Announcement 09-19 *June 08, 2009*

Amends these Guides: Selling

Miscellaneous Underwriting, Eligibility, and Property-Related Updates

Introduction

Fannie Mae conducted a comprehensive review of current underwriting and eligibility policies with a specific focus on current market conditions, such as increased unemployment, stock market fluctuations, and heightened concern about fraud in the mortgage lending process. As a result, Fannie Mae is updating several policies as itemized below:

- Age of Credit Documents
- Construction-to-Permanent Financing – Single-Closing Transaction
- Credit Card Financing
- IRS Form 4506-T
- Home Equity Lines of Credit
- HUD-1 Settlement Statement
- Property Valuation Representation and Warranty Requirements
- Subordinate Financing
- Tip Income
- Trailing Secondary Wage Earner Income
- Verbal Verification of Employment
- Verification of Stocks, Bonds, Mutual Funds, and Retirement Accounts – Reserve Requirements
- Two-Unit Eligibility Changes

Fannie Mae is also updating and clarifying the following appraisal and property-related topics:

- Clarification of Announcement 08-30, *Appraisal-Related Policy Changes and Clarifications*
- Hawaiian Lava Zones

New and Updated Underwriting and Eligibility Policies

Age of Credit Documents	***Selling Guide*, B1-1-04, Allowable Age of Credit Documents**
The maximum age of credit documents is reduced from 120 days to 90 days for existing construction and from 180 days to 120 days for new construction. Credit documents include credit reports and employment, income, and asset documentation. The age of the documents is measured from the date of the document to the date the note is signed. **Note**: There is no change to the age of appraisal documentation.	
Desktop Underwriter® (DU®) Impact: The existing DU message reminding lenders of the credit	

report expiration date will be updated in a future release to reflect the 90-day and 120-day timeframes.

Construction-to-Permanent Financing – Single-Closing Transaction | ***Selling Guide,* B5-2.1-02, Conversion of Construction-to-Permanent Financing Loan Eligibility**

To address concerns about potential adverse changes in a borrower's financial circumstances during the construction period of a single-closing transaction, Fannie Mae is updating certain policies that pertain to the age of documents. Fannie Mae will continue to allow a construction-to-permanent single-closing transaction in accordance with the current eligibility criteria in the *Selling Guide* if, at the time of conversion to permanent financing, the age of the credit documents (as revised in this Announcement) and the age of the appraisal (as outlined in the *Selling Guide*), do not exceed Fannie Mae's requirements.

Single-closing transactions with credit and appraisal documents dated more than four months but not exceeding 18 months old at the time of the conversion to permanent financing are eligible for delivery if all of the following conditions were met at time of the original closing of the construction loan:

- The documents were dated within 120 days of the original closing date of the construction loan.
- The LTV and CLTV do not exceed 70 percent.
- The loan was underwritten through DU and received an Approve/Eligible recommendation. Manual underwriting, DU Refer and Expanded Approval recommendations are not permitted.

If all of the above conditions were not met, the lender must obtain updated credit and/or appraisal documents and requalify the borrowers before the mortgage loan is delivered to Fannie Mae.

Lenders must use Special Feature Code 151, a newly assigned code, when delivering any single-closing construction-to-permanent mortgage loans to Fannie Mae.

Note: These changes do not apply to HomeStyle® Construction-to-Permanent mortgage loans – standard documentation timeframes will continue to apply.

DU Impact: DU will be updated in a future release to issue a message on construction transactions reminding lenders of these policy changes. (DU refers to these transactions as "one-time close" mortgage loans.)

Credit Card Financing | ***Selling Guide,* B3-4.3-17, Credit Card Financing**

Certain costs that are paid outside of closing (POC) and early in the application process, such as lock-in fees, origination fees, commitment fees, credit report fees, and appraisal fees, can be charged to the borrower's credit card. Currently, Fannie Mae limits the amount of these fees based on the type of fee being paid.

This policy is being modified to now allow credit card financing for the payment of common and customary fees paid outside of closing up to a maximum of 2 percent of the loan amount if the lender:

- confirms that the borrower has sufficient liquid funds (financial reserves) to cover these

charges (in addition to funds needed for other closing costs and the down payment that he or she will be paying); OR • recalculates the credit card payment, per the *Selling Guide*, to account for the new charges and includes the updated payment in the qualifying ratio calculation. Borrowers are not required to pay off these credit card charges on or before closing. Under no circumstances may credit card financing be used for the down payment.	
DU Impact: No change to DU required. Lenders must apply this policy manually, by either including the fees charged to the borrower's credit card on line f. Estimated Closing Costs of the Details of Transaction and removing any Borrower Paid Fees entered in the Other Credits sections of the Details of Transaction for the POC fees; or by increasing the monthly credit card payment in the liabilities section of the loan casefile submitted to DU to include the charges if not reflected in the credit report.	
Home Equity Lines of Credit (HELOCs)	***Selling Guide*: B2-1.1-04, Subordinate Financing; B5-1.3-02, Flexible Mortgage Underwriting Requirements; B5-5-02, Loan and Borrower Eligibility; and the *Eligibility Matrix***
HELOCs (drawn or undrawn) are now permissible as secondary financing with the Flexible mortgage and MyCommunityMortgage® (MCM®) products. The HCLTV limit will mirror the LTV and CLTV limits available on these products.	
DU Impact: DU will be updated in a future release to allow HELOCs on Flexible mortgages and MCM loan casefiles. Until that time, lenders may disregard the DU message stating that home equity lines of credit are not permitted and must ensure the loan complies with the applicable HCLTV limit. Flexible mortgage and MCM loan casefiles receiving an Ineligible recommendation may be delivered to Fannie Mae provided that the only reason for the Ineligible recommendation is the presence of an Undrawn HELOC Amount on the loan application.	
HUD-1 Settlement Statement	***Selling Guide*, B8, Closing: Legal Documents**
Fannie Mae is now requiring the final HUD-1 Settlement Statement (or HUD-1A if applicable), or other closing statement evidencing all settlement costs paid by the borrower and seller, to be executed by the borrower and seller (if applicable).	
DU Impact: No change to DU required. Policy applies to DU loan casefiles.	
IRS Form 4506-T	***Selling Guide*: B3-3.1-01, Obtaining Copies of Tax Returns from the IRS; and D1-2-03, Lender QC Review of Underwriting Documents**
Due to ongoing concern with fraud and misrepresentation, Fannie Mae is updating requirements that pertain to the use of IRS Forms 4506, 4506-T, and 8821. Fannie Mae currently requires the lender to obtain the borrower's written permission to request copies of federal tax returns from the IRS when using copies of the tax returns to document the borrower's income. This permission is granted by the borrower by completing and signing a form acceptable to the IRS (Form 4506, Form 4506-T, or Form 8821). Under current requirements, the lender determines if and when to submit the form to the IRS (or designee) to obtain the tax information.	

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<tr><td colspan="2">Fannie Mae is changing this policy to now require the lender to obtain a completed and signed Form 4506-T from all borrowers at both application and closing. Fannie Mae highly recommends that the 4506-T transcripts be obtained from the IRS (or designee) for transactions prior to closing and used to validate the income documentation provided by the borrower and used during the underwriting process. Whenever the 4506-T is executed by the IRS (i.e., the transcript is received back from the IRS), the transcript information and any subsequent explanation or documentation of discrepancies must be retained in the loan file. Fannie Mae is requiring lenders to add the execution of Form 4506-T with the IRS (or designee) to their written quality control plan. All loans selected for the lender’s quality control reviews, whether under the random or discretionary sampling method, must, in addition to all current requirements, include the execution and reconciliation of the transcript information with the income documents in the loan file.

Note 1: Form 4506 or Form 8821 may be used in lieu of Form 4506-T; however, the tax information available using these forms is not currently available electronically.
Note 2: Loans originated and underwritten in accordance with the Multiple Mortgages to the Same Borrower policy (Announcement 09-02) must still have the 4506-T executed with the IRS (or designee) prior to closing.</td></tr>
<tr><td colspan="2">DU Impact: A new message will be added in a future release of DU to remind lenders of these new requirements.</td></tr>
<tr><th>Property Valuation Representation and Warranty Requirements</th><th>Selling Guide, B4-1.2-01, Age of Appraisal or Age of Property Inspection</th></tr>
<tr><td colspan="2">Currently, the Selling Guide requires that if loans are more than six months old from the loan closing date to the date the loan is sold to Fannie Mae, the lender must warrant that the current value of the property is not less than the original value. Fannie Mae is now reducing the six month requirement to four months. If the lender is unable to warrant that the current value of the property is not less than the original value of the property, the loan is not eligible for delivery to Fannie Mae by the lender except on a negotiated basis. In these instances, the loan must be submitted as part of a bulk transaction, which are subject to additional review by Fannie Mae to ensure the loan is eligible for sale.</td></tr>
<tr><td colspan="2">DU Impact: No change to DU required. Policy applies to DU loan casefiles.</td></tr>
<tr><th>Subordinate Financing</th><th>Selling Guide, B2-1.1-04, Subordinate Financing</th></tr>
<tr><td colspan="2">Per the Selling Guide, in order for subordinate financing to be eligible, it cannot have payment terms that restrict prepayment (i.e., subordinate liens with prepayment penalties are not permitted). In today’s market, lenders may offer HELOCs or closed-end second mortgages and pay for some or all of the borrower’s closing costs with terms that allow the lender to recoup the closing costs paid on behalf of the borrower if the borrower pays the HELOC or second mortgage off early. Regardless of whether the lender labels this as a prepayment penalty, for the purpose of Fannie Mae’s subordinate financing policy, the lender recoupment of closing cost fees is not considered a prepayment penalty. Thus, subordinate financing with these terms is eligible in conjunction with a first-lien mortgage loan that is sold to Fannie Mae.

Note: Although Fannie Mae is not defining these recouped fees as a prepayment penalty for the purpose of subordinate financing eligibility, recouped fees may be deemed a prepayment penalty under state law. As always, lenders are responsible for compliance with all federal, state</td></tr>
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<tr><td colspan="2">and local laws and must consult with their own legal counsel if they have questions about recoupment of fees.</td></tr>
<tr><td colspan="2">DU Impact: No change to DU required. Policy applies to DU loan casefiles.</td></tr>
<tr><th>Tip Income</th><th>Selling Guide, B3-3.02, Salary, Commissions, and Other Sources of Income</th></tr>
<tr><td colspan="2">Currently, the Selling Guide is silent with respect to using tip income for qualifying purposes. Tip income may be used to qualify the borrower if the lender verifies that the borrower has received it for the last two years and the employer indicates that the tip income will in all probability continue. The lender must develop an average of the past two years’ tip income to determine the amount of income that may be considered in qualifying the borrower.</td></tr>
<tr><td colspan="2">DU Impact: Tip income must be entered in DU in the Other Monthly Income section of the loan application as “Other Types of Income” and verified according to these requirements.</td></tr>
<tr><th>Trailing Secondary Wage Earner Income</th><th>Selling Guide, B3-3.2-07, Trailing Secondary Wage Earner’s Anticipated Income</th></tr>
<tr><td colspan="2">Because trailing secondary wage earner income is based on projected employment and income that a borrower may earn in the future (but is not currently earning), Fannie Mae is eliminating the trailing secondary wage earner income policy from the Selling Guide.</td></tr>
<tr><td colspan="2">DU Impact: DU will be updated in a future release to advise lenders that this income type is not permitted, and that the income should be removed and the loan casefile resubmitted for underwriting.</td></tr>
<tr><th>Verbal Verification of Employment</th><th>Selling Guide, B3-3, Income Assessment</th></tr>
<tr><td colspan="2">Due to the current economic instability and ongoing concern with fraud and misrepresentation, Fannie Mae is updating the employment verification policy.

Currently, Fannie Mae does not require a verbal verification of employment (VOE) for any loan that is manually underwritten but a verbal VOE is required for certain DU loan casefiles within 30 days prior to the closing date. Fannie Mae is now requiring the lender to obtain a verbal VOE for all borrowers within 10 calendar days from the note date for employment income and within 30 days for self-employment income.

Verbal VOE requirements for hourly, salary, and commission income:
The lender must independently obtain a phone number and, if possible, an address for the borrower’s employer. This can be accomplished by using a telephone book, the internet, or directory assistance, or by contacting the applicable licensing bureau.
The lender must contact the employer, verbally or in writing, and confirm the borrower’s current employment status within 10 days prior to the closing date.
If the contact is made verbally, the conversation must be documented. It should include the name and title of the person who confirmed the employment, the date of the call, and the source of the phone number. The written documentation should also include the name and title of the person who performed the verification for the lender.
Note: If a borrower is in the military, a military Leave and Earnings Statement (LES) dated within 30 days of closing is acceptable in lieu of a verbal or written VOE.

Verbal VOE requirements for self-employed income:
The lender must verify the existence of the borrower’s business within 30 days prior to the</td></tr>
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note date – from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible; and – by verifying a phone listing and address for the borrower's business using a telephone book, the internet, or directory assistance. • If the contact is made verbally, the lender must document the source of the information obtained and the name and title of the lender's employee who obtained the information.	
DU Impact: A new message will be added in a future release of DU to reflect these requirements.	
Verification of Stocks, Bonds, Mutual Funds, and Retirement Accounts	***Selling Guide*: B3-4.1-01, Minimum Reserve Requirements; B3-4.3-01, Stocks, Bonds and Mutual Funds; and B3-4.3-03, Retirement Accounts**
Due to recent market volatility, Fannie Mae is changing policy with regard to determining the value of investments and retirement accounts as assets for reserves. Determining the value of the asset when used for reserves: • Stocks, bonds, and mutual funds: 70 percent of the value may be used as reserves (reduced from 100 percent). • Retirement accounts: 60 percent of the vested value may be used as reserves (reduced from 70 percent). In addition, stock options and non-vested restricted stock are no longer eligible for use as reserves. As a reminder, the lender must verify the ownership of the accounts, and verify the borrower's actual receipt of the funds realized from the sale or liquidation of the assets if needed to complete the transaction.	
DU Impact: The existing DU Verification messages that are issued for these types of assets will be updated in a future release of DU to reflect these policy changes.	
Two-Unit Eligibility	***Eligibility Matrix***
Fannie Mae is updating the maximum LTV, CLTV, and HCLTV ratios permitted for mortgages secured by two-unit properties for manually underwritten loans. In general, two-unit eligibility will now be aligned with three- and four-unit eligibility; however, Fannie Mae will continue to permit a higher LTV, CLTV, and HCLTV ratio for certain purchase or limited cash-out refinance transactions secured by the borrower's two-unit primary residence when compared to a similar three- or four-unit transaction. The following chart outlines revised eligibility guidelines for mortgage loans secured by two-unit properties. Refer to Announcement 09-08 (and 09-08R), *Temporary High-Cost Area Loan Limits and Revised Eligibility Requirements for High-Balance Mortgage Loans*, for eligibility for high-balance mortgage loans, and note that these changes do not apply to Refi Plus™ or DU Refi Plus™ transactions. Also refer to the *Eligibility Matrix* on eFannieMae.com for complete eligibility requirements for all two-unit, high-balance, and Refi Plus transactions.	

Transaction Type		Current Two-Unit Eligibility: Maximum LTV/CLTV/ HCLTV	Current Two-Unit Eligibility: Minimum Credit Score	Revised Two-Unit Eligibility: Maximum LTV/CLTV/ HCLTV	Revised Two-Unit Eligibility: Minimum Credit Score
Primary Residence					
Purchase and LCOR	All	95%	680 if >75% 620 if ≤ 75%	**80%**	**640**
	HomeStyle®	95%	660	**75%**	**640**
	MCM	95%	640	95%	**680**
Purchase	HomeStyle Construction-to-Permanent	95%	680 if >75% 620 if ≤ 75%	**Not Eligible**	**NA**
Cash-Out Refinance	All	85%	660 if >75% 620 if ≤ 75%	**75%**	**680**
Investment Property					
Purchase	All	85%	680 if >75% 620 if ≤ 75%	**75%**	**660**
LCOR	All	75%	620	75%	**660**
Cash-Out Refinance	All	75%	700	**70%**	**680**
DU Impact: The DU eligibility for two-unit properties will be updated in a future release of DU to reflect these policy changes.					

Effective Date

For manually underwritten mortgage loans, lenders are encouraged to implement these changes immediately, but must apply them on all applications dated on or after September 1, 2009.

For loan casefiles underwritten through DU subject to the policy updates in which a **change to DU is required**, lenders will be not be required to comply with the changes until the updates are made to DU in a future release(s). As such, compliance with changes to the following topics will be delayed for DU loan casefiles: Age of Credit Documents; Construction-to-Permanent Financing – Single-Closing Transaction; Home Equity Lines of Credit; IRS Form 4506-T; Trailing Secondary Wage Earner Income; Verbal Verification Of Employment; Verification of Stocks, Bonds, Mutual Funds, and Retirement Accounts – Reserve Requirements, and Two-Unit Eligibility. For loan casefiles underwritten through DU subject to the policy updates in which a **change to DU is not required**, lenders are encouraged to implement these changes immediately, but must apply them on all applications dated on or after September 1, 2009. These topics include: Credit Card Financing, HUD-1 Settlement Statement, Property Valuation Representation and Warranty Requirements, Subordinate Financing, and Tip Income.

Updates to Announcement 08-30, *Appraisal-Related Policy Changes and Clarifications*

Market Conditions Addendum to the Appraisal Report

In Announcement 08-30, Fannie Mae introduced the Market Conditions Addendum to the Appraisal Report (Form 1004MC) to further enhance the transparency of the conclusions made by the appraiser related to market trends and conditions.

To add clarity, Fannie Mae has added several shaded areas to the form to recognize that all the requested data may not be available from the data sources used by the appraiser and therefore the information may not be provided. The lack of completion of these areas is acceptable as long as the appraiser provides an explanation as to why these sections of the form are not complete. However, if the data is available, the appraiser must include the data in the analysis.

Fannie Mae is also modifying the requirement for the "Median List-to-Sale Price Ratio" to now label it as "Median Sale Price as a Percentage of List Price." Additional research indicated that this figure is typically provided by data sources as a percentage.

The revised form is dated March 2009 and is available on eFannieMae.com. It was also provided to the major form software vendors. Lenders are encouraged to use the updated version immediately; however, it will be required for all one- to four-unit appraisals dated on or after July 1, 2009.

Use of Supervisory Appraisers

Announcement 08-30 provides additional policy and guidance on the use of supervisory appraisers when they sign an appraisal report on the left-hand side of the form as the "appraiser." Fannie Mae is providing the following clarification.

The Fannie Mae *Selling Guide* defines the appraiser as "the individual, who personally inspected the property being appraised, inspected the exterior of the comparables, performed the analysis, and prepared and signed the appraisal report as the appraiser."

The Announcement was intended to address instances where a trainee or unlicensed appraiser (who does not sign the report and where it is allowable by state law) completes the inspection, but the supervisory appraiser signs on the left-hand side of the appraisal as the "appraiser," when they have never inspected the subject property. In Announcement 8-30, Fannie Mae was conveying that this practice is unacceptable. Any appraiser signing on the left-hand side as the "Appraiser" must perform the level of inspection required by the assignment.

This guidance does not require the supervisory appraiser to inspect the subject property in all instances.

Time Adjustments on the Appraisal Report

Announcement 08-30 clarified that time adjustments may be either positive or negative. It also stated the adjustments must reflect the difference in market conditions between the date of sale of the comparable and the effective date of the appraisal for the subject property. The term "date of sale" was used in lieu of "contract date." The correct terminology as stated in the *Selling Guide* is "contract date."

Hawaiian Lava Zones

The United States Geological Survey (USGS) categorizes the island of Hawaii into nine "lava zones" based on each zone's probability of exposure to lava flows caused by volcanic eruption.

Effective immediately, Fannie Mae will only purchase or securitize mortgage loans secured by properties located on the island of Hawaii that are located within lava zones 3 through 9. Properties in lava zones 1 and 2 are not eligible due to the increased risk of property destruction from lava flows within these areas.

Hawaiian lava flow maps and other information are available online at the U.S. Geological Survey Hawaiian Volcano Observatory website.

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

Michael A. Quinn
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Single-Family Risk Officer