

Announcement 09-29

September 22, 2009

Amends these Guides: Selling

Updates to Minimum Credit Scores, Mortgage Insurance, Pricing for Certain Desktop Underwriter[®] Loans, Biweekly Loans, and Special Feature Codes

Introduction

Fannie Mae continually reviews its risk appetite, eligibility requirements, mortgage insurance options, and pricing. As a result of the most recent review, Fannie Mae will implement a number of changes, including Desktop Underwriter[®] (DU[®]) Version 8.0, changes to credit score requirements, and mortgage insurance coverage levels. A summary of the changes in this Announcement is listed below.

Because many of the changes affect both DU loan casefiles and manually underwritten mortgage loans, this Announcement is being issued in conjunction with the *Desktop Originator[®]/Desktop Underwriter Release Notes, DU Version 8.0*. The Release Notes describe the updates that are specific to DU, and this Announcement describes the changes to manually underwritten loans to align with DU Version 8.0, mortgage insurance, pricing, and delivery requirements for both DU and manually underwritten loans. (A future update of the *Selling Guide* will incorporate both the Release Notes and this Announcement.)

Note: The changes in this Announcement apply to existing variances in the lender's Master Agreement. Additionally, unless expressly stated otherwise, these changes do not apply to Refi Plus[™] or DU Refi Plus[™] mortgage loans.

Following is a brief summary of the changes:

- Changes to minimum credit score requirements;
- A number of changes to mortgage insurance coverage requirements, including a new minimum level of coverage and corresponding loan-level price adjustment (LLPA), retirement of Lower-Cost and Reduced MI options, and changes to financed mortgage insurance;
- Changes to pricing for Flexible mortgages and improved pricing for Expanded Approval[®] (EA) recommendations, and changes to EA special feature codes (SFC);
- Retirement of biweekly mortgage loans; and

- Changes to SFC requirements for MyCommunityMortgage® (MCM®) and other transactions.

Effective Dates

All applicable effective dates and delivery deadlines are outlined at the end of this Announcement.

Minimum Representative Credit Score Requirements

Selling Guide, B2-2-06, Borrower Credit Score

In order to align Fannie Mae's risk tolerance in DU Version 8.0 with manual underwriting guidelines, several changes are being made to the minimum representative credit score requirements as follows:

- The minimum required credit score is increasing for several manually underwritten transactions.
- A minimum required credit score of 620 will apply to all mortgage loans delivered in accordance with the *Selling Guide*, including:
 - manually underwritten loans (the minimum score is the higher of 620 or 40 points below the minimum score required for the transaction);
 - loan casefiles underwritten with DU Version 8.0;
 - mortgage loans insured or guaranteed by a federal government agency (HUD, FHA, VA, and RD); and
 - loans delivered pursuant to any variance contained in the lender's Master Agreement.

Exceptions to the minimum credit score requirement are limited to mortgage loans that are manually underwritten with nontraditional credit and those originated in accordance with Refi Plus or DU Refi Plus.

All changes to credit score requirements are noted in bold on the updated [Eligibility Matrix](#) posted on eFannieMae.com.

Mortgage Insurance Coverage

Standard Mortgage Insurance Coverage Levels

Selling Guide, B7-1-02, Standard Mortgage Insurance Coverage; B7-1-05, Reduced Mortgage Insurance Coverage

Fannie Mae is committed to ensuring liquidity to the mortgage industry, and as a result, is instituting revised mortgage insurance coverage requirements to potentially create more capacity for the mortgage insurance industry to insure loans with LTVs greater than 80 percent. Fannie Mae is simplifying coverage requirements by removing separate mortgage insurance coverage options that are available only in DU, removing coverage levels currently required for certain

products, and offering a new minimum coverage level for certain transactions with a corresponding LLPA.

Simplifying mortgage insurance options available in DU: Currently, Fannie Mae offers alternative mortgage insurance coverage options for certain loan casefiles underwritten with DU. Fannie Mae is revising mortgage insurance coverage requirements and simplifying coverage differences by product type. The revised coverage requirements are detailed in Table 1 below. As a result of the changes:

- The Reduced MI and Lower-Cost MI coverage options will be retired (SFCs 346 and 347).
- The Lower-Cost MI option that is available for Flexible mortgages will be retired.
- The higher coverage requirements for mortgage loans secured by manufactured homes will no longer apply.

New minimum mortgage insurance coverage level: Currently, for both DU and manually underwritten loans, Fannie Mae permits lower (minimum) mortgage insurance coverage for MCM loans and certain fixed-rate mortgages with loan terms up to 20 years. Fannie Mae is now broadly expanding the availability of minimum mortgage insurance coverage to other transactions - see Table 1. Lenders that choose the minimum coverage level will be assessed an LLPA - see Table 2. A comparison of the cost of deeper mortgage insurance coverage to the cost of the minimum coverage level option, together with an LLPA, indicates that the borrower should generally be in an economically neutral or somewhat improved position. This new minimum coverage level is available for all DU loan casefiles (Versions 7.0, 7.1, and 8.0) and manually underwritten loans. (Lenders can manually apply the minimum mortgage insurance coverage options to Version 7.0 and 7.1 loan casefiles.)

Note: Because of the mortgage insurance flexibility already permitted for Refi Plus and DU Refi Plus loans, the minimum coverage levels in the shaded cells in Table 1 do not apply to Refi Plus and DU Refi Plus loans. These loans may either have the same mortgage insurance coverage as the existing loan, or the level of mortgage insurance that does not incur the minimum mortgage insurance LLPA.

Table 1

Mortgage Insurance Coverage Requirements⁽¹⁾				
Mortgage Type	LTV Range			
	80.01 - 85.00%	85.01 - 90.00%	90.01 - 95.00%	95.01- 97.00%
Fully amortizing fixed-rate, term ≤ 20 years	6%	12%	16% + MI LLPA	18% + MI LLPA
			25%	35%
<ul style="list-style-type: none"> • Fully amortizing fixed-rate, term > 20 years • ARMs • Interest-only • Balloons • Manufactured Homes 	6% + MI LLPA	12% + MI LLPA	16% + MI LLPA	18% + MI LLPA
	12%	25%	30%	35%

MyCommunityMortgage	6%	12%	16%	18%
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⁽¹⁾ For each mortgage type and LTV category where two coverage options are available, the coverage levels in the shaded cells indicate the minimum coverage levels that Fannie Mae will accept, and the unshaded cells indicate the required coverage levels for which no mortgage insurance LLPAs will apply. The minimum levels (with an LLPA) are not eligible for Refi Plus or DU Refi Plus loans, unless the existing loan has minimum levels of mortgage insurance coverage. No mortgage insurance LLPA will be assessed on Refi Plus or DU Refi Plus loans.

Table 2

Minimum Mortgage Insurance Loan-Level Price Adjustments				
Credit Score	LTV Range			
	80.01 – 85.00%	85.01 – 90.00%	90.01 – 95.00%	95.01 – 97.00%
≥ 740	0.125%	0.375%	0.500%	1.000%
720 - 739	0.125%	0.625%	0.875%	1.250%
700 – 719	0.125%	0.750%	0.875%	1.250%
680 – 699	0.125%	0.750%	0.875%	1.750%
660 – 679	0.750%	1.250%	1.750%	2.125%
640 – 659	1.250%	1.750%	2.000%	2.375%
620 – 639	1.750%	2.000%	2.250%	2.750%
< 620	2.000%	2.250%	2.500%	3.000%

The minimum mortgage insurance LLPAs are in addition to any other LLPAs that may apply to the transaction. The [LLPA Matrix and AMDC Information](#) has been updated to reflect these mortgage insurance LLPAs.

Changes to Financed Mortgage Insurance

***Selling Guide*, B7-1-04, Financed Borrower-Purchased Mortgage Insurance**

Financing the mortgage insurance premium generally results in a lower monthly payment for the borrower compared to monthly mortgage insurance plans. Fannie Mae is changing the requirements with regard to financed mortgage insurance, to help further enhance this option.

- Fannie Mae is eliminating the restriction on split premium financing that currently applies to some transactions. Split premium financing results in a portion of the premium being financed into the loan amount and the remainder paid monthly as part of the insurance portion of the monthly payment). Split or single-premium financed mortgage insurance will be permitted for any eligible mortgage insurance coverage level.
- Financed mortgage insurance will now be permitted on DU loan casefiles with EA recommendations, but will continue to be prohibited for two- to four-unit properties, investment properties, and cash-out refinances whether manually underwritten or through DU. (Note: The *Selling Guide* currently restricts financed mortgage insurance for

manufactured homes; however, this is an error that will be corrected when this Announcement is incorporated into the *Selling Guide*.)

- The financed premium amount is not currently a required field at delivery. The name of the field and definition are being modified to remove references to only allowing single premium financing. This field – “Financed MI Amount” – will be required for any loan with financed premiums. The *2000-Character Loan Delivery File Format* and related *Field Definitions* documents will be updated to reflect this change and Fannie Mae’s Loan Delivery system will be similarly updated in December 2009.
- Currently, there are three SFCs that apply to mortgage loans with financed mortgage insurance. The name of each of these SFCs is being modified to remove the reference to “single premium.” The applicable code continues to be required at delivery (in addition to the Financed MI Amount):
 - 281: Financed MI, Gross LTV ratio \leq 95 percent;
 - 283: Financed MI, Gross LTV ratio $>$ 95 percent; or
 - 574: MyCommunityMortgage Loan with Financed MI (Gross LTV ratio $>$ 95 percent).Refer to the updated [Special Feature Codes](#) document for additional information.
- For loans with financed mortgage insurance, the delivery file must also contain the purchase price (for purchase transactions) and/or appraised value (for purchase transactions and refinances) to allow for the accurate calculation of the net LTV ratio (LTV ratio before adding the financed mortgage insurance amount).
- As a reminder, the net LTV ratio is used to determine the required level of mortgage insurance coverage. The gross LTV ratio (the LTV ratio after the inclusion of the financed premium) is used to determine if the loan meets Fannie Mae’s eligibility requirements and is also used in determining the applicable LLPAs (except Flexible 97 and Flexible 90-95 LLPAs will not apply in certain circumstances; see the *Selling Guide*, B7-1-04).
- Fannie Mae is clarifying that the Financed Mortgage Insurance Premium Endorsement must provide that the benefit paid in satisfaction of a claim be calculated as:
 - [the claim amount minus the unamortized portion of the financed mortgage insurance premium] multiplied by the applicable coverage percentage PLUS
 - the unamortized portion of the financed mortgage insurance premium.

Pricing Changes for DU Underwritten Loans

Expanded Approval Pricing and Special Feature Code Changes

***Selling Guide*, B5-1.2-04, Expanded Approval Pricing, Mortgage Insurance, and Special Feature Codes**

As stated in the DU Version 8.0 Release Notes, EA-II and EA-III recommendations will no longer be issued on DU Version 8.0 loan casefiles (except for DU Refi Plus loan casefiles). EA-I recommendations will continue to be issued. DU Version 8.0 mortgage loans that receive an

EA-I recommendation will not be subject to specific EA LLPAs by LTV and credit score, except that EA loans with subordinate financing and a high CLTV will continue to incur a specific LLPA, which will now be reflected in the “Mortgages with Subordinate Financing” table of the *LLPA Matrix and AMDC Information*. Furthermore, DU Version 8.0 EA loans will not require separate whole loan commitments- standard products should be used.

With the exception of MCM loans, the lender must deliver all DU Version 8.0 mortgage loans that receive an EA-I recommendation with a newly established SFC 062. DU Version 8.0 DU Refi Plus mortgages that receive an EA-II or EA-III recommendation must also be delivered with SFC 062.

Note: DU Version 7.0 and 7.1 loans with an EA recommendation must continue to be committed using EA products and delivered with SFC 716 and the applicable LLPA will apply. Refer to the “Effective Dates and Delivery Deadlines” section below for delivery deadlines for DU Version 7.0 and 7.1 loans with EA recommendations.

Flexible Mortgage Pricing

As a result of the elimination of the lower mortgage insurance levels previously offered as a feature of Flexible mortgages (the equivalent of “Lower-Cost MI”), and the introduction of broadly available minimum mortgage insurance coverage levels with an LLPA (described above), Flexible mortgage loan pricing is being simplified to eliminate the dependency on mortgage insurance coverage level. The updated pricing is as follows:

Product Feature	Loan-Level Price Adjustment
Flexible 97 [®]	0.500%
Flexible 90-95	0.500%
Flexible Mortgages with Subordinate Financing (non-Community Seconds [®])	1.500%

This simplification of Flexible mortgage pricing allows for the consolidation of the pricing that applies to loans with subordinate financing with CLTVs over 95 percent, whether EA or Flexible-mortgage related. The 1.500 percent price adjustment shown above will now be shown in the “Mortgages with Subordinate Financing” table in the *LLPA Matrix and AMDC Information*, and no longer reflected as in the “Flexible Mortgages” LLPA table.

The [LLPA Matrix and AMDC Information](#) and the [Special Feature Codes](#) documents have been updated to reflect these EA and Flexible mortgage changes.

Retirement of Biweekly Mortgage Loans

Selling Guide, B2-1.3-07, Mortgage Loans with Biweekly Payment Schedules

Due to a lack of demand and increased operational costs, Fannie Mae is retiring the biweekly payment mortgage product, which requires the borrower to make biweekly payments in

accordance with the note. Fannie Mae is also discontinuing the standard first-lien notes and riders that were used in connection with the biweekly payment mortgage.

Special Feature Code Changes

In an effort to streamline SFC requirements, Fannie Mae is retiring or modifying a number of SFCs related to MCM loans and other transactions.

Selling Guide, B5-5-05, MyCommunityMortgage Pricing, Mortgage Insurance, and Special Feature Codes

Currently, five different SFCs apply to MCM loans depending on the characteristics of the mortgage loan. Fannie Mae is simplifying the SFC requirements to only require SFC 460. As a result, the definition of SFC 460 is being modified and codes 480, 481, 519, and 612 are being retired. This applies to all manually underwritten MCM loans and to DU Version 8.0 MCM loans.

Note: In addition to SFC 460, SFC 574 continues to be required for MCM loans with financed MI, and SFC 818 is required for MCM loans with borrowers who have “thin” traditional credit files.

Other Special Feature Code Changes

In addition to the SFC changes already noted, the following changes are being made:

Special Feature Code	Action
072 - Employer-Related Mortgage	Removed from list – code no longer required
089 - Government Home Improvement Mortgage	Updated definition (removed reference to Title I, which is no longer available on a negotiated basis)
156 - Special Fannie Mae Approved Condominium Project	To be announced in an upcoming Lender Letter
211 - Correspondent Third-Party Origination	Updated definition
212 - Broker Third-Party Origination	Updated definition
220 - RD Direct Leveraging Program	Removed from list – code only required on a negotiated basis
230 - Native American Navajo Mortgage	Removed from list – pilot retired
289 - Streamlined Refinance Option B	Removed from list – product previously retired
564 - Flexible Mortgage Minimum Borrower Contribution	Updated definition
611 - On-Frame Modular Housing	Removed from list – pilot retired
614 - FHASecure	Removed from list – product retired

The updated [Special Feature Codes](#) document is available on eFannieMae.com.

Effective Dates and Delivery Deadlines

The effective dates and delivery deadlines for the changes in the DU Version 8.0 Release Notes and this Announcement are described below.

Date	Application⁽¹⁾ or Delivery Dates	Topic
September 22, 2009	Delivery date: MBS or whole loan deliveries	SFCs changes apply <ul style="list-style-type: none"> • 072, 089, 211, 212, 220, 230, 564, 611, 614
November 1, 2009	Application date	Representative credit score changes – applies to manually underwritten loans and all government loans: <ul style="list-style-type: none"> • Minimum 620 requirement (except loans with nontraditional credit and Refi Plus) • Other credit score changes detailed in the Eligibility Matrix
Weekend of December 12, 2009	Application date	New DU loan casefiles underwritten with DU Version 8.0. All changes in Version 8.0 as described in the Release Notes and this Announcement, including (but not limited to): <ul style="list-style-type: none"> • minimum 620 credit score (except for DU Refi Plus) • revised mortgage insurance coverage levels (per Table 1 above) • elimination of Lower-Cost and Reduced MI options • revised financed mortgage insurance requirements • changes to EA • ineligibility of biweekly mortgages • simplified MCM SFC messaging
December 31, 2009	Purchase/Delivery Deadline: Purchase date for whole loans; delivery date for MBS	<ul style="list-style-type: none"> • DU Version 7.0 and 7.1 Flexible mortgages with Lower-Cost MI option
January 1, 2010	Delivery Date Availability: MBS and whole loan deliveries	<ul style="list-style-type: none"> • Deliveries may begin for both manually underwritten loans and DU loans (all DU versions) with: <ul style="list-style-type: none"> – revised mortgage insurance coverage levels – revised financed mortgage

		<p>insurance guidelines</p> <ul style="list-style-type: none"> - MCM loans delivered only with SFC 460 · Simplified pricing for all Flexible mortgages (all DU Versions) · All DU Version 8.0 loans <ul style="list-style-type: none"> - Version 8.0 receiving an EA recommendation must be delivered with SFC 062 (no EA LTV/credit score LLPA will apply)
March 31, 2010	Committing deadline	<ul style="list-style-type: none"> · DU Version 7.0 and 7.1 EA product pricing in eCommitting™ and eCommitONE™ will be retired · Biweekly mortgage pricing in eCommitting will be retired
April 30, 2010	Purchase/Delivery Deadline: Purchase date for whole loans; delivery date for MBS	<ul style="list-style-type: none"> · Manually underwritten loans meeting credit score eligibility requirements in place prior to November 1, 2009 · DU Version 7.0 and 7.1 loans with: <ul style="list-style-type: none"> - representative credit scores less than 620 - Lower-Cost MI (SFC 346 or 347, non-Flexible mortgages) or Reduced MI options - EA-I, EA-II, and EA-III recommendations (SFC 716) - two unit LTV/CLTV/HCLTV eligibility based on prior guidelines - high-balance mortgage loans underwritten according to the prior eligibility guidelines (without the manual overlay of eligibility requirements of Announcement 09-08R) · Manually underwritten and DU Version 7.0 and 7.1 loans: <ul style="list-style-type: none"> - biweekly mortgage loans - MCM loans delivered with SFCs 480, 481, 519, and 612

(1) Application Date refers to the mortgage application date for manually underwritten mortgage loans and to loan casefiles submitted to DU Version 8.0.

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Lenders who have questions about Announcement 09-29 should contact their Customer Account Team for additional information.

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