

Announcement 05-04

May 31, 2005

Amends these Guides: Selling

40-Year Term Loans

In response to recent changes in housing market affordability and requests from our lender partners, Fannie Mae is extending the maximum loan term on certain standard loan products from 30 to 40 years. In this Announcement, the term “40-year” refers to any term greater than or equal to 361 months, but not exceeding 480 months. Effective June 1, 2005, Fannie Mae will begin offering standard whole loan commitments and MBS pool purchase contracts for delivery of first lien fixed-rate and certain adjustable-rate mortgages (ARMs) with 40-year terms. Fannie Mae standard products will be eligible for 40-year term loans.

Eligible Products

As of the effective date of this Announcement, lenders may commit to sell and deliver first lien mortgages with 40-year terms. The eligible Fannie Mae fixed-rate and adjustable-rate products are identified below.

40-Year Fixed-Rate Mortgage (FRM)

Fully amortizing mortgages with fixed monthly payments for the life of the loan.

40-Year Hybrid Adjustable-Rate Mortgage (ARM)

Fully amortizing hybrid (also known as fixed-period) adjustable-rate mortgages must have initial fixed periods of three, five, seven or ten years. At the end of the initial fixed period, the interest rate and monthly payment must adjust annually. All other ARMs are ineligible. The adjusted interest rate and payment must be based on one of the following index options and specified in the mortgage note:

1-year WSJ LIBOR (LIBOR) – The adjusted interest rate and payment are based on the most recent index value published in the daily *Wall Street Journal* that is available on the day that is 45 days prior to the interest rate change date. The index value is the average of Interbank offered rates for one-year U.S. Dollar-denominated deposits in the London market.

1-year Constant Maturity Treasury Index (CMT) – The adjusted interest rate and payment are based on the most recent index value published in weekly *Federal Reserve Statistical Release H.15 (519)* that is published on the day that is 45 days prior to the interest rate change date. The index value is the weekly average yield on United States Treasury securities adjusted to a constant maturity of one year.

See Attachment 1, 40-Year Product Characteristics for further details.

Mortgage Documents

New mortgage documents are not needed for the 40-year loan. A lender must use the most current version of the Fannie Mae/Freddie Mac uniform first mortgage security instruments, and riders as required, that are correct for the applicable jurisdiction, lien type, mortgage type, property type, and transaction type. In addition, the lender must use the most current version of the appropriate Fannie Mae (or Fannie Mae/Freddie Mac) Fixed-Rate or Adjustable-Rate Note. Mortgage documents may be found on our Web site at www.eFannieMae.com.

See Attachment 1, 40-Year Product Characteristics for applicable form numbers.

Eligibility Guidelines

The eligibility and underwriting guidelines for 40-year loans are generally similar to those for 30-year loans; however, 40-year loans are not eligible for any variances to Selling Guide underwriting and eligibility, unless the variance is specifically approved for 40-year loans. Further, the following products and/or characteristics are ineligible for 40-year loans:

- Certain products, including, but not limited to, *MyCommunityMortgage™*, *InterestFirst™*, *Flexible 97™*, *Flexible 100™*, *HomeStyle®*, *Fannie 3/2®*, *Fannie 97®*, *Community Home Buyer Program® mortgages (CHBP)* and biweekly mortgage products;
- DU loans that receive Expanded Approval™ recommendations;
- Loans secured by manufactured housing;
- Loan-to-value ratios greater than 95%;
- “Reduced MI” and “Lower Cost MI” coverage options;
- ARMs with initial fixed interest rate periods shorter than 3 years;
- ARMs with subsequent adjustment periods other than one year; and
- ARMs with negative amortization.

A 40-year loan may be underwritten manually or with Desktop Underwriter® (DU™). With the release of DU version 5.5 in July of 2005, a 40-year loan that is submitted through DU will be eligible for delivery to Fannie Mae if it receives an Approve/Eligible recommendation. In addition, a 40-year loan with a Refer/Eligible recommendation may also be eligible for delivery. However, in this instance we encourage the lender to refer to

the Guide to Underwriting with Desktop Underwriter™ found on our Web site at <http://www.eFannieMae.com/> for guidance. Until that time, lenders may deliver a DU loan to Fannie Mae that receives an Approve/Ineligible or a Refer/Ineligible recommendation if the only reason for the ineligibility is a term over 30 years. Regardless of DU recommendation, loans must meet all other Fannie Mae requirements for 40-year loans set forth in this Announcement.

See Attachment 2, Mortgage Eligibility Criteria for 40-Year Terms or Less for more detailed eligibility guidelines.

Servicing Fee Requirements

The minimum servicing fees for the 40-year mortgage are the same as those for the 30-year mortgage, as follows:

40-Year Product type	30-Year Minimum Servicing	40-Year Minimum Servicing
FRM	0.250%	0.250%
3/1 and 5/1 ARM	0.375%	0.375%
7/1 and 10/1 ARM	0.250%	0.250%

Execution Options

In this section, we discuss the execution options for whole loan commitments and MBS pool commitments. Lenders may contact the Whole Loan Desk or the MBS Desk at the numbers provided below with any questions.

Whole Loan Commitments

The standard whole loan commitment guidelines that apply to 30-year mortgages apply to 40-year mortgages. Live pricing options for current production 40-year FRM and 3/1, 5/1, 7/1 and 10/1 hybrid ARM mandatory whole loan commitments will be posted each day, effective June 1, 2005, on Fannie Mae's *eCommitting* platform. Contact the Whole Loan Desk (1-800-752-1080) between 9:00 a.m. and 5:00 p.m. ET for questions regarding whole loan commitments and pricing.

Whole Loan Commitment Guidelines				
	30-Year FRM	40-Year FRM	30-Year ARM	40-Year ARM
Original Term Range	181-360 mos.	361-480 mos.	None	None
Maximum Seasoning	24 mos.	24 mos.	12 mos.	12 mos.
Commitment periods	Up to 90-days	Up to 90-days	Up to 90-days	Up to 90-days

MBS Pools

Although 40-year loans are not eligible for inclusion in 30-year MBS pools, the standard pooling and seasoning guidelines that apply to 30-year loans similarly apply to 40-year loans. The integrity of the pooling attributes across all MBS is critical to ensure a smooth servicing process and to maintain the consistency and integrity of the monthly pool factor and investor disclosure data. Accordingly, a new 40-year prefix will be assigned to any pool that contains loans with an original maturity greater than or equal to 361 months, up to and including 480 months. Additionally, for ARM MBS, existing subtypes will be used to identify certain ARM attributes in the pool.

Further, a 10% (or 15%, if applicable) limitation applies to certain non-standard products eligible for a single pool. Each pool is restricted to no more than 10% of relocation loans and/or cooperative share loans. If a combination of these nonstandard product types is delivered in the same pool, then the restriction is 15% for each pool. The 10% and 15% thresholds are calculated by comparing the issue date unpaid principal balance of the non-standard mortgage loans to the issue date unpaid principal balance of the pool as a whole.

There will be a 0.1250% loan level price adjustment associated with 40-year loans delivered under the guidelines set forth in this Announcement, to accommodate the incremental risk associated with extending the term ten years. This loan level price adjustment is in addition to those otherwise applicable to the particular transaction.

Specific buyup and buydown ratio grids will be available for the 40-year products – see the Buyup/Buydown Ratios link on eFannieMae.com for additional details. Lenders may obtain additional information about active Major pools by contacting the MBS Desk at 1-800-752-0257. Lenders should contact their Customer Account Team to request a standard MBS pool purchase contract. More detailed MBS pooling and delivery requirements can also be found on www.fanniemae.com or www.eFannieMae.com.

See Attachment 3, FRM and ARM Pooling Guidelines for further details.

Mortgage Delivery

Delivery of whole loan commitments for 40-year loans is the same as for 30-year loans. To accommodate MBS deliveries of 40-year loans, a MORNET MBS Poolsub™ upgrade, Version 5.36, is required and will be available beginning on June 1, 2005. To update a version of MORNET Poolsub, the lender should:

- Select the *Retrieve Messages/Updates* menu option in Poolsub
- Select the *Retrieve System Updates* option

The *PoolSub* system will retrieve and apply the updates automatically. If a lender has any questions or prefers to receive the new version of Poolsub on diskettes, the lender should call the Customer Care Center at 1-800-752-6440.

Compliance with Applicable Laws

It is possible that some jurisdictions may not consider a mortgage loan with a term of 40 years enforceable. As always, each lender represents and warrants that the mortgage is enforceable in accordance with its terms. We urge the lender to review applicable laws to confirm that 40-year loans are enforceable prior to delivering them to Fannie Mae.

Lenders who have questions about this Announcement should contact their Customer Account Team.

Pamela S. Johnson
Senior Vice President

Attachments

Attachment 1
40-Year Product Characteristics

Product Type	Note ¹	Rider	ARM Plan	Index	Initial Fixed Period (Months)	Initial Fixed Period Range	First Adjustment Cap (+/-%)	Subsequent Adjustment Cap (+/-%)	Lifetime Cap (+%)	Assumability
Fixed Rate	3200	None	Not Applicable							
3/1	3502	3111	2236	1-Year CMT	36	19-42	2	2	6	Yes
5/1	3522	3182	2699		60	43-66	5	2	5	Yes - after initial adjustment
5/1	3522	3182	2238		60	43-66	2	2	6	
7/1	3522	3182	2704		84	67-90	5	2	5	
10/1	3522	3182	2703		120	91-150	5	2	5	
3/1	3526	3189	3130	1-Year WSJ LIBOR	36	19-42	2	2	6	Yes
5/1	3528	3187	3128		60	43-66	5	2	5	Yes - after initial adjustment
5/1	3528	3187	3557		60	43-66	2	2	6	
7/1	3528	3187	3558		84	67-90	5	2	5	
10/1	3528	3187	3559		120	91-150	5	2	5	

- These ARM plans do not have a conversion option.
- These ARM plans have change intervals of 12 months after the initial fixed interest rate period.
- The mortgage interest rate may never decrease to less than the ARM Mortgage Margin, as set forth in the related mortgage note, regardless of the effect of any downward interest rate adjustment cap indicated above.
- There is no lifetime interest rate floor, other than the ARM Mortgage Margin.
- Whole loan net margins are 2.250% for 1-Year CMT ARMs and 1.750% for 1-Year WSJ LIBOR ARMs.

¹ Generally, a lender may use the Multistate Fixed-Rate Note (Form 3200). However there are ten state-specific versions of this note that must be used in those states, as well as a Texas state-specific note that should be used only in connection with Texas Section 50(a)(6) mortgages. (See Selling Guide Part IV: Chapter 2, Mortgage or Deed of Trust Notes, Exhibits 1 and 2, Fixed-Rate First Mortgage or Deed of Trust Notes and Adjustable-Rate First Mortgage or Deed of Trust Notes.)

We no longer publish state-specific notes for all ARM plans. Lenders must use the multistate or applicable state-specific ARM note for the particular ARM plan, and amend it as necessary to satisfy the requirements of the jurisdiction in which the security property is located.

Attachment 2

Mortgage Eligibility Criteria for 40-Year Terms or Less

Lien Position	First-lien mortgage			
# Units	1– 4 units			
Occupancy	Principal residences, second homes, investment properties			
Purpose	Purchase, limited cash-out refinance, cash-out refinance			
Property/ Ownership type	SF Detached/Attached, Condominium, PUD, Cooperative ¹ , Leasehold are eligible. Manufactured Housing is ineligible.			
	Selling Guide Eligibility	Enhanced Eligibility² (Manual Underwriting)	Desktop Underwriter (DU)	
Maximum LTV/CLTV/HCLTV³ - Purchase and Limited Cash-out Refinance				
Principal Residence	FRM	1-unit: 95/95/100 2-units: 90/90/95 3-4 units: 80/80/85 Cooperatives ¹ ▪ Purchase & Limited Cash-out: 90	2 units: 95/95/100	1-2 units: 95/95/100 3-4 units: 80/80/85 Cooperatives ¹ ▪ Purchase: 95 ▪ Limited Cash-out: 90
	ARM	1-2 units: 90/90/95 3-4 units: 80/80/85 Cooperatives ¹ ▪ Purchase & Limited Cash-out: 90	1-2 units: 95/95/100	1-2 units: 95/95/100 3-4 units: 80/80/85 Cooperatives ¹ : ▪ Purchase: 95 ▪ Limited Cash-out: 90
Second home	1-unit: 90/90/95	1-unit: 95/95/100	1-unit: 95/95/100 Cooperatives ¹ : ▪ Purchase: 90 ▪ Limited Cash-out: 80	
Investment Property	1-4 units: 75/75/80	1-2 units: 90/90/95	1-2 units: 90/90/95 3-4 units: 75/75/80	
Maximum LTV/CLTV/HCLTV³ - Cash-out Refinance				
Principal Residence	1-4 units: 70/70/75	1-2 units: 90/90/95	1-2 units: 90/90/95 3-4 units: 75/75/80 Cooperatives ¹ : 85	
Second Home	1-unit: 70/70/75	1-unit: 90/90/95	1-unit: 90/90/95	
Investment Property	1-4 units: 70/70/75	1-2 units: 85/85/90	1-2 units: 85/85/90 3-4 units: 70/70/75	
Product Exclusions	<ul style="list-style-type: none"> ▪ 40-year loans may not contain any variances to Selling Guide underwriting and eligibility, unless the variance is specifically approved for 40-year loans ▪ Certain products are not eligible for 40-year mortgages, including, but not limited to, <i>MyCommunityMortgage</i>TM, <i>InterestFirst</i>TM, <i>Flexible 97</i>TM, <i>Flexible 100</i>TM, <i>HomeStyle</i>[®], <i>Fannie 3/2</i>[®], <i>Fannie 97</i>[®], <i>Community Home Buyer Program</i>[®] mortgages (CHBP) and biweekly mortgage products ▪ DU loans that receive Expanded ApprovalTM recommendations ▪ Loans secured by manufactured housing ▪ Loan-to-value ratios greater than 95% ▪ “Reduced MI” and “Lower Cost MI” coverage options ▪ ARMs with initial fixed interest rate periods shorter than 3 years ▪ ARMs with adjustment periods other than one year ▪ Negatively amortizing ARMs 			
Mortgage Insurance	Standard MI coverage levels apply. SMC is allowed. Reduced MI and lower cost MI coverage options are not eligible.			
	80.01-85% LTV: 12%	85.01-90.00% LTV: 25%;	90.01-95.00% LTV: 30%.	

¹ Cooperatives with subordinate financing are ineligible. If “Coop: LTV” is not listed, cooperatives are ineligible based on occupancy and/or purpose.

² Please refer to the Selling Guide, Part VII, for Enhanced Eligibility applicable credit score requirements, reserve requirements and loan-level price adjustments.

³ Maximum Loan-to-value ratio (LTV) and if subordinated financing exists, combined loan-to-value ratio (CLTV) and home equity combined loan-to-value ratio (HCLTV).

Attachment 3 FRM and ARM Pooling Guidelines

FRM MBS Pooling Guidelines		
	30-Year FRM	40-Year FRM
Original Term Range	Single pool, Megas, Multiple pool: 181-360 months	Single pool, Megas, Multiple pool: 361-480 months
	Majors: 300-360 months	Majors: 420-480 months
Seasoning	Single pool, Megas, Multiple pool: None	Single pool, Megas, Multiple pool: None
	Majors: 12 months	Majors: 12 months
Prefix	CL	CZ
TBA-eligible	Yes	No
MBS Issuer Type	Single pool, Majors, Megas, Multiple pool	Single pool, Majors, Megas, Multiple pool
MBS Pool Structure	50bp coupon increments	50bp coupon increments
Minimum Pool Size	Single pool, Multiple pool: \$1,000,000	Single pool, Multiple pool: \$1,000,000
	Majors: \$1,000,000	Majors: \$1,000,000
	Megas: \$1,000	Megas: \$1,000

ARM MBS Pooling Guidelines				
	30-Year ARM	40-Year ARM		
Original Term Range	Any loan term up to 360 months	Single pool: 361-480 months		
Seasoning	None	None		
MBS Prefix	LB, WD, WS	WZ		
TBA-eligible	No	No		
MBS Issuer Type	Single pool, Megas, Multiple pools	Single pool, Megas, Multiple pools		
MBS Pool Structure	ARM Flex: Weighted Structure, Weighted Margin ARM Flex: Weighted Structure, Fixed Margin	ARM Flex: Weighted Structure, Weighted Margin		
Minimum Pool Size	Single pool, Multiple pool: \$500,000 Majors: Not allowed Megas: \$1,000	Single pool, Multiple pool: \$500,000 Majors: Not allowed Megas: \$1,000		
Subtypes (ARM only)		Product Type	ARM plan: subtype	
		Cap Structure ¹	LIBOR	CMT
		3/1 (2/2/6)	3130: P9B	2236: 204
		5/1 (2/2/6)	3557: P9C	2238: 208
		5/1 (5/2/5)	3128: P9F	2699: 2CI
		7/1 (5/2/5)	3558: P9D	2704: 243
		10/1 (5/2/5)	3559: P9E	2703: 2X

¹ The cap structure, (#/#/#), refers to the first adjustment cap, subsequent adjustment cap and lifetime cap of each ARM product type, as described in the product characteristics table (Attachment 1). See Eligible Products section of this Announcement.