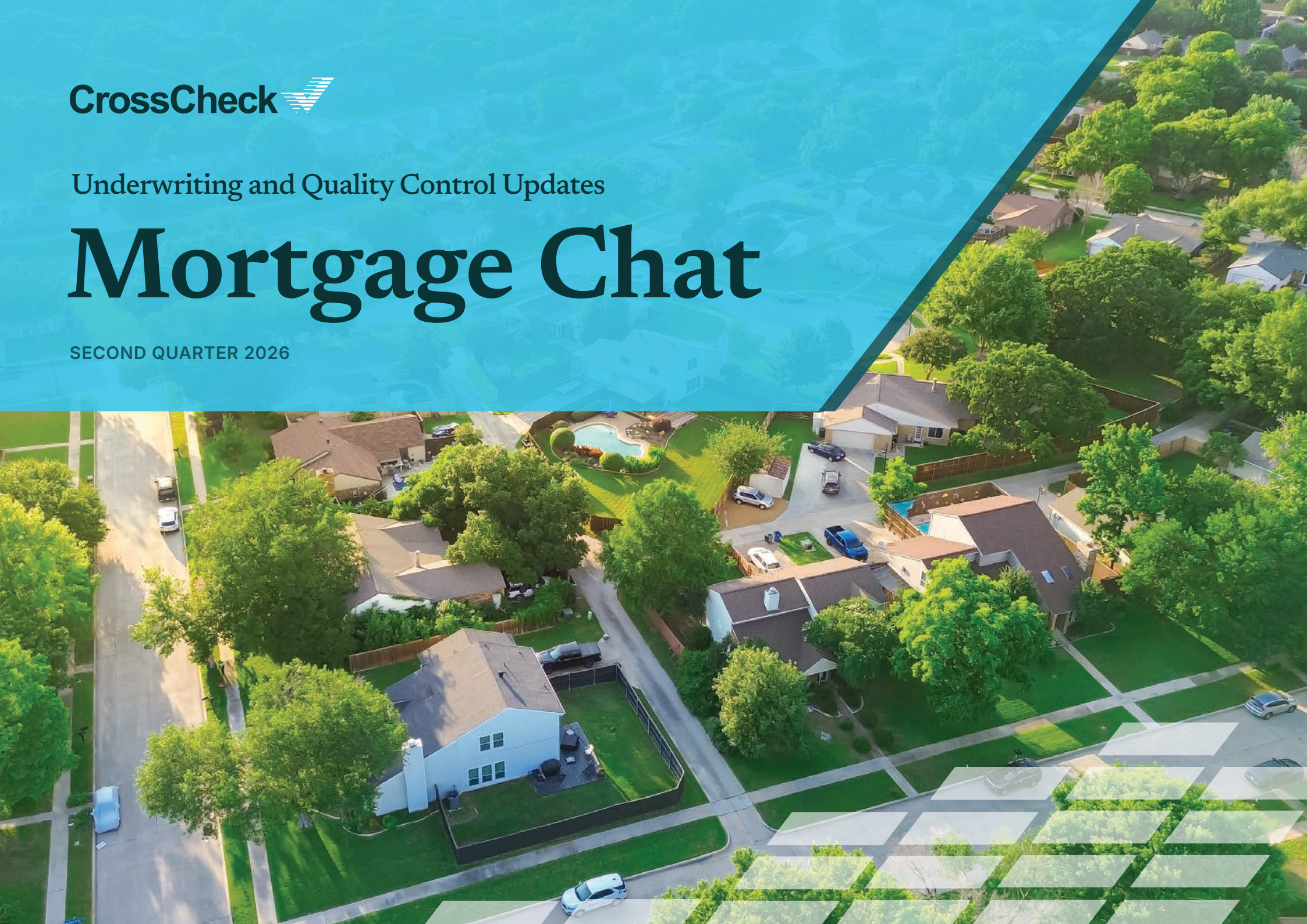




Underwriting and Quality Control Updates

Mortgage Chat

SECOND QUARTER 2026



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Fannie Mae – Artificial Intelligence

Fannie Mae recently released Lender Letter LL 2026 04, which established a framework for Single Family Seller/Servicers using Artificial Intelligence (AI) and Machine Learning (ML) in loan origination and servicing activities. Fannie Mae does not approve or prohibit any specific AI tool but instead sets expectations for how AI/ML must be governed, risk managed, and documented when used in connection with Fannie Mae loans.

These new requirements apply to any Fannie Mae Seller/Servicer that uses AI or ML (internally developed or third-party models) during the origination of loans sold to or guaranteed by Fannie Mae or in servicing loans on Fannie Mae's behalf.

Fannie Mae emphasized that lenders must deploy AI systems safely, legally, ethically, and responsibly. The letter requires lenders to:

- Maintain documented policies and procedures governing the development, implementation, monitoring, and risk management of AI/ML systems;
- Ensure compliance with applicable legal and regulatory requirements and the Fannie Mae Lender Contract;
- Oversee third party and vendor use of AI/ML under standards no less protective than internal controls;
- Comply with the Information Security and Business Resiliency Supplement; and
- Be prepared to disclose, upon request, details regarding their AI/ML usage, safeguards, and risk mitigation practices.

Through the issuance of the lender letter, Fannie Mae is signaling that AI governance is now a baseline expectation, not a best practice. The requirements are effective 120 days from publication, or August 6, 2026.



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Fannie Mae – Income Assessment Updates

Fannie Mae SEL 2026 02, issued on March 4, 2026, significantly updates and clarifies the income assessment requirements in Selling Guide Chapter B3 3 with the objective of improving clarity, consistency, and ease of use for lenders.

Fannie Mae has restructured Chapter B3 3 into a more modular format that separates general income principles from income type specific requirements and establishes dedicated sections for each income source, such as base employment income, variable income, and retirement income. Standardized tables are introduced for each income type to consolidate documentation, history, continuity, and calculation

requirements, and terminology has been aligned across income sources to reduce interpretation variability and underwriting inconsistencies. Altogether, these changes are intended to enhance lender understanding and application of income policies while maintaining sound underwriting standards.

The updated income assessment framework maintains Fannie Mae's core principle that income used for qualification must be stable, predictable, and likely to continue, but provides clearer guidance on how lenders may document, evaluate, and calculate qualifying income across income types. By standardizing presentation and requirements, these updates help lenders more efficiently assess income characteristics such as employment stability, earnings variability, and ongoing continuance, while supporting more consistent underwriting outcomes. Lenders may apply the revised income assessment requirements immediately; however, the changes are mandatory for loans with application dates on or after June 1, 2026. Lenders are expected to align underwriting practices accordingly.



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Freddie Mac – Selling Guide Updates

Freddie Mac Bulletin 2026 1, issued on February 4, 2026, announces a broad set of selling guide updates intended to expand access to housing, clarify underwriting and property eligibility standards, and improve operational consistency.

A significant focus of the bulletin is enhancements to Construction to Permanent Mortgages and Renovation Mortgages, including updated terminology, expanded flexibility for one time close transactions, extended age of documentation allowances, and revised asset documentation requirements at conversion to permanent financing.



The Bulletin also provides clarifications and enhanced guidance across several underwriting, collateral evaluation, and quality control areas. A few include:

Income Continuance Start Date – Added the “Application Received Date” as a start date for the three-year continuance requirement.

Automated Collateral Evaluation (ACE) Terminology – Updated language to simplify the Guide terminology.

Property Eligibility for Proposed Construction – Added specific language regarding start date and description of construction.

Quality Control – Updated the tax transcript requirement to include the tax years used to qualify the borrower.

Fraud Reporting – Provided specifics into fraud reporting and self-reporting requirements for the Seller/Servicer.

All changes are effective immediately unless otherwise noted in the Bulletin. Lenders are encouraged to review the Bulletin closely to ensure their underwriting guides, loan origination system rules, and training materials are aligned with the new requirements.

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Fannie Mae – Quality Control

Fannie Mae recently made updates to the Selling Guide (Guide), announced in SEL 2026 03, to support lender quality control (QC) efficiencies by clarifying and modernizing expectations.

Fannie Mae expects the changes will assist in reducing unnecessary operational burden while maintaining high loan quality and compliance standards.

The recent revisions are designed to accomplish:

- Greater flexibility in how QC reviews are conducted and documented, provided Guide requirements are met;
- Improved alignment between QC review expectations and current electronic loan file and data retention practices; and
- Reduced duplication where lenders already maintain compliant records through normal origination, underwriting, or post closing processes.

Significant, specific QC process revisions include:

- Elimination of the 10% minimum sampling requirement for prefunding QC, with a risk-based sampling methodology encouraged;
- Removal of the requirement to reverify income and assets obtained directly from an approved Fannie Mae vendor;
- Elimination of the reverification requirements for discretionary selections; and
- Clarifying tax transcripts are only required to be obtained for QC when tax returns were used to verify income during underwriting.



Lenders should closely review SEL-2026-3 as well as the relevant sections in the Guide to fully understand the impact the revisions have on their operations. In addition, lenders should review their QC policies and procedures to ensure they align with the updated Guide language and reflect reasonable, risk based QC practices. As always, lenders remain fully accountable for their loan quality and compliance results.

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Mortgage Chat 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.

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