st of the current year, the reviewer must be an external entity. The external reviewer must be a third-party review organization with expertise and experience performing quality assurance (QA) audits of organizations in the mortgage industry.

If a MERS® Member is named as the Servicer on fewer than 1,000 active MINs as of March 31st of the current year, the reviewer may be a company employee, such as a Quality Assurance Officer, Legal MERS® System contact, or another employee of the Member that is not affiliated with the Member's MERS® System operations.

More information regarding this requirement can be found in the MERS® System Procedures Manual under Annual Report Requirements or in the MERS® system in the eQA Requirements.





Inside the MERS® Audit: Six Key Questions



What does the Review assess when completing the MERS® Annual Report and what are some common issues that are noted?



MERS® prescribes a very specific scope for the Annual Report process that encompasses the following six “yes or no” questions. The audit includes discussions with management, review of documentation, and substantive testing to determine the appropriate answers to the following questions. Any “no” answers are considered issues and are explained further with recommendations provided to help remediate the issue.

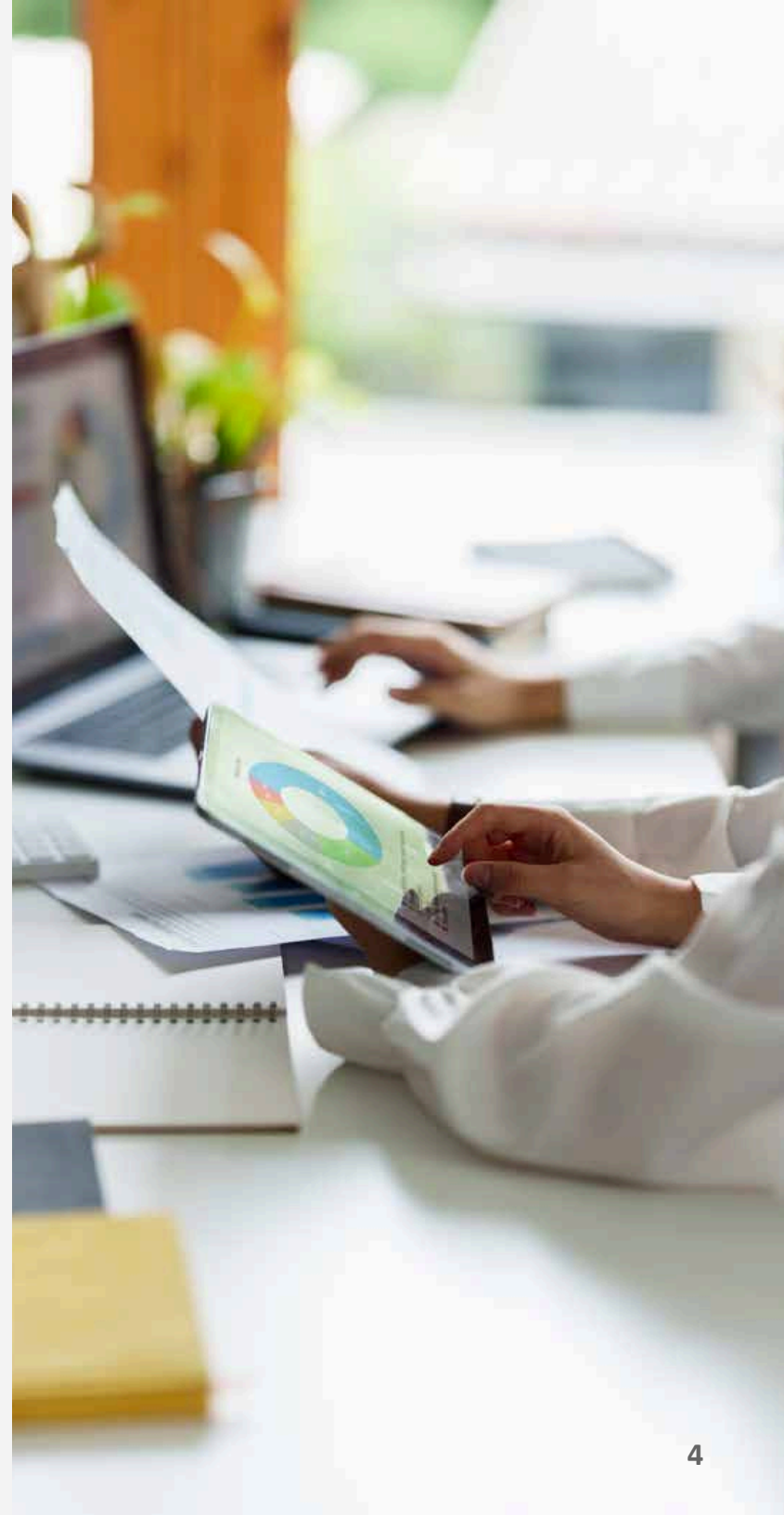
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Inside the MERS® Audit: Six Key Questions

1. Member has a process in place designed to provide reasonable assurance of compliance with the requirements specified in the MERS® System Rules of Membership and MERS® System Procedures Manual applicable to Member Information and organizational changes. (Yes or No)

To answer this question, the reviewer ensures that Member personnel have access to and are using the most recent MERS® System Rules of Membership and MERS® System Procedures Manual. It is not uncommon to find Members using old versions of the documents and unaware of key changes that may have occurred. Updated materials are published by MERS® periodically and are provided on the MERS® website. Members should check for updates periodically, at least annually.

The reviewer also validates that the Member's name and address are accurate in the MERS® System and MERS® contacts and System user IDs are accurate and up to date. Inaccurate or outdated Member MERS® contact information is a common issue. Members are required to review and reconcile the information in their Member Profile each month and retain documentation of the monthly reviews.



Inside the MERS® Audit: Six Key Questions

2. Member reconciles MERS® System data in accordance with the requirements of the MERS® System Procedures Manual. (Yes or No)

Reviewers will ensure the system reconciliations are completed at the appropriate frequency. Each Servicer must perform a two-way validation between its System of Record and the MERS® System at the required frequency: monthly, if the Servicer is named on 1,000 or more MINs or quarterly, if the Servicer is named on fewer than 1,000 MINs. The required data fields must be reconciled and present on all MINs. Conditionally required fields must also be reconciled when applicable, for example, a Subservicer Organization ID is required if the Servicer utilizes a Subservicer to service its loans. Members occasionally fail to complete the monthly reconciliation as required, or more commonly, do not reconcile all required and conditionally required fields during the data reconciliation process. Detailed reconciliation requirements, including the required and conditional fields, can be found in the MERS® System Procedures Manual.





Inside the MERS® Audit: Six Key Questions

3. Member has policies and procedures in place to ensure compliance with the requirements set forth in the MERS® System Rules of Membership and MERS® System Procedures Manual regarding the Corporate Resolution Management System (CRMS) and Mortgage Electronic Registration Systems, Inc. (MERS®) Signing Officers. (Yes or No)

The reviewer will assess policies and procedures regarding the CRMS, the management of MERS® Signing Officers, and ensure MERS® Signing Officers have current certifications and meet the MERS® Signing Officer eligibility requirements. The reviewer will also assess the quality control process in place to review the actions taken by the MERS® Signing Officer.



Inside the MERS® Audit: Six Key Questions

4. Member has a process in place to ensure that all MERS® System transactions and updates are accurate and timely in accordance with the applicable requirements set forth in the MERS® System Rules of Membership and MERS® System Procedures Manual. (Yes or No)

Members are required to have QA Plan Testing procedures to monitor transactions and ensure transactions are processed in accordance with MERS® requirements including accuracy, timeliness, and state-specific requirements. The reviewer will assess the Member's testing procedures and test a sample of transactions to ensure they were processed as required by MERS®. Exceptions are sometimes noted in technical compliance and the reviewer may recommend enhanced monitoring and additional employee training.

Inside the MERS® Audit: Six Key Questions

5. Member has a process in place to ensure MERS® Documents are prepared, executed, and recorded in accordance with the applicable requirements set forth in the MERS® System Rules of Membership and MERS® System Procedures Manual. (Yes or No)

Sample testing is completed by the reviewer to assess whether transactions are handled accurately and timely, and that registrations and paid-in-full loans are processed no later than seven calendar days after the triggering event. Additional testing is completed to determine whether state-specific requirements are applied to MERS® documents and whether documents were executed by a Member Signing Officer.



Inside the MERS® Audit: Six Key Questions

6. Members have a process in place designed to review MERS® System reports and take necessary action. (Yes or No)

The MERS® System produces exception reports daily, and Members must have a process in place to review these reports each day and make any necessary adjustments to resolve exceptions. The reviewer will assess procedures for working through exception reports as well as clearing exceptions. To facilitate this testing, it is important that the Member retains documentation to demonstrate compliance.

CrossCheck Compliance



CrossCheck Compliance has been completing MERS® Annual Reports (or MERS® audits) since the requirement was implemented over a decade ago.

If you are looking for an independent and experienced partner for your MERS audit, contact CrossCheck Compliance at hwier@crosscheckcompliance.com.

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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