

***Announcement 09-02***

***February 6, 2009***

***Amends these Guides: Selling***

***Updates to Multiple Mortgages to the Same Borrower Policy, Reserve Requirements, Reserves Definition, and Form 3170***

## **Introduction**

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

- Multiple mortgages to the same borrower
- Reserve requirements for investment properties and second homes
- Definition of liquid financial reserves
- *Multistate 1-4 Family Rider* - Assignment of Rents ([Forms 3170](#) and [3170.53](#))

## **Multiple Mortgages to the Same Borrower**

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

Fannie Mae is committed to providing financing opportunities for high-credit quality, bona fide investors. Experienced investors play a key role in the housing recovery and Fannie Mae's continued support for investor borrowers is consistent with its mission to provide stability, liquidity, and affordability to the nation's housing system.

Fannie Mae is updating the policy that pertains to multiple mortgages to the same borrower. Fannie Mae's current policy limits the number of one- to four-unit financed properties in which the borrower may have an individual or joint ownership interest to four financed properties when the mortgage being delivered to Fannie Mae is secured by an investment property or second home. The limitation on the number of mortgages currently being financed applies to the total number of properties financed, not just the number of mortgages sold to Fannie Mae. Fannie Mae is modifying this policy to allow investor and second home borrowers to own five to ten financed properties if they meet certain eligibility and underwriting and delivery requirements as outlined in this Announcement. Unless otherwise stated, these requirements apply to all mortgage loans whether underwritten manually or through Desktop Underwriter<sup>®</sup> (DU<sup>®</sup>).

## Eligibility Requirements

Eligibility Requirements: Five to Ten Financed Properties			
Transaction Type	Number of Units	Maximum LTV/CLTV/HCLTV	Minimum Credit Score
<b>Second Home or Investment Property</b>			
Purchase	1 Unit	75/75/75%	720
Limited Cash-Out Refinance	1 Unit	70/70/70%	720
<b>Investment Property</b>			
Purchase and Limited Cash-Out Refinance	2-4 Unit	70/70/70%	720

## Underwriting and Delivery Requirements

- The borrower cannot have any history of bankruptcy or foreclosure within the past seven years.
- The borrower cannot have any delinquencies (30-day or greater) within the past 12 months on any mortgage loans.
- Rental income on the subject investment property must be fully documented according to the *Selling Guide*, Part X, 402.24: Rental Income. Rental income from other properties owned by the borrower must be supported by two years' federal income tax returns. DU messages permitting reduced rental income documentation must be disregarded and full documentation must be obtained.
- The borrower must complete and sign Form 4506 *Request for Copy of Tax Return* or 4506-T *Request for Transcript of Tax Return* granting the lender permission to request copies of federal income tax returns directly from the IRS. The lender must obtain the IRS copies of the returns or the transcript and validate the accuracy of the tax returns provided by the borrower prior to the loan closing.
- The borrower must have reserves for the subject property and for other properties currently owned by the borrower (i.e., other financed second home and investment properties) in accordance with the following section - "Reserve Requirements for Second Homes, Investment Properties, and Multiple Financed Properties."
- Lenders must use Special Feature Code 150 when delivering mortgage loans secured by second home and investment properties that meet the five to ten financed property requirements.

**Note:** These changes do not apply to HomeStyle<sup>®</sup> Renovation mortgage loans, which will continue to have a financed property limit of four properties. In addition, if the loan casefile is being evaluated under the DU Refi Plus<sup>™</sup> guidelines, it will not be subject to the above eligibility, underwriting, and delivery requirements. Refer to the [Desktop Originator<sup>®</sup>/Desktop Underwriter Version 7.1 April Update Release Notes](#) for additional information about DU Refi Plus.

## **Applying the Multiple Mortgages to the Same Borrower Policies to DU Loan Casefiles**

DU is not able to determine the exact number of financed properties the borrower owns but does issue a message on second home and investment property transactions when the borrower appears to have financed properties. This message will be updated with the DU Version 7.1 April Update release to be issued on all second home and investment property transactions in order to remind lenders of the new policies.

With the exception of DU Refi Plus loan casefiles, which are exempt from the new requirements above, the lender must apply the eligibility and underwriting requirements manually to DU investment property and second home transactions as applicable.

### **Reserve Requirements for Investment Properties and Second Homes**

***Selling Guide, Part VII, Section 101.05: Multiple Mortgages to the Same Borrower; Part X, Section 601: Adequacy of Financial Reserves***

#### **Requirements for One-Unit Investment Properties in DU**

Currently, Fannie Mae requires at least six months' reserves for all mortgage loans secured by an investment property that are manually underwritten and delivered to Fannie Mae. There is a lower reserve requirement applied (two months) for one-unit properties that are underwritten through DU. Fannie Mae is updating this policy to require six months' reserves for all one- to four-unit investment property transactions underwritten through DU.

#### **Reserve Requirements for Second Homes, Investment Properties, and Multiple Financed Properties**

Fannie Mae is implementing new reserve requirements that apply to all second home transactions and to investor and second home borrowers that own or have an interest in multiple financed properties. The amount of required reserves varies depending on whether the subject property is a second home or investment property, and on the number of other financed properties the borrower currently owns. The reserve requirements are as follows:

- When the borrower will own one to four financed properties (including the subject property) the reserve requirements are:
  - two months of reserves on the subject property if it is a second home,
  - six months of reserves on the subject property if it is an investment property, and
  - two months of reserves on each other financed second home or investment property.
- When the borrower will own five to ten financed properties (including the subject property) the reserve requirements are:
  - two months of reserves on the subject property if it is a second home,
  - six months of reserves on the subject property if it is an investment property, and
  - six months of reserves on each other financed second home or investment property.

**Note:** The reserves calculation for a financed property is based on the monthly housing expense of the financed property. All reserve requirements are based on the new definition of reserves (PITIA) as defined below.

## **Applying the Reserve Requirements to DU Loan Casefiles**

DU will be updated in a future release to require a minimum of two months' reserves for all second home transactions and six months' reserves for all investment property transactions underwritten through DU. DU is not able to determine the exact number of financed properties the borrower owns, and as a result, the lender must manually apply the reserve requirements to DU investment property and second home transactions as applicable. DU Refi Plus loan casefiles are exempt from the reserve requirements above.

## **Definition of Liquid Financial Reserves**

### ***Selling Guide, Part VII, Section 102.01: Occupancy Status; Part X, Section 302.01: Liquid Financial Reserves, and Section 601: Adequacy of Financial Reserves***

Liquid financial reserves are those liquid or near liquid assets that are available to a borrower after the mortgage loan closes. Reserves are most often measured by the number of months of principal, interest, taxes, and insurance (PITI) that a borrower could pay using his or her financial assets.

Fannie Mae is expanding the definition of reserves to include all components of the monthly housing expense (PITIA), including:

- principal and interest,
- hazard, flood, and mortgage insurance premiums (as applicable),
- real estate taxes,
- ground rent,
- special assessments,
- any owners' association dues (excluding any utility charges that apply to the individual unit),
- any monthly cooperative corporation fee (less the pro rata share of the master utility charges for servicing individual units that is attributable to the borrower's unit), and
- any subordinate financing payments on mortgages secured by the subject property.

The revised definition of reserves applies to both manually underwritten mortgage loans and those underwritten through DU.

**Note:** Since DU already calculates reserves in accordance with this expanded definition, lenders should continue to enter all components of the monthly housing expense on the application including other financing P&I, hazard insurance, real estate taxes, mortgage insurance, homeowners' association dues, and other proposed housing expenses.

## **Multistate 1-4 Family Rider - Assignment of Rents (Forms 3170 and 3170.53)**

Fannie Mae is reiterating the requirement that borrowers execute the *Multistate 1-4 Family Rider* ([Forms 3170](#) and [3170.53](#), as applicable) at closing for all mortgage loans secured by an investment property. This rider includes an assignment of rents requirement, which authorizes the transfer of rents and revenues to the lender.

Fannie Mae has also updated the Summary documents that are posted on [eFannieMae.com](#) for these forms to allow lenders to delete Section D. Rent Loss Insurance from the rider for all investment properties. Rent loss insurance is not required.

### **Effective Dates**

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

<b>Topic</b>	<b>Effective Date</b>
Multiple mortgages to the same borrower – five to ten financed property limit	Whole loans may be purchased on or after March 1, 2009 or delivered into MBS with issue dates on or after March 1, 2009.
Reserve requirements for investment properties and second homes  Definition of liquid financial reserves	Lenders are encouraged to implement these changes immediately. All whole loans purchased by Fannie Mae on or after June 1, 2009 and mortgage loans delivered into MBS with issue dates on or after June 1, 2009 must comply with the new policies.
Multistate 1-4 Family Rider	Immediately

As a reminder, when a lender delivers a mortgage loan that meets the requirements stated in this Announcement, the lender makes all representations and warranties applicable to the mortgage loan as set forth in the *Selling Guide*, and as amended by this Announcement.

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Lenders who have questions about Announcement 09-02 should contact their Customer Account Team.

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