



Freddie Mac's Counterparty Operational Risk Evaluation (CORE)

SAMPLE Seller/Servicer Review Scope



About Us: Counterparty Operational Risk Evaluation

Freddie Mac's Counterparty Operational Risk Evaluation (CORE) team conducts reviews of counterparties to identify specific controls and processes in place within your organization to guard against risk. Ultimately our results are shared with internal Freddie Mac stakeholders, where the results allow for the identification of areas where we can better support your operations.

The CORE review is just one component of Freddie Mac's overall risk framework designed to align with our overall risk and control framework in alignment with [Freddie Mac's Single-Family Seller/Servicer Guide](#).

Review Scope Determination

CORE begins each engagement by coordinating with your Account Team at Freddie Mac to discuss the preliminary review scope and proposed review dates.

Many factors are considered during CORE's analysis when developing its review scope. Factors considered include, but are not limited to, the following:

- Organization Type – Regulated (Banks, Credit Unions) versus Non-Regulated (Mortgage Bankers)
- Organization Size and Complexity – Lenders of all sizes, including those with a national, regional or community presence
- Origination Channels – Retail/Consumer Direct Lending, Correspondents and Brokers
- Organization Structure:
 - Selling and In-House Servicing
 - Selling and Servicing Retained (with Servicing Agent Oversight)
 - Seller Only - Originations and Non-Servicing Retained
 - Master Servicers (with Servicing Agent Oversight)
 - Servicing Agents
- Validation of Open Issues from Prior Reviews in coordination with CORE's Issue Management Team
- Current Delivery and Servicing Volumes
- Current Performance Metrics



Review Scope Topics

On a quarterly basis, CORE collaborates with various levels of leadership throughout Freddie Mac to maintain alignment with Freddie Mac's overall risk management framework and goals. Included in these discussions are emerging risks, internal performance trends, changes in regulatory and/or Guide requirements, and industry best practices. These discussions are captured within the following Areas of Focus:

- Corporate Governance
- Originations/Production
- Underwriting
- Fraud Management
- Quality Control
- Regulatory Compliance
- Servicing
- Flood Insurance Management
- Default Management
- Investor Reporting

The following pages provide a high-level overview of each CORE Area of Focus, which may be adjusted based upon applicability, Freddie Mac business unit stakeholder feedback, and current performance metrics. CORE's coverage within these areas includes review of written policies and procedures, management reporting and detailed control testing to assess overall control design and the effectiveness of the controls in place.

CORE recognizes that every mortgage operation is set up differently, where staff may be responsible for oversight of more than one area within your organization. In addition, there are many topics within CORE's review scope that may overlap across multiple divisions. We strive to minimize disruption to your day-to-day operations by working closely with you to create an agenda that aligns your applicable staff based upon the topics of discussion and their subject matter expertise.



Corporate Governance

CORE's Corporate Governance Areas of Focus include a broad range of topics related to your organization that are tied to eligibility, risk management controls and general oversight.

- Issue Management and Change Management
 - In some organizations, CORE recognizes that Issue Management and Change Management functions may be intertwined, while separated in others. CORE will work with you to facilitate its discussions to minimize impact to your staff.
- Compliance Risk Management – CORE's focus in this area is to gain an understanding of your organization's overall compliance framework, with additional loan-level compliance topics covered within a separate Area of Focus.
- Risk & Control Self-Assessment Management (RCSA)
- Eligibility – Fidelity Bond and Errors & Omissions insurance coverage (including validation testing)
 - Guide [Section 2101.6](#)
 - Guide [Section 2101.7](#)
 - Guide [Section 2101.8](#)
 - Guide [Section 2101.9](#)
- Eligibility – Adequacy of controls related to annual and interim UCount® reporting
 - Guide [Section 2101.10](#)
 - Guide [Section 2101.11](#)
 - Guide [Section 2101.12](#)
 - [UCount® Reporting Tips and Tricks - Freddie Mac Single-Family](#)
- Cyber Risk, to include the areas of Information Security, Business Continuity Planning, Disaster Recovery and Privacy
 - Guide [Section 1302.1](#)
 - Guide [Section 1302.2](#)
 - Guide [Section 1302.3](#)
 - Guide [Section 1302.4](#)
 - Guide [Section 1302.5](#)
 - Guide [Section 1302.6](#)
 - Guide [Section 1302.7](#)
 - Guide [Section 1302.8](#)
- Third-Party/Vendor Approvals, Recertifications and Ongoing Monitoring Activities
 - Applicable requirements:
 - Freddie Mac Exclusionary List Screening
 - Guide [Section 3101.1](#)
 - FHFA Suspended Counterparty Program
 - Guide [Section 3101.2](#)
 - [Secure and Fair Enforcement for Mortgage Licensing \(SAFE\) Act](#)



Production

CORE's Production Areas of Focus include gaining an understanding of your processes and controls to manage third-party originations from wholesale sources (Broker and/or Correspondent lenders). While not explicitly outlined in our Guide, Freddie Mac considers the approval, onboarding, monitoring and continued eligibility of third-party origination (TPO) sources to be a crucial control in managing risk. Included in CORE's scope are the following:

- Assessment and testing of your approval and onboarding of TPO sources, including Broker and Correspondent Lending
 - Systems utilized to support the TPO channel, both internally and externally
 - Separation of duties from Underwriting, Collateral/Appraisal and Quality Control functions
 - Required minimum documentation for approval of TPO sources
 - Parameters for exceptions to set policy for approval of TPO sources (example: inadequate net worth requirements)
 - Administrative tasks including adding TPO sources to systems including LOS and/or point of sale tools, as well as means for delivering loan file data
- Assessment and testing of ongoing monitoring and periodic recertification of TPO sources
 - Frequency of ongoing monitoring and recertifications
 - Required minimum documentation for ongoing eligibility (examples: Financials, updated licensing information)
 - Ongoing monitoring processes, including key performance indicators/metrics related to loan quality, repurchase rates, and first- and early-payment default rates, as well as adherence to service level agreements (SLAs)
 - Parameters for exceptions to set policy(s) for approval of TPO sources (example: inadequate net worth requirements)
 - Communication with TPO sources, including escalations, action plans, and remediation of identified concerns – up to and including suspensions and terminations
 - Controls in place to ensure unapproved TPOs are prohibited from delivering loans in cases of suspension or termination
- Applicable requirements:
 - Freddie Mac Exclusionary List Screening
 - Guide [Section 3101.1](#)
 - [Suspended Counterparty Program](#)
 - Guide [Section 3101.2](#)
 - [Secure and Fair Enforcement for Mortgage Licensing \(SAFE\) Act](#)
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Underwriting

CORE's Underwriting Areas of Focus include review and validation of processes and controls in place related to appraiser and appraiser management, fraud management, and the adequacy of hazard insurance (including homeowners and flood insurance).

- Appraiser Management
 - Appraiser Panel (if not using an Appraisal Management Company (AMC))
 - Oversight of AMCs
- Appraisal Management – Select requirements from the following Guide chapters:
 - [Guide Chapter 5601](#)
 - [Guide Chapter 5602](#)
 - [Guide Chapter 5604](#)
 - [Guide Chapter 5605](#)
- Appraisal Escalations, including parameters for referring collateral valuations for secondary review, Reconsiderations of Value and final disposition and approvals
- Appraiser Independence Requirements (AIR)
 - [Guide Chapter 5603](#)
- Eligibility of Properties Impacted by Disaster
 - Guide [Section 4407.1](#)
- Fraud Prevention and Detection
 - Guide [Section 3101.1](#)
 - Guide [Section 3101.2](#)
 - Guide [Section 3201.1](#)
- Property Insurance Requirements (homeowners and flood insurance) –requirements from [Guide Chapter 4703](#) to include the following:
 - Insurance Coverage Amounts
 - Compliant Deductible Amounts
 - Insurance Carrier Ratings
 - Obtention and Evidence of the Standard Flood Hazard Determination Form (SFHDF)
 - Replacement Cost Value



Fraud Management

CORE's Fraud Management Areas of Focus include a review of your organization's processes and controls related to the identification, prevention, investigation and reporting functions. CORE recognizes that fraud is a far-reaching topic that crosses many areas within your organization. In general, your Underwriting and Servicing areas are best equipped to identify potential fraud, and we will work with you to consider CORE's coverage in this area. CORE's coverage within Fraud Management includes the following topics:

- Fraud Prevention and Detection
 - Guide [Section 3201.1](#)
 - Understanding processes and controls related to employee hiring and training
 - Training of staff contracted to perform functions on your behalf who are able to notice or report fraud or suspected fraud
 - Applicable parties may include, but are not limited to, contract underwriters, third-party quality control vendors, borrower outreach companies, collections and loss mitigation vendors and attorneys contracted to handle legal matters within the Default Management space
- Fraud Mitigation and Oversight
- Assessment and testing of your controls related to required loan-level screening of required parties against the Freddie Mac Exclusionary List and the FHFA Suspended Counterparty Program List
 - Guide [Section 3101.1](#)
 - Guide [Section 3101.2](#)
 - [Suspended Counterparty Program](#)
- Fraud Management tools utilized within your organization to assist in the identification and prevention of fraud
- Fraud Reporting
 - Guide [Section 3201.2](#)



Quality Control

CORE's Quality Control Areas of Focus include review and validation of processes and controls in place related to your organization's overall quality assurance program (both pre- and post-closing), whether it be performed in-house or by a third-party quality control vendor. In addition, CORE validates the timeliness of your reviews, sampling methodology, internal communication of results, corrective actions and self-reporting to Freddie Mac for loans deemed of non-acceptable quality or ineligible for sale to Freddie Mac.

- Pre-Closing Quality Control
 - Guide [Section 3402.8](#)
 - Validation of the accuracy of data entered into the Automated Underwriting System (AUS), such as Loan Product Advisor® (LPA®)
 - Verifications:
 - Credit Report inquiries within the previous 90-day period
 - Social Security numbers
 - Income verifications, including use of the IRS Form 4506-C
 - Employment verifications
 - Asset and reserve verifications
 - Mortgage insurance coverage (if applicable)
 - Sampling methodology and types of sampling (random, targeted and discretionary)
 - Escalations and internal reporting
- Post-Closing Quality Control
 - Control design and effectiveness testing related to requirements from the following Guide chapters:
 - [Guide Chapter 3401](#)
 - [Guide Chapter 3402](#)
 - Targeted reviews of loans granted collateral representation and warranty relief eligibility via LPA, such as ACE or ACE+ PDR per Guide [Section 5603.6](#)
- If applicable, oversight of Third-Party Quality Control Vendor(s) per Guide [Section 3402.2](#)
- Timeliness of internal reporting of Quality Control results per Guide [Section 3402.10](#)
- Self-reporting to Freddie Mac for loans deemed ineligible per Guide [Section 3402.10](#) and suspected/identified fraud per Guide [Section 3201.2](#) within 30 days through the Tip Referral Tool (TRTSM) available in [Freddie Mac GatewaySM](#)
- Repurchase Management requirements per Guide [Chapter 3602](#)



Regulatory Compliance

CORE's review within its Regulatory Compliance Areas of Focus include assessing the control design and operational effectiveness of processes and controls within your organization to facilitate compliance related to both Freddie Mac and regulatory compliance in the following areas:

- High-Cost Mortgages
 - Guide [Section 4202.2](#)
 - Guide [Section 4202.3](#)
- Compliance with Applicable Law
 - Guide [Section 4202.1](#), including Right of Rescission notices
 - Guide [Section 1301.2](#)
 - Office of Foreign Asset Control (OFAC Screening)
 - Self-Reporting of positive OFAC matches
 - Anti-Money Laundering (AML)/Bank Secrecy Act (BSA), including self-reporting to Freddie Mac
 - Maintenance of Fair Lending data elements
- Qualified Mortgages (QM)/Ability to Repay (ATR)
 - Guide [Section 4202.6](#)
 - [§ 1026.43 Minimum standards for transactions secured by a dwelling](#)
- [Equal Credit Opportunity Act \(ECOA\)](#)
- Real Estate Settlement Procedures Act (RESPA)
- Home Mortgage Disclosure Act (HMDA)
- Gramm-Leach-Bliley Act (GLBA) and State Privacy Laws
- Fair Credit Reporting Act (FCRA)
- Fair Housing Act



Performing Loans Servicing

CORE's Performing Loans Servicing Areas of Focus include gaining an understanding of your organization's processes and controls to manage the day-to-day servicing of borrower's mortgage loans and the following:

- Transfers of Servicing (onboarding and offboarding)
- Servicing Agent Oversight (if applicable)
 - [Servicing Agent Oversight and Surveillance Program Best Practices](#)
- Non-Escrowed Taxes & Insurance and Escrow Analysis per Guide [Section 8201.1](#)
- Assessment of both the control design and effectiveness of controls related to the maintenance of Property/Hazard Insurance
 - Guide [Section 8202.1](#)
 - Guide [Section 8202.2](#)
- Mortgage Insurance Cancellations
 - Borrower Requested Cancellation per Guide [Section 8203.2](#) and [Section 8203.3](#)
 - Automatic Cancellation per Guide [Section 8203.4](#) and [Section 8203.5](#)
 - Reporting Requirements per Guide [Section 8203.11](#)
- Assessment of both control design and effectiveness of controls related to Borrower Disputes and Error Resolution
 - [§ 1024.35 Error resolution procedures](#)
 - Guide [Section 8101.6](#)
- Servicing Quality Control Program
 - Guide [Section 3403.1](#)
- Oversight of vendors utilized within the performing loans servicing space, including real estate tax and hazard insurance vendors
 - Please note hazard insurance vendors may overlap with CORE's coverage within its Flood Management Area of Focus; CORE will make every effort to coordinate efforts with your management and staff to streamline its coverage within this area.



Flood Insurance Management

CORE's Flood Management Areas of Focus include gaining an understanding of your organization's processes and controls related to oversight of Federal Emergency Management Agency (FEMA) compliance and Guide requirements related to properties secured by mortgages located within a Special Flood Hazard Area (SFHA). Included in CORE's assessment is the validation of adequate and continuous flood insurance coverage on properties delivered to Freddie Mac as being designated in a SFHA and properties newly mapped into a SFHA.

- General Property Insurance Requirements per Guide [Section 4703.1](#) and [Section 8202.1](#), including the ratings of insurance carriers
- Flood Zone Determinations/Properties located within a SFHA per Guide [Section 4703.3](#), which includes guidance for acceptable flood insurance policies and coverage requirements
- Minimum Property Insurance Types and Amounts per Guide [Section 8202.2](#)
- Written policies and documentation to support controls per Guide [Section 8202.3](#)
- Monitoring of flood zone changes, including the use of vendor(s) for life-of-loan flood zone monitoring, as well as periodic reconciliations
- Borrower notifications related to properties mapped into and out of a flood zone, including timelines
- Lender Placed Insurance (LPI) requirements per Guide [Section 8202.12](#), including parameters for the prohibition of LPI placement with any affiliated entities or any compensation in the form of commissions or incentive-based compensation for insurance placement
- Oversight of flood-related vendors, including both your life-of-loan monitoring and insurance vendors
- Assessment of your organizations control design, and the effectiveness of your controls includes loan-level testing of both seasoned loans and properties mapped into flood zones within the 12-month period preceding CORE's review.



Default Management

CORE's coverage includes the areas of Borrower Collection Efforts, Adverse Action Notices, Attorney Management, Bankruptcy and Default Quality Control.

- Establishing borrower contact during delinquency, including Borrower Outreach
 - Guide [Section 9102.3](#)
 - Guide [Section 9102.4](#)
 - Guide [Section 9102.5](#)
- Adverse Action Notices in cases of denied Loss Mitigation workout solutions
 - Guide [Section 1301.2](#) (i)
- Attorney Management
 - Select requirements from [Guide Chapter 9501](#), inclusive of the adequacy of Fidelity Bond and Errors & Omissions insurance, documenting “No Objection” from Freddie Mac, law firm qualifications, training of law firm staff, oversight and monitoring of law firm performance (including escalations, terminations, transfers of files, and notifications to Freddie Mac) and Attorney Data Reporting (ADR),
 - Guide [Section 3101.1](#)
 - Guide [Section 3101.2](#)
- Bankruptcy Management
 - Monitoring of bankruptcy pipelines and activities
 - Proof of Claim per Guide [Section 9401.1\(c\)](#)
 - Abusive bankruptcy filings per Guide [Section 9401.2\(a\)](#)
 - General bankruptcy servicing, Motions for Relief and Electronic Default Reporting (EDR) requirements per Guide [Section 9401.2\(b\)](#) and [Section 9401.2\(c\)](#)
- Default Servicing Quality Control Program
 - Guide [Section 3403.1](#)



Investor Reporting

CORE's Investor Reporting Areas of Focus include an assessment of processes and controls within your Investor Accounting organization related to the timely and accurate processing of borrower funds, required reporting to Freddie Mac, and topics that may result in adverse borrower impact. The following are included in CORE's assessment:

- Guide [Section 8301.2](#), including the timeliness of deposits to designated Freddie Mac Custodial Accounts, timeliness of processing/depositing funds in cases where a lockbox provider is utilized, and back-dating of incoming funds when necessary
 - CORE will conduct loan-level testing of both payment processing transactions and loans recently paid-in-full to assess your control design and the effectiveness of controls in place to manage funds processing.
- Management of Suspense Funds to include the following:
 - Management of Suspense Funds
 - Identification of Funds held for special circumstances, such as Loss Mitigation (i.e., payment plans, forbearance plans, modification trial payments, pre- and post-petition bankruptcy funds)
 - Aging of Suspense Funds, including identification of adequate funds to satisfy a contractual payment obligation
 - Short payments per Guide [Section 8103.5](#)
 - Application and remittance of payoff funds to Freddie Mac per Guide [Section 8103.6](#)