

Fannie Mae Issues AI Governance Mandate: What Lender Letter LL-2026-04 Requires, How It Compares to Freddie Mac, and What to Do Now

By

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I. WHAT HAPPENED

On April 8, 2026, Fannie Mae issued Lender Letter LL-2026-04, establishing a governance framework for seller/servicer use of artificial intelligence and machine learning. The letter is effective 120 days from publication—approximately August 6, 2026.

That sentence should get your attention. Because as of today, both Government-Sponsored Enterprises have issued AI governance mandates for every seller/servicer. Freddie Mac's requirements under Bulletin 2025-16 (§§1302.2 and 1302.8) have been in effect since March 3, 2026. Fannie Mae's requirements take effect in August. If your institution sells or services loans for either GSE—which is most of the market—the compliance window is closing.

LL-2026-04 is a two-page document. Page one contains all substantive requirements. Page two is contact information. But those two pages carry real contractual weight: the letter uses mandatory “must” language, expressly invokes the Lender Contract, and imposes a compliance predicate and four operational requirements on every Fannie Mae seller/servicer that uses AI or ML in connection with originating or servicing agency loans.

No Selling Guide Announcement accompanied the Lender Letter. The most recent Selling Guide announcement is SEL-2026-03 (April 1, 2026). Selling Guide codification would be expected before or concurrent with the August effective date, though the timing and vehicle remain to be seen. The obligations are binding once the 120-day window closes, regardless of where they ultimately sit in the Guide.

II. WHAT THE LETTER REQUIRES

LL-2026-04 establishes a compliance predicate and four operational requirements for any seller/servicer using AI/ML in connection with loans sold to or guaranteed by Fannie Mae, or serviced on Fannie Mae’s behalf.

Obligation 1: Applicable Law and Lender Contract Compliance. This is a standalone predicate. The seller/servicer must ensure compliance with applicable laws and the Lender Contract. It is not a throwaway recital—it establishes legal and contractual compliance as the foundation on which every other obligation rests.

Obligation 2: Policies and Procedures. The seller/servicer must have policies and procedures governing the development, implementation, use, and maintenance of any AI/ML system, and the measuring and managing of AI/ML risks. Fannie Mae specifies five minimum components: (a) transparency and communication to personnel with AI-related responsibilities; (b) incorporation of the characteristics of trustworthy and ethical AI/ML; (c) reflection of legal and regulatory requirements regarding AI/ML; (d) risk management activities calibrated to the lender’s risk tolerance; and (e) a designated owner who implements, maintains, and reviews the policies at least annually to ensure they comply with applicable law and consistently reflect industry best practices.

Obligation 3: Information Security Supplement Compliance. The seller/servicer must comply with the Fannie Mae Information Security and Business Resiliency Supplement, effective August 12, 2025. That supplement addresses cybersecurity controls, 36-hour incident notification, and business continuity. It does not contain AI-specific governance provisions. LL-2026-04 incorporates it by reference, extending its security requirements to the AI governance context.

Obligation 4: Vendor and Subcontractor Governance. The seller/servicer must manage risks and appropriate governance of subcontractor and vendor use of AI/ML that is “no less protective” of the letter’s requirements. If your vendor uses AI in any process touching Fannie Mae loans, your governance program must cover that vendor’s AI use to the same standard as your own.

Obligation 5: On-Request Disclosure. Upon Fannie Mae’s request, the seller/servicer must promptly disclose the types of AI/ML used, the purpose and manner of use, the safeguards implemented to mitigate risks, and “such other information as Fannie Mae may require.” That last clause is open-ended by design.

III. HOW IT COMPARES TO FREDDIE MAC

Both GSEs now require AI governance. They built fundamentally different compliance structures to get there.

Freddie Mac’s approach under Bulletin 2025-16 (§§1302.2 and 1302.8) is prescriptive. It tells you what to build: segregation of duties between AI development and risk management, internal and external audit requirements, AI-specific security threat management (model inversion, data poisoning, prompt injection), and documented senior management accountability with named individuals and sign-off requirements.

Fannie Mae’s approach under LL-2026-04 is principles-based. It tells you what standard to meet: trustworthy and ethical AI, industry best practices, risk-tolerance-calibrated governance, annual review by a designated owner. It specifies outcomes rather than architectural components.

Both trace to FHFA Advisory Bulletin AB 2022-02 (originally issued February 2022, revised May 2025). That bulletin addresses AI/ML risk management expectations for the Enterprises themselves. LL-2026-04 and Bulletin 2025-16 extend those principles to the seller/servicer level. The following comparison maps the key elements side by side.

Element	Freddie Mac (§§1302.2/1302.8)	Fannie Mae (LL-2026-04)
Effective Date	March 3, 2026 (in effect)	~August 6, 2026 (120 days)
Regulatory Vehicle	Guide section amendments	Standalone Lender Letter
Approach	Prescriptive — specifies components	Principles-based — specifies standards
Documented Policies	Required	Required
Senior Accountability	Named individuals, documented sign-off	Designated owner(s), annual review

Segregation of Duties	Explicitly required	Not stated
AI-Specific Security	Model inversion, data poisoning, prompt injection	Not stated (references cybersecurity supplement)
Vendor/Subcontractor	Required — covers vendor-embedded AI	Required — “no less protective” standard
On-Request Disclosure	Types, purpose, safeguards, “such other info”	Substantially identical language
Trustworthy AI	“Characteristics of trustworthy AI”	“Trustworthy and ethical AI/ML”
Annual Review	At least annually by designated owner	At least annually by designated owner
Industry Best Practices	Required; cites NIST 800-53, ISO 27001	Required; must “consistently reflect” best practices
Internal/External Audit	Both required	Not stated
Definition of AI/ML	Shorthand defined; no substantive definition	No definition provided
NIST AI RMF Citation	Not cited by name	Not cited by name

IV. THREE THINGS THAT MATTER

The Prescriptive Gap

LL-2026-04 does not mention segregation of duties, internal or external audits, AI-specific security threats, or audit trail requirements. Freddie Mac §§1302.2 and 1302.8 cover all of these. A lender that builds only to Fannie Mae’s standard will have a governance program that Freddie Mac would find insufficient.

The converse is not true. A lender that builds to Freddie Mac’s prescriptive standard will almost certainly satisfy Fannie Mae’s principles-based requirements. For dual-approved sellers—which is most of the market—the practical answer: build to Freddie Mac’s prescriptive requirements and overlay Fannie Mae’s principles-based additions.

The Disclosure Obligation

Both GSEs now have substantially identical open-ended disclosure rights, including “such other information as [GSE] may require.” Every seller/servicer needs to be ready to produce on demand: an AI tool inventory, documentation of each tool’s purpose and operational context, safeguard descriptions, and governance documentation.

A lender that cannot produce this documentation has a compliance gap with both GSEs simultaneously. And the request can come at any time—in connection with an examination, a QC review, a repurchase dispute, or a routine audit. There is no notice period. The obligation is to “promptly disclose.”

The "Trustworthy and Ethical" Addition

Fannie Mae requires policies that “incorporate the characteristics of trustworthy and ethical AI/ML.” Freddie Mac requires “characteristics of trustworthy AI” without “ethical.”

Does the addition of “and ethical” create a substantive new requirement? In the NIST AI Risk Management Framework context, trustworthy AI already encompasses fairness, bias management, transparency, and accountability—concepts that overlap substantially with what most practitioners mean by “ethical AI.” FHFA Advisory Bulletin AB 2022-02 identifies five Core Ethical Principles (Transparency, Accountability, Fairness and Equity, Reliability, Privacy and Security) that provide the most likely definitional framework.

Neither GSE defines “trustworthy” or “ethical” in the requirement text. Neither cites the NIST AI RMF directly. Freddie Mac’s framework does reference “ethical stewardship” as a core principle, so the concept is not absent from its requirements—but Fannie Mae’s explicit inclusion of “and ethical” in the governance policy standard likely signals an expectation that governance programs address bias, fairness, and equitable outcomes as documented program elements, not byproducts of general model risk management. The safest approach: document how the governance program addresses each of the five FHFA Core Ethical Principles.

V. REGULATORY CONTEXT

LL-2026-04 does not arrive in a vacuum. Several recent regulatory developments provide context.

GAO Report 25-107201 (published September 2025, publicly released December 1, 2025) recommended that FHFA provide written direction to both GSEs on AI fair lending compliance. That recommendation remains open. LL-2026-04 addresses AI governance broadly, not fair lending specifically, so the letter is contextually related but not a direct response to the GAO recommendation.

FHFA Advisory Bulletin AB 2022-02 was revised in May 2025. The revision removed “Diversity and Inclusion” from the enumerated Core Ethical Principles, reducing from six to five. Both GSEs’ “trustworthy AI” language traces to this bulletin.

The timing of LL-2026-04—arriving five weeks after Freddie Mac’s requirements became effective—suggests coordinated influence from FHFA’s enterprise-level supervisory posture. No confirmed FHFA directive has surfaced requiring both GSEs to issue seller/servicer AI governance mandates. But the thematic alignment—trustworthy AI

language, risk tolerance requirements, vendor governance obligations, identical disclosure language—is difficult to attribute to coincidence alone.

The preamble to LL-2026-04 states that Fannie Mae “continues to monitor ongoing developments and related requirements,” signaling that this is an initial framework. Freddie Mac’s Bulletin 2025-16 was similarly positioned as an initial framework when issued. Lenders should expect both frameworks to expand.

VI. WHAT TO DO NOW

The compliance window is narrowing. Here are the priority actions.

1. If you have already built Freddie Mac §1302.8 governance infrastructure: You are largely positioned. Confirm your framework covers Fannie Mae’s principles-based elements—particularly the “trustworthy and ethical AI/ML” standard, the annual review requirement with a designated owner, and the explicit personnel communication obligation. Document the overlay analysis. Keep it in the compliance file.

2. If you have NOT built Freddie Mac governance infrastructure: You now have two converging GSE deadlines—one already in effect (Freddie Mac, March 3, 2026) and one approaching (Fannie Mae, approximately August 6, 2026). The compliance gap is widening, not narrowing. Start with Freddie Mac’s prescriptive requirements and build upward. A governance program built to §§1302.2 and 1302.8 will provide the structural foundation for both frameworks.

3. Audit your vendor contracts. Confirm that every AI vendor contract addresses governance requirements for both GSEs. Both require vendor/subcontractor AI governance “no less protective” than the seller/servicer’s own program. If your vendor cannot produce the documentation either GSE may request—AI tool descriptions, operational context, safeguard summaries—that vendor creates a compliance gap in your program, not theirs.

4. Prepare the disclosure package now. Both GSEs have substantially identical authority to request AI documentation at any time. Build the package before the request arrives: AI tool inventory across origination and servicing, purpose and operational context for each tool, safeguard documentation, and governance program summary. Include vendor-embedded AI tools. Do not wait for an examination or a QC review to start assembling this.

5. Designate an AI governance policy owner. LL-2026-04 explicitly requires a designated owner who reviews policies at least annually and ensures they comply with applicable law

and reflect industry best practices. If you do not have one, appoint one. Document the appointment, the scope of authority, and the review schedule.

6. Monitor for Selling Guide codification. LL-2026-04 will almost certainly be codified into a specific Selling Guide section in the coming months. Watch for a Selling Guide Announcement that specifies the permanent Guide location and any additional implementation detail.

ABOUT THE FIRM

Brody | Gapp LLP is a national mortgage banking law firm representing independent mortgage banks, depositories, credit unions, mortgage brokers, and fintechs in regulatory compliance, repurchase and make-whole defense, mortgage fraud investigation and recovery, employment and business tort litigation, and strategic transactions. The firm is headquartered in Irvine, California, with a fully remote national practice.

The firm is actively advising lenders, AI technology companies, and mortgage industry vendors on GSE AI governance compliance, including Freddie Mac Bulletin 2025-16 and Fannie Mae LL-2026-04 implementation. Brody | Gapp has published four AI governance companion tools for the mortgage industry: the AI Governance Survival Guide (built around Freddie Mac Bulletin 2025-16 and Guide §1302.8), the AI Fair Lending Risk Map, the AI Vendor Due Diligence Guide (anchored in SR 11-7 supervisory guidance and GSE examination expectations), and the AI Workplace Policy Discovery.

All four tools are available at www.brodygapp.com/pdfs.

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