



Announcement 08-35

December 18, 2008

Amends these Guides: Selling

Credit Score Requirements for Government Loans, Debt-to-Income Ratio Changes, Community Seconds[®] Rider, and Seller/Builder Affiliation Policy

Introduction

This Announcement contains updates and clarifications to several Fannie Mae policies as itemized below:

- Minimum credit score requirements for government loans
- Debt-to-income ratio requirements
- Elimination of Community Seconds rider
- Clarification of seller/builder affiliation policy

Minimum Credit Score Requirements for Government Loans

Selling Guide, Part VII, Chapter 2: Government Mortgages

Beginning with loan applications dated on or after June 1, 2008, Fannie Mae established a minimum representative credit score requirement for all mortgage loans delivered to Fannie Mae (Announcement 08-08, *Mortgage Eligibility and Pricing Updates for Desktop Underwriter[®] and Manually Underwritten Loans*). At that time, Fannie Mae identified that mortgages insured or guaranteed by a federal government agency (HUD, FHA, VA, and RD mortgage loans) were excluded from the policy. Fannie Mae is now extending the minimum credit score requirements to include government-insured and guaranteed mortgages. Beginning with the effective dates noted below, all government-insured and guaranteed mortgage loans delivered to Fannie Mae will be subject to a minimum representative credit score of 580. Manually underwritten loans with nontraditional credit will continue to be exempt from this policy for both conventional and government mortgage loans, as will certain streamlined refinance transactions.

Debt-to-Income Ratio Requirements

Selling Guide, Part VIII, Chapter 2, Exhibit 1: MyCommunityMortgage® Eligibility, Exhibit 2: Community Solutions™ Eligibility, Exhibit 3: Community HomeChoice™ Eligibility; Part X, Section 703: Benchmark Ratios

In a continuing effort to promote sustainable homeownership, Fannie Mae will institute a maximum 45 percent debt-to-income ratio for all manually underwritten conventional loans. Fannie Mae continues to support the benchmark debt-to-income ratio of 36 percent, but will allow the benchmark to be exceeded up to a maximum of 45 percent with strong compensating factors. For information about compensating factors, refer to Announcement 08-26, *Comprehensive Risk Assessment Approach to Manual Underwriting*.

This maximum 45 percent debt-to-income ratio does not apply to government loans and loan casefiles underwritten through Desktop Underwriter. Desktop Underwriter will continue to determine the maximum allowable debt-to-income ratio based on the overall risk assessment of the loan casefile.

Elimination of Community Seconds Rider

Selling Guide, Part VIII, Section 303.02: Amendment of Unacceptable Terms

In Announcement 99-14, *Community Lending Mortgages* (issued December 14, 1999), Fannie Mae introduced the Community Seconds Rider to assist Community Seconds providers in revising programs to meet Fannie Mae's guidelines when the lender's review of the legal documents, program description, and repayment terms revealed that some of the eligibility criteria could not be met. If the provider did not revise its program to meet Fannie Mae requirements, the lender was still able to sell first mortgages with Community Seconds from the non-complying program if, for each individual transaction, the borrower and the Community Seconds provider signed a Community Seconds Rider to the Second Mortgage (Deed of Trust). The Rider is used to make the Community Seconds financing consistent with Fannie Mae's requirements. Fannie Mae provided a model Community Seconds Rider that could be modified as needed by the lender to bring the program into compliance with Fannie Mae guidelines.

Due to significant changes to the Community Seconds guidelines during the past decade, the Community Seconds Rider has become obsolete and will no longer be accepted by Fannie Mae. Mortgage loans delivered to Fannie Mae with Community Seconds must meet Fannie Mae requirements or have received prior approval on a negotiated basis.

Clarification of Seller/Builder Affiliation Policy

Selling Guide, Part VII, Section 101.05: Multiple Mortgages to the Same Borrower

Several questions have been raised regarding the eligibility of mortgage loans for sale to Fannie Mae when the borrower is affiliated with the seller of the property. Currently, Fannie Mae's policy on this topic is located in one section of the *Selling Guide* – Part VII, Section 101.05: *Multiple Mortgages to the Same Borrower* – which could be interpreted as only being applicable in those specific situations.

To clarify the policy, Fannie Mae is creating a new section in the *Selling Guide* that is applicable to all mortgage loans that outlines the eligibility parameters when the borrower is affiliated with the seller or builder of the property. The new section follows.

Non-Arm's Length Transactions

Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property. Fannie Mae allows non-arm's length transactions for the purchase of existing properties. For the purchase of newly constructed properties, if the borrower has a relationship or business affiliation (any ownership interest, or employment) with the builder, developer, or seller of the property, Fannie Mae will only purchase mortgage loans secured by a primary residence. Fannie Mae will not purchase mortgage loans on newly constructed homes secured by a second home or investment property if the borrower has a relationship or business affiliation with the builder, developer, or seller of the property.

Effective Dates

The chart below outlines the effective dates for the changes described in this Announcement.

Topic	Effective Date
Minimum credit score requirements for government loans	Lenders are encouraged to implement these changes immediately. All whole mortgage loans purchased by Fannie Mae on or after March 1, 2009, and mortgage loans delivered into MBS with issue dates on or after March 1, 2009 must comply with the new policies.
Debt-to-income ratio requirements	
Elimination of Community Seconds rider	
Clarification of seller/builder affiliation policy	Lenders that are not already in compliance with this policy must implement these guidelines immediately.

Lenders who have questions about Announcement 08-35 should contact their Customer Account Team for additional information.

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