

Announcement SEL-2010-16**December 1, 2010*****Selling Guide* Updates**

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

- Project eligibility requirements and resources
- Income documentation updates
- Community HomeChoice™, Community Solutions™, and MyCommunityMortgage® Products
- PACE loan programs
- Miscellaneous updates

Each of the updates is described below. The affected topics (and specific paragraphs) are noted for each policy change. Lenders should review each topic to gain a full understanding of the policy changes. The updated topics are dated December 1, 2010.

Project Eligibility Requirements and Resources

This *Selling Guide* update contains revisions to Fannie Mae's project eligibility requirements related to:

- newly converted, non-gut rehabilitation condo projects;
- projects that are involved in litigation; and
- new condo projects with units having less than 400 square feet of space.

Newly Converted, Non-Gut Rehabilitation Condo Projects

Fannie Mae's current condo policy delegates the review of newly converted, non-gut rehabilitated projects to the lender on a manual basis (Lender Full Review) or through Condo Project Manager™ (CPM™). The lender is required to review the architect's or engineer's report (or functional equivalent). The report must comment favorably on the structural integrity of the project as well as the condition and remaining useful life of the major project components.

Many buildings are converted to condominiums without the replacement of major components resulting in eventual increased costs to unit owners for maintenance and major repairs. In order to mitigate the additional risk that newly converted, non-gut rehabilitation projects pose, all newly converted, non-gut rehabilitation condo projects must be submitted to Project Eligibility Review Service (PERS) for review and approval.

Additional requirements have been added to the *Selling Guide* for non-gut rehabilitation projects that will, among other things, enhance the funding of reserves, help to minimize future potential financial hardships to unit owners, and help ensure a project's longer term sustainability. These requirements include (but are not limited to):

- All projects are subject to a site inspection by Fannie Mae.
- A reserve study must be prepared by a qualified, independent professional company.

- The project budget must contain line items for reserves to adequately support the costs identified in the reserve study and a utility contingency of at least 10% of the previous year's utility costs if the utilities are not separately metered.
- Funds to cover the total cost of any items identified in the reserve study or engineer's report that need to be replaced within five years from the date of the reserve study must be deposited in the homeowners' association reserve account, in addition to the amount of the utility contingency as stated above.
- The developer must provide a detailed description of proposed or completed work.
- Hotel or motel conversions (or conversions of other similar transient properties) are ineligible.

Note: The new policy pertaining to hotel or motel conversions applies to all projects and not just to newly converted, non-gut rehabilitated projects. This policy has been added to the Ineligible Project Types list in the *Selling Guide*.

Updated *Selling Guide* Topics

[B4-2.1-02](#), Ineligible Projects (Ineligible Project Types)

[B4-2.2-04](#), Lender Full Review: General Eligibility Requirements for All Condo Projects (Lender Full Review General Eligibility Criteria)

[B4-2.2-08](#), Project Eligibility Review Service (PERS) (Required Use of PERS; Newly Converted, Non-Gut Rehabilitation Condo Projects)

Project Litigation

Currently, mortgage loans in projects with any type of litigation are ineligible for delivery. Litigation, however, can vary from having no impact on the project to having a major impact on the project. In recognition of the various types of litigation and potential impact to a project, the current policies related to litigation are revised as follows:

- Any project (condo, co-op, PUD) for which the homeowners' association or co-op corporation is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project remains ineligible.
- Projects for which the lender determines that pending litigation involves minor matters are not considered ineligible projects, provided the lender concludes that the pending litigation has no impact on the safety, structural soundness, habitability, or functional use of the project. The following are defined to be minor matters:
 - non-monetary litigation involving neighbor disputes or rights of quiet enjoyment;
 - litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the association's or co-op corporation's insurance; or
 - the homeowners' association or co-op corporation is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due homeowners' association dues.

If the lender is aware of pending litigation and is unable to determine whether the litigation may be deemed a minor matter, the lender may contact Fannie Mae's Project Standards team to determine whether Fannie Mae will accept delivery of mortgages secured by units in the project.

Updated *Selling Guide* Topic

[B4-2.1-02](#), Ineligible Projects (Ineligible Project Types)

Unit Square Footage

Fannie Mae's current *Selling Guide* states that loans secured by units in projects with names that include the word "hotel" or "motel" are not eligible for purchase or securitization by Fannie Mae. Recent reviews of units in condo projects show that many condo projects that have units with less than 400 square feet have use restrictions, are managed and operated like hotels or motels, and have a significantly higher investor concentration. Currently, there is no policy that addresses square footage or unit size. Therefore, Fannie Mae is requiring that new condo projects (as defined in [B4-2.2-01](#), Condo Project Eligibility) that contain one or more units with less than 400 square feet of space be submitted to PERS to determine eligibility.

Updated *Selling Guide* Topic

[B4-2.2-08](#), Project Eligibility Review Service (PERS) (Required Use of PERS)

Resources

Fannie Mae's Web site continues to be the primary resource for information concerning project review options, approved projects, answers to frequently-asked questions, and other valuable information, while the *Selling Guide* remains the primary source for project eligibility requirements. Lenders are encouraged to check eFannieMae.com frequently for updates.

For information that may not be available on eFannieMae.com or in the *Selling Guide*, lenders may e-mail their questions to the Project Standards team at project_standards@fanniemae.com.

This e-mail address replaces the telephone number that appeared on the [List of Contacts](#) in Part E of the *Selling Guide*.

Updated *Selling Guide* Topic

[E-1-03](#), List of Contacts (Fannie Mae Contacts)

Effective Dates

The changes described above for newly converted, non-gut rehabilitated projects and unit square footage are effective for loan applications dated on or after March 1, 2011. The changes that apply to projects in litigation and the resource information are effective immediately.

Lenders will be advised when CPM is updated to account for these changes.

Income Documentation

In Announcement SEL-2010-13, *Selling Guide Updates*, Fannie Mae revised several policies related to employment and income documentation. As a follow-up to that Announcement, additional changes are being made:

- For manually underwritten loans, the paystub must be dated no earlier than 30 days prior to the initial loan application date. This new requirement brings manual underwriting standards in line with existing Desktop Underwriter[®] (DU[®]) requirements.
- In addition, the paystub must include sufficient information to appropriately calculate income; otherwise, additional documentation must be obtained.
- DU will no longer require the paystub to cover a 30-day period or the borrower to have been employed in his or her current position for a minimum of 30 days. This update brings DU in line with manual underwriting requirements.
- It is no longer required that the Verification of Employment (Form 1005 and Form 1005S) account for 30 days of employment.
- The percent of ownership for salaried or commission-earning borrowers who receive income from partnerships or corporations was corrected to reflect ownership of 25% or greater before a borrower is considered self-employed. (Prior text indicated “greater than 25%” ownership.)
- A glossary term for “paystub” has been added.

As a result of Announcement SEL-2010-13 and this *Selling Guide* update, there is consistency in the requirements for manually underwritten loans and DU loan casefiles.

Updated *Selling Guide* Topics

- [B3-3.1-03](#), Non-U.S. Citizen Borrowers (Verification of Income for Non-U.S. Citizen Borrowers)
- [B3-3.2-01](#), Salary and Commission Income (Documenting Employment and Income)
- [B3-3.2-02](#), Verification of Salary and Commission Income (Documentation Provided by the Borrower)
- [B3-3.2-08](#), Other Sources of Income (Foreign Income Earned by U.S. Citizens)
- [B3-3.4-01](#), Documents Used for DU Income Assessment
- [B3-3.4-02](#), Income and Employment Documentation and Verbal Verification Requirements for DU (Salary or Hourly Wage Earnings (Base Income))
- [B5-5.1-06](#), DU Refi Plus and Refi Plus Underwriting Considerations (Documentation Requirements)
- [E-3-16](#), Glossary of Fannie Mae Terms: Paystub

Effective Dates

For manually underwritten mortgage loans, lenders are encouraged to implement these changes immediately, but must implement them for loan applications dated on or after December 13, 2010.

Lenders may apply the policy changes to their DU loan casefiles immediately, though the paystub and length of current employment changes specified above will only be reflected on those loan casefiles underwritten through DU Version 8.2. Refer to the [DU Version 8.2 Release Notes](#) for additional information.

Community HomeChoice, Community Solutions, and MyCommunityMortgage Products

Fannie Mae's [Eligibility Matrix](#) is the definitive source for all LTV, CLTV, and HCLTV ratio requirements. However, the *Selling Guide* currently contains LTV ratio requirements for Community HomeChoice and Community Solutions. With this update, these LTV ratio requirements have been removed from the *Selling Guide* and added to the Eligibility Matrix. The unit number restriction has been maintained within the Community Solutions and Community HomeChoice topic (i.e., three- and four-units properties are not permitted). In addition, this topic clarifies that DU does not support underwriting of these products but offers the alternative of using the standard MyCommunityMortgage (MCM) product.

Two updates were made to topics pertaining to MCM loans. The text for Special Feature Code 460 was simplified. (The previous text referred to a specific, soon-to-be-retired DU version.) Additionally, an error was corrected in a table that described the down payment requirement for two-unit MCM loans underwritten with DU (changed from 3% to 5%). The table now matches the rules applied by DU and reflected in the Eligibility Matrix.

Updated Topics

[B5-6-02](#), MyCommunityMortgage Loan and Eligibility (General Loan Eligibility and Maximum LTV, CLTV, and HCLTV Ratios)

[B5-6-03](#), MyCommunityMortgage Underwriting Methods and Requirements (Minimum Borrower Contribution for Purchase Transactions)

[B5-6-04](#), MyCommunityMortgage: Additional Eligibility and Underwriting Requirements for Community Solutions and Community HomeChoice (Community Solutions: Eligible Properties and Maximum LTV, CLTV, and HCLTV Ratios; Community HomeChoice: Eligible Properties, Qualifying Ratios and Reserve Requirements for Manually Underwritten Loans, and Maximum LTV, CLTV, and HCLTV Ratios)

[B5-6-05](#), MyCommunityMortgage Pricing, Mortgage Insurance, and Special Feature (MyCommunityMortgage Special Feature Codes)

Effective Date

These updates are effective immediately.

PACE Loan Programs

In Announcement SEL-2010-12: *Options for Borrowers with PACE Loans*, Fannie Mae provided refinancing options for borrowers who obtained PACE (Property Assessed Clean Energy) loans prior to July 6, 2010, and whose first mortgage loans are owned or securitized by Fannie Mae. These options are now incorporated into the *Selling Guide*.

A special feature code has been created to track those eligible limited cash-out refinances where the PACE loan remains in place. SFC 173 must be used for all such mortgage loan deliveries.

Updated *Selling Guide* Topics

[B2-1.2-02](#), Limited Cash-Out Refinance Transactions (Eligibility Requirements, Ineligible Transactions, and Acceptable Uses)

[B2-1.2-03](#), Cash-Out Refinance Transactions (Ineligible Transactions)
[B5-3.4-01](#), Property Assessed Clean Energy Loans (new section added)

Effective Date

These policy updates were effective with the date of the Announcement on August 31, 2010, with the exception of the special feature code requirement which must be used for mortgage loans delivered on or after January 1, 2011.

Miscellaneous *Selling Guide* Updates

This *Selling Guide* update includes a number of other miscellaneous updates and clarifications:

- In Announcement SEL-2010-13, Fannie Mae updated the policy allowing the continuance of “Flexible sources” for the minimum borrower contribution on certain transactions. Personal gifts, gifts or grants from an entity, employer assistance, and Community Seconds will be permitted as the minimum borrower contribution if the loan meets certain criteria. The following topics have been updated to reflect this policy:
 - [B3-4.2-03](#), Individual Development Accounts (Use of IDA Funds to Meet Borrower Minimum Contribution Requirements)
 - [B3-4.3-11](#), Trade Equity
 - [B5-2.3-03](#), Manufactured Housing Underwriting Method and Requirements (Down Payment Requirements)
 - [B5-3.1-02](#), Conversion of Construction-to-Permanent Financing Loan Eligibility (Purchase Transaction)
- The *Selling Guide* currently describes when lenders can waive escrows. Fannie Mae is updating this requirement to explicitly state that escrows for mortgage insurance cannot be waived. Additionally, this update provides a clarification that both financed mortgage insurance and prepaid mortgage insurance options are allowed for refinances. (Prepaid mortgage insurance transactions are simply standard limited cash-out refinances where the borrower finances his or her closing costs, including the mortgage insurance premium in the loan amount.) The following topics have been updated:
 - [B2-1.4-01](#) General Mortgage Terms and Conditions (Escrow Deposit Accounts and Escrow Waivers)
 - [B7-1-04](#), Financed Borrower-Purchased Mortgage Insurance (Financed Mortgage Insurance Requirements and Prepaid Mortgage Insurance Transactions)
- Information regarding homeownership counseling resources has been updated to remove outdated Fannie Mae resources and to add HUD.gov as a resource. Refer to [B2-2-06](#), Lending Education and Borrower Counseling (Additional Resources).
- In September, the *Selling Guide* was updated to reflect that all revolving debts must be included in the debt-to-income ratio calculation, regardless of the number of payments remaining. DU Version 8.2 will incorporate this change, and will also modify the logic that determines which accounts are automatically copied from the credit report to the loan application. [B3-6-08](#), DU: Requirements of Liability Assessment (Auto-Populating DU Liabilities From the Credit Report) now states that all open accounts will be automatically copied to the loan application (if the auto-populate liabilities option is selected before liabilities have been manually entered in the loan application). This section of the *Selling*

Guide also clarifies that DU does not automatically copy collection accounts on the credit report to the loan application.

- In Announcement SEL-2010-14, *Appraiser Independence Requirements*, Fannie Mae introduced the Appraiser Independence Requirements that replace the Home Valuation Code of Conduct (HVCC) which has been retired. All *Selling Guide* references to the HVCC have been replaced with references to the Appraiser Independence Requirements:
 - [A3-2-01](#), Compliance with Laws
 - [B4-1.1-01](#), General Information on Appraisal Requirements (Appraiser Independence Requirements)
 - [B4-1.1-03](#), Appraiser Selection (Use of Third-Party Vendors)
 - [D1-3-05](#), Lender Post-Closing QC Review of Appraisers and Appraisals (Appraiser Independence Requirements)
 - [E-1-02](#), Acronyms and Abbreviations
- Fannie Mae has a long-standing requirement that the borrower must not have any 30-day delinquencies in the 12-month period that precedes the lender's delivery of the loan to Fannie Mae. The related language in the *Selling Guide* that applies to eligibility for MBS pooling has been restored to align with the verbiage in the July 2007 version of the *Selling Guide*, since the policy was not changed when the *Selling Guide* was rewritten in April 2009. [C3-2-01](#), Determining Eligibility for Loans Pooled into MBS (General Eligibility Requirements for Loans Pooled into MBS.)
- The following topics have been updated to add references to exceptions to the standard LTV, CLTV, and HCLTV ratio calculations:
 - [B2-1.1-01](#), Loan-to-Value (LTV) Ratios (Calculation of the LTV Ratio)
 - [B2-1.1-02](#), Combined Loan-to-Value (CLTV) Ratios (Calculation of the CLTV Ratio)
 - [B2-1.1-03](#), Home Equity Combined Loan-to-Value (HCLTV) Ratios (Calculation of the HCLTV Ratio)
- A policy pertaining to subject property zoning was slightly rewritten for clarity in [B4-1.4-06](#), Appraisal Report Review: Subject Property Zoning (Subject Property Zoning).
- Updates to the Glossary of Fannie Mae Terms:
 - A new definition for debt-to-income ratio was added.
 - The definition of first-time home buyer was updated to expressly include the requirement that the borrower occupy the security property as a *principal residence*. (Borrowers purchasing a second home are not defined as first-time home buyers.)

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

John S. Forlines
Vice President
Single-Family Chief Risk Officer