

Announcement SEL-2010-10**August 12, 2010*****Selling Guide Updates***

The *Selling Guide* is being updated to include changes to the following topics:

- Mortgage loans secured by properties subject to unexpired redemption periods
- Delivery of repurchased loans
- General warranty of project eligibility
- Seasoned mortgage loan requirements
- Co-op share loan documentation
- Termination of inactive document custodians
- Title Insurance ALTA Endorsement 21-06
- Miscellaneous *Selling Guide* updates

Each of the updates is described below. The affected topics (and specific paragraphs) are noted for each policy change and are linked to the updated *Selling Guide* posted on eFannieMae.com. Lenders should review each topic to gain a full understanding of the policy changes. The updated topics are dated August 12, 2010.

Mortgage Loans Secured by Properties Subject to Unexpired Redemption Periods

In Announcement SEL-2010-07, *Selling Guide Updates*, Fannie Mae sought to clarify policy related to the delivery of mortgage loans secured by properties subject to an expired redemption period. Because an unexpired redemption period is a title defect that impacts marketability, the Announcement stated that these loans were not eligible for delivery to Fannie Mae until the redemption period had expired.

Based on feedback from lenders about current market practices, Fannie Mae has refined this policy to permit the delivery of loans with unexpired redemption periods when all of the following conditions are met:

- The property must be located in a state where it is “common and customary” to sell a single-family property during a redemption period.
- The mortgagee policy of title insurance must contain a specific exception for the unexpired right of redemption and affirmatively insure the mortgagee against all loss arising out of the exercise of any outstanding right of redemption, without qualification.
- If any party exercises a right to redeem the mortgaged property, the mortgage must be paid off directly out of the redemption proceeds with no requirement for any further action or claim for repayment.
- The lender must warrant that Fannie Mae will not incur any loss due to the exercise of any party of a right to redeem the mortgaged property.

In addition, Fannie Mae encourages the lender to provide written disclosure to borrowers regarding the redemption period on these properties.

Updated *Selling Guide* Topic

[B7-2-05](#), Title Exceptions and Impediments (Title Impediment – Mortgage Loans Secured by Properties with Unexpired Redemption Periods)

Effective Dates

This clarification is effective immediately.

Delivery of Repurchased Loans

Fannie Mae allows the redelivery of a mortgage loan that was repurchased by the lender, as long as the condition making the mortgage loan ineligible has been corrected and it meets Fannie Mae's current underwriting standards.

In this update, Fannie Mae is clarifying that a mortgage loan that was required to be repurchased by a secondary market investor, government sponsored enterprise (GSE), or private institutional investor other than Fannie Mae is not eligible for delivery. These types of mortgage loans are not eligible for delivery to Fannie Mae even if the identified defect has been cured by the lender and may otherwise meet Fannie Mae requirements.

Note: A mortgage loan that a lender repurchased from another investor or GSE that was delivered in error to that investor or GSE is eligible for delivery to Fannie Mae as long as it meets all requirements of the *Selling Guide*.

Updated *Selling Guide* Topics

[A2-3.2-02](#), Repurchases Resulting From Warranty Violations (Redelivery of Loans)

[B2-1.4-01](#), General Mortgage Terms and Conditions (Seasoned Mortgages)

Effective Date

This clarification is effective immediately

General Warranty of Project Eligibility

The *Selling Guide* currently describes the lender's representation and warranty requirements that apply to condo, co-op, and PUD projects. Those representations and warranties vary depending on the method by which the project was reviewed: Limited Review, Lender Full Review, Condo Project Manager (CPM) Review, and Fannie Mae's Project Eligibility Review Service (PERS).

Fannie Mae has updated the project requirements to provide more consistency across project review types. The following *Selling Guide* changes have been made:

- For projects reviewed under the Limited Review and Lender Full Review processes, Fannie Mae no longer requires that mortgage loans be delivered within six months of the lender's review of the project.

- For units in CPM or PERS-approved projects, the requirement for the lender to represent and warrant that the project met all the applicable project eligibility requirements as of the date of the note has been replaced with the following:
 - Lenders must represent and warrant that units in projects reviewed under CPM and PERS have a valid, unexpired CPM Lender Certification or Fannie Mae Final Approval (as applicable), as of the date of the note. A copy of the certification or approved list must be retained in the individual loan file.
- For units in PERS-approved projects, Fannie Mae is clarifying that the lender that submitted and received the Final Project Approval for a given project must provide all warranties as required by the Final Project Approval letter.
- A cross-reference to the seasoned loan topic was added to remind lenders that if a mortgage loan secured by a unit in a project is delivered as a seasoned loan, the project must meet the current project eligibility requirements in effect at the time of loan delivery.

Updated *Selling Guide* Topics

[B4-2.1-01](#), General Information on Project Standards (General Warranty of Project Eligibility)
[B4-2.3-02](#), Cooperative Project Eligibility (Co-op Project – Lender Full Review)

Effective Date

These clarifications are effective immediately.

Seasoned Mortgage Loan Requirements
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The definition of a seasoned mortgage loan has been updated to more accurately reflect how Fannie Mae defines seasoning in its systems and in practice for whole loans and MBS loans. The updated definition also conforms to how seasoning is currently defined for MBS pooling purposes in Part C of the *Selling Guide*.

Updated definition: Seasoned mortgages are mortgages that are more than one year old from the first payment date to the loan purchase date for whole mortgage loans, or the pool issue date for MBS mortgage loans.

The seasoned mortgage topic was also updated to reflect the requirement regarding delivery of repurchased loans described above. Additionally, the requirements now clearly include a reference to project eligibility. See the above related Announcement sections for additional information.

Updated *Selling Guide* Topic

[B2-1.4-01](#), Seasoned Mortgages

Effective Date

These clarifications are effective immediately.

Co-op Share Loan Documentation

Generally, a co-op share loan is secured by a pledge of the borrower's shares in a co-op housing corporation and assignment of the borrower's rights under a proprietary lease or occupancy agreement with the co-op housing corporation. The documentation that evidences the borrower's interest in the co-op housing corporation may vary by state.

In this *Selling Guide* update, Fannie Mae is removing B8-5-03, Co-op Share Loan Documentation Requirements, which only contains requirements for New York co-op properties. Instead, Fannie Mae is publishing state-specific documentation requirements for all states in which Fannie Mae purchases co-op share loans on eFannieMae.com. These requirements describe documents that must be delivered to the document custodian and documents that the lender must retain in the individual loan file. A link to the documentation requirements has been added to the topic noted below.

Updated *Selling Guide* Topic

[B2-3-03](#), Co-op Properties (Co-op Share Loan Documentation)

Retired *Selling Guide* Topic

B8-5-03, Co-op Share Loan Documentation Requirements

Effective Date

These changes are effective immediately.

Termination of Inactive Document Custodians

Fannie Mae designates document custodians as either "active" or "inactive" based on whether the custodian has certified MBS or portfolio mortgage loans for Fannie Mae in the previous calendar year. Currently, there are numerous inactive custodians. Due to operational costs and risk associated with allowing inactive custodians to remain as approved custodians, Fannie Mae is clarifying the custodian termination policy to explicitly address the termination of inactive custodians.

Currently, Fannie Mae can terminate a document custodian in its sole discretion in accordance with the terms of the *Master Custodial Agreement* (Fannie Mae Form 2003). The *Selling Guide* is being updated to expressly reflect Fannie Mae's right to terminate any inactive document custodian, regardless of how long the custodian was previously an active document custodian, and require them to move the documents to an active document custodian.

Updates to Requirements for Document Custodians

Fannie Mae has updated the [Requirements for Document Custodians](#) (RDC) published on eFannieMae.com to reflect the following updates:

- In accordance with the co-op share loan documentation requirements noted in the prior section of this Announcement, the co-op section of the RDC now outlines the specific documents the document custodian must certify.
- A new section has been added regarding requirements for loans to *inter vivos* revocable trusts.

Updated *Selling Guide* Topic

[A3-3-04](#), Document Custodians (Termination of Document Custodian Based on Inactive Status)

Effective Date

These changes are effective immediately.

Title Insurance ALTA Endorsement 21-06

In 2009, Fannie Mae eliminated the requirement that title insurance policies include the creditors' rights endorsement - ALTA Endorsement 21-06. This requirement was removed from [B7-2-03](#), General Title Insurance Coverage, in the October 30, 2009 version of the *Selling Guide*. (Announcement 09-32, *Selling Guide Update – October 2009*, did not specifically itemize this change.)

Miscellaneous *Selling Guide* Updates

This *Selling Guide* update includes the following other miscellaneous changes:

- The lease requirements for leasehold estate mortgages were clarified to specify that the leasehold can be assigned, transferred, mortgaged, and sublet *by the lessee*. (The prior version of the topic was silent with regard to who could assign, etc., the leasehold.) The duplicate paragraph regarding assignment of the lease was also deleted.
 - [B2-3-04](#), Leasehold Estates (Lease and Lender Requirements table)
- The signature requirements for the HUD-1 Settlement Statement appearing in two topics in the Guide were out of sync. Both topics were updated to ensure consistency.
 - [A2-5.1-02](#), Individual Mortgage Loan Files (Contents of a Mortgage Loan File)
 - [D1-3-07](#), Lender Post-Closing QC Review of Closing Documents

Effective Date

These clarifications are effective immediately.

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

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