

Announcement 08-01

January 31, 2008

Amends these Guides: Selling and Servicing

Miscellaneous Changes

- *Consideration of Authorized Users of Credit;*
- *Clarification to the Requirements for Individual Development Account (IDA) Funds;*
- *Update to Off-Site Improvement Requirements;*
- *Revision, Correction and Clarification to Announcement 07-18, Lender Delegation of Project Review Processes and Related Changes for Condominiums, Cooperatives, and Planned Unit Developments (PUDs); and*
- *Updates to Delivery Transmittal Form 278*

This Announcement includes several topics that are intended to update current policy, communicate new requirements, clarify existing requirements, and correct a prior Announcement, as itemized below:

- Guidance to lenders for review and consideration of credit report tradelines that list the borrower as an “authorized user”;
- Clarifications on disbursement and borrower use of IDA funds;
- Update to off-site improvement requirements, such as for privately-maintained streets;
- Revision, correction and clarification of Announcement 07-18, Lender Delegation of Project Review Processes and Related Changes for Condominium, Cooperatives, and Planned Unit Developments; and
- Updates to the Delivery Transmittal Form 278

Consideration of Authorized Users of Credit

When a credit account owner permits another person, typically a family member who is managing credit for the first time, to have access to and use an account, the user is referred to as an “authorized user” of the account. This practice was originally intended to assist related individuals in legitimately establishing a credit history and credit score based on the account and payment history of the account owner, even though the authorized user is not

the account owner. The *Selling Guide* does not currently address the use or acceptability of authorized user tradelines.

Recently, the industry has witnessed “credit renting” or “piggybacking” schemes. Under these schemes, a person unrelated to the account owner pays the owner a fee to become an authorized user of the account, thus benefitting from the account owner’s good credit to artificially inflate the authorized user’s credit score. Such tradelines are not an accurate reflection of the authorized user’s credit profile.

For manually underwritten loans, credit report tradelines that list a borrower as an “authorized user” can no longer be considered in the underwriting decision, except in the following instances:

- If another borrower in the mortgage transaction is the owner of the tradeline; or
- The borrower can provide written documentation (e.g. canceled checks, payment receipts, etc.) that he or she has been the actual and sole payer of the monthly payment on the account for at least 12 months preceding the date of the application.

If there is written documentation of the borrower’s monthly payments on the authorized user account, then the payment history (particularly any late payments that are indicated) must be considered in the credit analysis and the monthly payment obligation must be included in the debt-to-income ratio.

The effective date for the above requirements is March 1, 2008. Loan applications that are taken on or after March 1, 2008, should comply with these requirements.

The requirements above do not apply to loan casefiles underwritten through Desktop Underwriter®.

Clarification to Requirements for IDAs

Selling Guide Part X, Section 603.19, Individual Development Accounts provides a definition of an IDA and allowable usage of such accounts. This Announcement provides new guidance relative to disbursement of IDA funds and clarification of existing requirements for usage of IDAs.

Disbursement of IDA funds. Non-profit agencies that offer IDA programs have options with respect to accumulating and holding the “matching” funds, which include: (a) the use of a parallel “savings” account that is separate from the homebuyer’s savings account; (b) separately designated “matching” funds within a single agency account via accounting processes to allocate matching funds to a particular homebuyer; and (c) the use of a trustee account which would contain both the homebuyer’s funds and the agency’s matching funds.

When a homebuyer reaches the target amount and is ready to complete the home purchase, the funds will be disbursed from the non-profit agency account to the closing agent via a single check or multiple checks. If the agency’s “matching” funds are held in an account that is separate from the homebuyer’s account, then the “matching” funds need not be

commingled with the homebuyer's funds prior to disbursement to the closing agent. It is acceptable to allow the separate disbursement of funds from the agency and from the homebuyer, as long as the terms of the IDA program are met.

Use of IDA Funds to Meet the Borrower's Minimum Down Payment Requirements.

Effective on the date of this Announcement, funds that the borrower deposited into an IDA may be used for down payment, and depending on the repayment terms of the IDA program, the borrower may or may not be required to meet the minimum down payment requirements from his or her own funds, as outlined below:

- If the nonprofit agency requires repayment of the “matching” funds, agrees to defer or forgive repayment provided certain conditions are met, or files a lien against the property, then the borrower may use the “matching” funds to supplement the down payment, provided the borrower has met the minimum down payment requirements from his or her own funds.
- If the nonprofit agency does not require repayment of the “matching” funds and does not file a lien against the property, then the borrower may use the “matching” funds for some or all of the down payment without first being required to meet the minimum down payment requirement from his or her own funds.

The terms of an IDA program and any provisions related to second mortgages must be in compliance with requirements set forth in the Selling Guide.

Update to Off-Site Improvement Requirements

Selling Guide, Part VII, Section 102.07, Factory-Built Housing; Part XI, Section 304.01 Manufactured Homes and Section 404.04, Off-Site Improvements.

The current Fannie Mae appraisal report forms provide a section for the appraiser to comment on off-site improvements (e.g. streets or alleys) and to indicate whether the improvements are publicly or privately maintained. The appraiser must indicate whether the off-site improvements are typical for the market and comment on any adverse condition related to the off-site improvements, including any effect on the marketability and value of the subject property.

As stated in the *Selling Guide*, properties should front on a publicly dedicated and maintained street that meets community standards and is generally accepted by area residents. If the property is located on a community-owned or privately-owned and maintained street, Fannie Mae currently requires an adequate, legally enforceable agreement or covenant for maintenance of the street. Effective on the date of this Announcement, Fannie Mae is expanding the existing requirements to permit the delivery of mortgage loans in communities in which there is no such agreement, provided there are certain state law standards or the lender indemnifies Fannie Mae for losses due to the lack of such agreement. It also clarifies that for purposes of this section, covenants constitute an agreement.

If the property is located on a community-owned or privately-owned and maintained street, Fannie Mae will now require one of the following:

1. An adequate, legally enforceable agreement or covenant for maintenance of the street. The agreement or covenant should include the following provisions and be recorded in the land records of the appropriate jurisdiction:
 - Responsibility for payment of repairs, including each party's representative share;
 - Default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations; and
 - The effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners.

If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required.

2. If the property is not located in a state that imposes statutory requirements for maintenance, and either there is no agreement or covenant for maintenance of the street, or an agreement or covenant exists but does not meet the requirements listed above, the lender must indemnify Fannie Mae for any losses or expenses it may incur due to the physical condition of the street or in order to establish and/or retain access thereto.

The property must continue to meet all other requirements, including any requirements related to adequate vehicular access, as outlined in the *Selling Guide*.

Revision, Correction and Clarification to Announcement 07-18, Lender Delegation of Project Review Processes and Related Changes for Condominiums, Cooperatives, and Planned Unit Developments (PUDs)

In response to feedback received on Announcement 07-18, "Lender Delegation of Project Review Processes and Related Changes for Condominiums, Cooperatives, and Planned Unit Developments (PUDs)", issued on November 15, 2007, Fannie Mae is providing a revision to the requirement for implied approval of project document amendments of a material adverse nature, a correction to the requirement for an attorney opinion letter, and a clarification of the effective date of Condo Project Manager™ (CPM™) requirements.

Implied Approval of Project Documents - Fannie Mae is revising the mortgagee implied approval requirement for project document amendments of a material adverse nature. As such, Announcement 07-18, Attachment 1, Exhibit 1: (Legal Requirements for CPM Expedited Review Full Review Processes for Condominiums – Lender Representations and Warranties), the paragraph titled "Amendment to Documents" is changed in its entirety to read:

Amendments to Documents –

- a. The project documents must provide that amendments of a material adverse nature to mortgagees be agreed to by mortgagees that represent at least 51 percent of the votes of unit estates **that are subject to mortgages**.
- b. The project documents must provide for any action to terminate the legal status of the project after substantial destruction or condemnation occurs or for other reasons to be agreed to by mortgagees that represent at least 51 percent of the votes of the unit estates **that are subject to mortgages**.
- c. The project documents may provide for implied approval to be assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 60 days after it receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a “return receipt” requested. Notwithstanding the foregoing, project documents that were recorded prior to August 23, 2007, may provide for implied approval to be assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 30 days after it receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a “return receipt” requested.

Review of the Project’s Legal Documents - It was not Fannie Mae’s intention to require an attorney’s opinion for every project that is accepted through the CPM Expedited Review or Lender Full Review processes. As such, Announcement 07-18: Attachment 1: Exhibit 1: (Legal Requirements for CPM Expedited Review and Lender Full Review Processes for Condominiums – Lender Representations and Warranties) the paragraph titled “Attorney’s Opinion” is changed in its entirety to read:

Attorney’s Opinion –

Established and New Two-Unit to Four-Unit Condominium Projects:

Lenders must represent and warrant that the project complies with the legal requirements discussed herein.

New Condominium Projects (Excluding New Two-Unit to Four-Unit Projects):

A qualified attorney engaged by the lender must review the legal documents for all new condominium projects that are not two-unit to four-unit projects, and determine that the documents are in compliance with the legal requirements discussed herein. This determination must be documented by the attorney in writing but need not rise to the level of a formal, written legal opinion. The attorney may be the same person who prepared the legal documents or an attorney employed by the lender, but he or she cannot be an employee, principal, or officer of the developer or sponsor of the project. The writing reflecting compliance with the legal requirements must be available upon request for the purposes of a Fannie Mae Quality Assurance review.

Effective Date of New CPM Requirements - The effective date for the new legal, homeowner association budget and delinquent homeowner association fee requirements for projects submitted to CPM was January 15, 2008.

As of January 15, 2008, projects that require re-certification in CPM are subject to the new legal, budget and association fee requirements set forth in Announcement 07-18. Projects accepted via CPM prior to January 15, 2008, will remain accepted. However, pursuant to Part XII, Section 103: General Warranty of Project Eligibility, lenders are required to represent and warrant to Fannie Mae that, with each delivery of a loan secured by a condominium unit in a CPM-certified project, the project met all of the applicable eligibility requirements on the date of the note and mortgage for that unit (including, but not limited to, the new legal, homeowner association budget and delinquent homeowner association fee requirements set forth in Announcement 07-18 as amended by this Announcement for those loans where the note and mortgage are dated January 15, 2008 or later) and that the lender is not aware of any change in circumstances since then that would result in the project not satisfying our eligibility criteria.

Updates to Delivery Transmittal Form 278

Selling Guide Part VI, Chapter 3, Document Submission Packages, Section 301.01 Documents for Regularly Amortizing Mortgages and Section 301.02 Documents for Reverse Mortgages; Section 302.01 Documentation Sent to Custodian.

Servicing Guide Part III, Chapter 8, Balloon Mortgage Maturity, Section 803.02, Required Legal Instruments and Section 805.03, Delivery Documentation

Fannie Mae has updated the Delivery Transmittal Form 278 as follows:

- removed the Lead Regional Code box,
- removed reference to MORNET® and tape delivery,
- replaced reference to Airborne with DHL, and
- added a line for identification of the lender's contact person's email address.

Form 278 is currently used as a summary sheet and transmittal letter for custody documents that are sent to Fannie Mae's Document Delivery Facility (DDF) as a part of the initial loan package. Form 278 may also be used when it might be unclear why documents are being submitted or the transaction to which they pertain is unknown. Form 278 should be used for documents held by DDF relating to both cash and MBS transactions.

The updated Form is generated via the Loan Delivery application and is also available as an interactive form on our eFannieMae.com Web site. To obtain the Form, go to www.efanniemae.com. Once there, select "Forms & Documents" from the "Single-Family" drop down menu. Then select "Forms," and scroll down the numerical list of forms to Form 278. Lenders may begin using the revised Form immediately.

Lenders who have questions about Announcement 08-01 should contact their Customer Account Team for additional information.

Michael A. Quinn
Senior Vice President
Single-Family Risk Officer