

**Announcement SEL-2010-01****March 2, 2010***(\*With typographical correction)***Selling Guide Updates for the Loan Quality Initiative***(\*Corrected Lender Letter LL-2010-03)*

On February 26, 2010, Fannie Mae issued Lender Letter LL-2010-03, *An Introduction to Fannie Mae's Loan Quality Initiative*, which identified policy, process, and technology enhancements aimed at improving the lender's ability to deliver mortgage loans that meet Fannie Mae's underwriting and eligibility guidelines and thus mitigate repurchase risk. This Announcement describes some of the changes impacting the *Selling Guide* as a result of the Loan Quality Initiative (LQI). Specifically:

- Confirmation of each borrower's identity prior to the extension of credit
- Verification that all borrowers have a valid and accurate Social Security number or Individual Taxpayer Identification Number
- Desktop Underwriter® (DU®) "Potential Red Flag" messages
- Confirmation that all parties to the mortgage transaction meet certain qualifications
- Determination that all borrower's debts are included in the qualification for the mortgage loan
- Identification of the property unit number
- Calculating LTV ratios
- Manual underwriting of DU Refer with Caution/IV loan casefiles

Each of these changes is briefly described below. The affected *Selling Guide* topics are noted for each policy change and are linked to the updated *Selling Guide*. Lenders should review each topic to gain a full understanding of the policy changes. The updated topics are dated March 2, 2010.

**Borrower Identity Verification**

Lenders will be required to confirm the identity of each borrower whose credit is used for the purpose of determining ability to meet Fannie Mae's underwriting and eligibility standards prior to the extension of credit. Fannie Mae's requirements for borrower identity verification are intended to align with lenders' existing federal obligations under laws requiring information and document verification, including the Department of Treasury's Office of Foreign Assets Control (OFAC) regulations and the U.S. Patriot Act.

**Updated *Selling Guide* Topic**

[B2-2-01](#), General Borrower Eligibility Requirements (General Borrower Identity Criteria)

**Effective Date**

This policy is effective for all loan applications dated on or after June 1, 2010.

## Validation of Social Security or Tax Identification Numbers

The *Selling Guide* currently does not require a borrower to have a Social Security number. Fannie Mae is updating this policy to require that all borrowers have a valid Social Security number or Individual Taxpayer Identification Number (ITIN) (in addition to meeting existing legal residency and documentation requirements). Deliveries of mortgage loans for borrowers without Social Security numbers or ITINs will require a variance to the *Selling Guide*, and must be delivered under a Master Agreement.

Lenders must resolve any Social Security number issues that are identified by DU or Fannie Mae's Loan Delivery system, including invalid formats, numbers not issued, borrower age/issue date discrepancies, or Social Security numbers associated with deceased individuals. If a lender cannot resolve any inconsistencies:

- The lender must validate the Social Security number with the Social Security Administration (SSA).
- Upon positive validation of the Social Security number with the SSA, the lender must deliver the loan with SFC 162.

If the Social Security number cannot be validated with the SSA, the loan is not eligible for delivery to Fannie Mae.

### Updated *Selling Guide* Topic

[B2-2-01](#), General Borrower Eligibility Requirements (General Borrower Identity Criteria and Tax Identification Numbers)

[B2-2-02](#), Non-U.S. Citizen Borrower Eligibility Requirements (added a link to B2-2-01)

### Effective Date

The requirement for all borrowers to have a Social Security number or ITIN is effective for all loan applications dated on or after June 1, 2010. (Refer to Lender Letter LL-2010-03 for dates pertaining to warning edits.)

## DU "Potential Red Flag" Messages

As described in the [DU Version 8.0 April Update Release Notes](#), the Potential Red Flag messages pertaining to Social Security numbers and borrower occupancy will be updated. These messages will be changed to Verification messages requiring the lender to obtain additional documentation or conduct additional validation. The *Selling Guide* has been updated to remove these two items from the list of potential red flags. Refer to the section above for information about resolving Social Security number issues.

### Updated *Selling Guide* Topic

[B3-2-11](#), DU Underwriting Findings Report

## Effective Date

The change to the Potential Red Flag messages will be effective the weekend of April 17, 2010.

### Validation of Qualified Parties to the Transaction

Fannie Mae is implementing a new policy that requires lenders to confirm that companies or individuals involved in the origination, underwriting, or servicing of the mortgage transaction are not on the General Services Administration (GSA) [Excluded Party List](#) or the [HUD Limited Denial of Participation List](#) (“LDP List”) prior to delivery of the loan. Regardless of the reason for the party being excluded, any party to the transaction included on either list will result in the loan being ineligible for delivery.

Companies or individuals involved in a mortgage transaction include a person with management or supervisory responsibilities within a seller’s or servicer’s company and any person or entity with critical influence on or substantive control over the origination or servicing of a mortgage or any function related to the origination or servicing of a mortgage.

## Updated *Selling Guide* Topic

[A3-2-02](#), Responsible Lending Practices

## Effective Date

This policy is effective for all loan applications dated on or after June 1, 2010.

### Borrower Credit - Undisclosed Liabilities

The *Selling Guide* requires that every mortgage loan delivered to Fannie Mae be underwritten in order to establish that the borrower has the willingness and ability to repay the debt. Lenders delivering mortgage loans to Fannie Mae should ensure that mortgage loan underwriting standards recognize a variety of factors when evaluating a borrower’s ability to repay a loan, including (but not limited to) an assessment of the borrower’s debts and all liabilities that may affect the borrower’s ability to fulfill the mortgage payment obligation.

The *Selling Guide* also directs the lender to review and evaluate the “inquiries” section of the borrower’s credit report to determine if the borrower has received additional credit that is not reflected in the credit report or disclosed on the loan application. If additional credit was obtained, a verification of that debt must be provided and the borrower must be qualified with the monthly payment.

Fannie Mae is updating the *Selling Guide* to require lenders to determine that all debts of the borrower incurred or closed up to and concurrent with the closing of the subject mortgage are disclosed on the final loan application and included in the qualification for the subject mortgage loan. If Fannie Mae determines that any debts were not adequately disclosed on the application nor included in the debt-to-income ratio such that the loan would not have met Fannie Mae eligibility requirements, the mortgage loan will be subject to repurchase by the lender.

Lenders must have adequate internal controls and processes in place to evaluate borrower liabilities.

Refer to the [Lender Tips for Identifying Undisclosed Liabilities](#) for additional information.

### **Updated *Selling Guide* Topic**

[A3-2-02](#), Responsible Lending Practices (Underwriting Standards)

[B3-6-01](#), General Information on Liabilities

### **Effective Date**

This policy is effective for all loan applications dated on or after June 1, 2010.

### **Property Unit Number**

If the subject property is a condo or other property type that is identified by a unit number, the unit number must be included in the property address on the note.

### **Updated *Selling Guide* Topic**

[B8-3-02](#), Special Note Provisions and Language Requirements (Requirement for Unit Number)

[D1-2-04](#), Lender QC Review of Data Integrity

### **Effective Date**

This policy is effective for all loans with note dates on or after June 1, 2010.

### **Calculation of the LTV Ratio**

Fannie Mae's requirements concerning the rounding rules that determine the LTV ratio will be updated in the *Selling Guide*. The new policy will require the result of the LTV ratio calculation to be truncated (shortened) to two decimal places, then rounded up to the next whole percent.

For example,

- 96.01% will be delivered as 97%
- 80.001% will be delivered as 80%

These rounding rules also apply to the CLTV and HCLTV ratios. Until this methodology is implemented in a new version of DU later this year, DU's rounding methodology may result in a higher LTV ratio for a small number of loan casefiles. Lenders' systems must contain rounding methodology that results in the same or a higher LTV ratio.

### **Updated *Selling Guide* Topic**

[B2-1.1-01](#), Loan-to-Value Ratios (Calculation of the LTV Ratio)

## Effective Date

This policy is effective for all whole loans or MBS loans submitted to Fannie Mae's Loan Delivery system on or after January 3, 2011 (the date that fatal edits based on the LTV ratio will be implemented). Refer to Lender Letter LL-2010-03 for additional information.

## Manual Underwriting of DU Refer with Caution/IV (RWC/IV) Loan Casefiles

Fannie Mae is updating the policy regarding the delivery of DU loan casefiles that receive RWC/IV recommendations. For loan casefiles that receive a RWC/IV recommendation, the lender may consider underwriting the loan manually in accordance with the *Selling Guide*, provided that the loan product or transaction otherwise allows for delivery of manually underwritten loans. If the lender delivers the loan to Fannie Mae, it must be delivered as a manually underwritten loan and not as a DU underwritten loan. Special Feature Code 343 will continue to be required if the RWC/IV recommendation was the result of erroneous credit and the lender chooses to manually underwrite and deliver the loan.

## Updated *Selling Guide* Topics

[B3-2-07](#), Refer with Caution/IV Recommendations

[B3-2-09](#), Erroneous Credit Report Data

[B3-3.4-02](#), Income and Employment Documentation and Verbal Verification Requirements for DU (General Income Documentation Requirements)

[B3-4.4-02](#), Documentation Requirements (Asset Verification Documentation)

Topics B3-3.4-02 and B3-4.4-02 were updated to remove reference to documentation requirements for RWC/IV.

## Effective Date

This policy is effective immediately. Until the DU RWC/IV message is updated, lenders can ignore the RWC/IV message that states the loan is ineligible for delivery.

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Fannie Mae is offering a variety of tools and resources to help lenders implement the many aspects of the LQI, including training, Webinars, job aids, Frequently Asked Questions, and lender tips. Refer to the "Summary and Additional Information" document that is posted on the [Loan Quality Initiative](#) Web page on eFannieMae.com. Lenders are encouraged to refer to the Web site on a regular basis, as new and updated information will become available. Lenders may also contact their Fannie Mae Account Team for additional information.

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