

***Selling Guide* Announcement SEL-2011-13**

December 20, 2011

***Selling Guide* Updates**

The *Selling Guide* has been updated to include changes to the following topics:

- Refi Plus™ and DU Refi Plus™
- Temporary Leave Income
- Lender Application, Inactivity, and Reactivation Fees
- Condo Project Insurance Requirements
- Master or Blanket Insurance for Unaffiliated Condo Associations or Projects
- Note Endorsements
- Back-End Buyout Fee
- Retirement of Delivery Transmittal (Form 278)
- Miscellaneous *Selling Guide* Updates
- Retirement of Special Feature Codes

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 20, 2011.

Refi Plus and DU Refi Plus

The *Selling Guide* has been updated to incorporate the numerous changes that were recently described in [Announcement SEL-2011-12](#), *Updates to Refi Plus™ and DU Refi Plus™*. In addition, the following changes have also been made. Refer to the Attachment to this Announcement for a comprehensive list of the updates and clarifications.

- The “Ineligible Subordinate Financing” criterion pertaining to wraparound mortgages was removed. (See Subordinate Financing section below for more information.)
- The Refi Plus representation and warranty requirements were updated to remove the specific reference to “Fannie Mae’s Charter” because all of the Charter requirements are addressed in other policies for Refi Plus. (For example, loans are subject to current loan limits, condo and co-op hotels are not eligible, and mortgage insurance requirements are described in detail.)
- The “Reasonable Ability to Repay” terminology has been removed from the Refi Plus and DU Refi Plus Underwriting Requirements sections of the Guide because these sections already describe the specific underwriting requirements that are applicable to each transaction. For Refi Plus, the lender is no longer required to determine the borrower has a reasonable ability to repay the mortgage based on a review of the information provided on the new loan application.

- Fannie Mae has simplified the requirements pertaining to converting loans from DU Refi Plus to Refi Plus. Lenders may now convert any DU Refi Plus loan to Refi Plus as long as the lender is the current servicer of the loan and the loan meets all Refi Plus requirements.
- DU Refi Plus property fieldwork waiver:
 - The requirements that pertain to when a lender may need to override the DU property inspection waiver and obtain fieldwork have been clarified.
 - The *Selling Guide* currently states that lenders are responsible for compliance with all federal, state, and local laws, rules and regulations. It has been clarified to state that when the lender is required by law to obtain an appraisal, the lender must comply with such requirements, but may still exercise the DU Refi Plus property fieldwork waiver.
- The project requirements for Refi Plus have been updated to remove the requirement that the lender confirm the hazard, flood, liability and fidelity insurance coverage. The lender's original project review would have included confirmation of the required insurance coverage, and there are existing processes required by the Servicing Guide to monitor and ensure such insurance coverage remains in force.

Updated Selling Guide Topics

See the Attachment to this Announcement.

Effective Dates

Refer to [Announcement SEL-2011-12](#) for the effective dates that applied to the previously announced changes. The additional updates and clarification that are described above are effective immediately.

Temporary Leave Income

Fannie Mae is updating specific requirements regarding qualifying income for borrowers on temporary leave from their current employment to:

- confirm that a borrower on temporary leave is considered employed, and
- clarify guidelines for calculating qualifying income for borrowers on temporary leave.

Updated Selling Guide Topics

- [B3-3.2-08](#), Other Sources of Income (Temporary Leave Income)
- [B3-3.4-02](#), Income and Employment Documentation and Verbal Verification Requirements for DU (Temporary Leave Income)
- [B3-3.1-02](#), Verbal Verification of Employment

Effective Date

Lenders may adopt these changes immediately.

Lender Application, Inactivity, and Reactivation Fees

Fannie Mae conducts a comprehensive analysis of a lender's financial statements and its management and operating capabilities prior to approving its status as a Fannie Mae seller and/or servicer. Fannie Mae also conducts ongoing annual reviews of each approved Fannie Mae seller and servicer.

Fannie Mae has charged the same application fee since the 1990's despite an increase in the level and cost of performing these analyses. As a result, Fannie Mae has decided to increase the application fee from \$1,000 to \$5,000 for new applicants. In addition, Fannie Mae will initiate a \$1,000 annual inactivity fee for approved sellers or servicers that fail to meet certain minimum thresholds. This fee will be charged if activity during a calendar year does not meet the established thresholds.

Finally, as inactive lenders seek to re-establish delivery and/or servicing relationships, Fannie Mae will again review the management organization and operating capabilities of the reactivating lender. While less comprehensive in scope, there are costs associated with this additional review. As a result, Fannie Mae will also be instituting a reactivation fee of \$2,500.

Updated Selling Guide Topics

- [A1-1-01](#), Application and Approval of Lender (General Information, Eligibility, Application Requirements, and Special Lender Approval)
- [A4-1-01](#), Maintaining Lender Eligibility (Maintaining Lender Eligibility, Inactive Lenders, and Reactivation Process)

Effective Date

The new lender application fee and reactivation fee will be effective beginning January 1, 2012. The inactivity fee will begin in January 2013, based on the threshold criteria applied to the 2012 calendar year.

Condo Project Insurance Requirements

Fannie Mae has clarified its property hazard insurance requirements covering the common elements and improvements that have been made inside the individual condo unit being financed under "single entity," "all-in," and "bare-walls" policies. In addition, Fannie Mae is updating the current requirement for HO-6 policies. The amount of HO-6 coverage that must be provided is being changed from an amount that is no less than 20% of the condo unit's appraised value to an amount, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

Updated Selling Guide Topic

- [B7-3-04](#), Hazard Coverage for Units in Project Developments (Required Coverage for PUDs, Condos, or Co-op Projects)

Effective Date

Lenders may adopt these changes immediately but must do so for loans with application dates on or after January 1, 2012.

Master or Blanket Insurance for Unaffiliated Condo Associations or Projects

On December 16, 2008, Fannie Mae issued [Announcement 08-34](#), *Project Eligibility Review Service and Changes to Condominium and Cooperative Project Policies*, which stated that Fannie Mae would not permit master or blanket insurance policies that combine insurance coverage for multiple unaffiliated condominiums. After conducting extensive research and consulting closely with lenders, Fannie Mae is updating the *Selling Guide* to permit master or blanket insurance policies that combine insurance coverage for multiple condominiums or other residential or substantially residential projects that are unaffiliated as long as the coverage meets certain specific criteria.

Updated Selling Guide Topics

- [B7-3-01](#), Hazard Insurance Policy Requirements (Provision of Hazard Insurance and Exceptions to the Rating Requirements)
- [B7-3-04](#), Hazard Coverage for Units in Project Developments (Notices of Changes or Cancellation and Master or Blanket Insurance for Unaffiliated Condo Associations or Projects)
- [B7-3-06](#), Evidence of Hazard Insurance (Master or Blanket Policies)

Retired Selling Guide Topic

- [B7-3-01](#), Provision of Hazard Insurance (content moved to [B7-3-02](#))

Effective Date

These changes are effective immediately.

Note Endorsements

The note endorsement requirements contained in the *Selling Guide* have been clarified to state that the mortgage seller may not delegate its authority to execute an endorsement, and no other party may execute the endorsement using a power of attorney.

Updated Selling Guide Topic

- [B8-3-04](#), Note Endorsement (Signature Requirements for Endorsements)

Effective Date

These changes are effective immediately.

Back-End Buyout Fee

Fannie Mae has updated the Master Agreement Terms and Conditions language in the *Selling Guide* that pertains to the calculation methodology for the back-end buyout fee. This change will align the back-end buyout fee tolerance calculation with how Fannie Mae calculates pair-off fees for whole loan commitments.

In addition, the language regarding DU recommendations has been updated to reflect the current “ineligible” recommendations issued by DU.

Updated Selling Guide Topics

- [E-2-04](#), Master Agreement Terms and Conditions (Part III, Delivery of Mortgages and Part IV, Mortgages Submitted to Desktop Underwriter)

Effective Date

This change will apply to Master Agreements with effective dates on or after January 1, 2012.

Retirement of Delivery Transmittal (Form 278)

The *Delivery Transmittal* (Form 278) is being retired. As a result, Fannie Mae is updating the requirements that pertain to how lenders submit loan documents to Fannie Mae's Designated Document Custodian or a lender-designated document custodian.

Updated Selling Guide Topics

- [E-2-02](#), Document Submission Packages for All Mortgages

Effective Date

The new requirements are effective for loan documents submitted to the document custodian on or after February 1, 2012.

Subordinate Financing

The subordinate financing requirements in the *Selling Guide* were updated to remove the reference to wraparound mortgages. The nature of this structure is such that if the borrower on the existing mortgage or note is not the current owner of record, the transaction is ineligible for delivery under other *Selling Guide* provisions.

Updated Selling Guide Topics

- [B2-1.1-04](#), Subordinate Financing (Unacceptable Subordinate Financing Terms)
- [E-3-23](#), Glossary of Fannie Mae Terms: W (“wraparound” term removed)

Effective Date

These changes are effective immediately.

Miscellaneous Selling Guide Updates

The following additional updates have been made in the *Selling Guide*:

- [B2-1.2-01](#), Purchase Transactions: The Non-Arm’s Length Transactions section of this topic was updated to clearly state that specific scenarios are not allowed (for example, delayed financing).
- [B2-1.3-03](#), Adjustable Rate Mortgages (ARMs): When this topic was updated in August 2011, four ARM plans were mistakenly left out of the table describing parameters for ARMs with temporary interest rate buydowns. As is true of ARM Plans 2722 and 2723, Plans 649, 650, 651, and 652 must be secured by a one- or two-unit property if there is a temporary interest rate buydown.
- [B2-2-03](#), Multiple Financed Properties for the Same Borrower: This topic has been updated to reflect additional types of property ownership and how to apply them to the financed property limitation. (No policy changes were made.)


Effective Date

These changes are effective immediately.

Retirement of Special Feature Codes

Effective with all loan deliveries on or after March 1, 2012, the following Special Feature Codes will no longer be required upon delivery:

- 187 - Mortgage Subject to 80-10-10 Subordinate Financing;
- 338 - Mortgage Subject to 80-15-5 or 90-5-5 Subordinate Financing; and
- 339 - Mortgage Subject to 75-20-5 Subordinate Financing.



An updated [Special Feature Codes](#) list is available on eFannieMae.com and the loan-level price adjustment matrices have been updated to also reflect these changes. (These codes were not reflected in the *Selling Guide*, hence no updates were required.)

NOTE: *These codes will be removed from the Special Feature Code list message in DU in 2012. Until such time as DU is updated, lenders may disregard these codes in the DU list message.*

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

John Forlines
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Chief Credit Officer for Single-Family Product

Attachment

Updates to Refi Plus and DU Refi Plus

This table briefly describes the major updates that have been made in the *Selling Guide*. Refer to [Announcement SEL-2011-12](#) and the related section of this Announcement for additional information about the specific changes.

Topic Number and Title	Description of Update
B5-5.1-05 , DU Refi Plus and Refi Plus Eligibility	<ul style="list-style-type: none"> ▪ A number of sections in this topic were reorganized. ▪ Permissible Refinance Solicitation Practices section was added. ▪ Maximum LTV, CLTV, and HCLTV Ratios table was updated to reflect changes in eligibility for Refi Plus loans. ▪ Requirements for eligible subordinate financing were clarified. ▪ Ineligible Subordinate Financing section was removed. ▪ Ineligible New Mortgage Loan Types section was updated to remove the criteria related to loans with temporary buydowns. All loans meeting this requirement had to be delivered by December 2009. ▪ Eligible New Mortgage Loan Types section was deleted because the content is covered elsewhere in this topic. ▪ Texas Section 50(a)(6) Mortgages section was updated to reflect the exception for principal and interest increases greater than 20%. ▪ Representations and Warranties section was updated.
B5-5.1-06 , DU Refi Plus and Refi Plus Underwriting Considerations	<ul style="list-style-type: none"> ▪ Borrower Benefit Requirements section was updated to remove redundant statements. ▪ For both DU Refi Plus and Refi Plus, the Credit History and Credit Score Requirements tables were deleted and the content moved into the applicable Underwriting Requirements table. ▪ The “reasonable ability to repay” terminology was removed because the requirements are already covered elsewhere in the topic. ▪ Bankruptcy and foreclosure requirements were removed for Refi Plus. ▪ Underwriting Requirements for Refi Plus were updated to reflect changes to the mortgage payment history requirement.

Topic Number and Title	Description of Update
	<ul style="list-style-type: none"> ▪ Numerous sections were updated to differentiate the requirements for mortgage loans with principal and interest increases greater than 20% and those with principal and interest changes less than or equal to 20%. ▪ The requirements pertaining to converting loans from DU Refi Plus to Refi Plus have been simplified and much of the prior content has been removed. ▪ Expiration of Mortgage Insurance Flexibilities section was updated to reflect the new expiration dates that apply.
<p>B5-5.1-07, DU Refi Plus and Refi Plus Property Valuation and Project Standards</p>	<ul style="list-style-type: none"> ▪ Clarification was added regarding lender representations and warranties for casefiles that are not eligible for a DU Refi Plus property fieldwork waiver. ▪ Requirements that pertain to when a lender may need to override the DU property inspection waiver and obtain fieldwork have been clarified. ▪ The Project Insurance requirement for Refi Plus was updated.
<p>B5-5.1-08, DU Refi Plus and Refi Plus Closing, Pricing, Delivery, and Quality Control</p>	<ul style="list-style-type: none"> ▪ Whole Loan Committing of Loans with LTV Ratios Above 105% section was updated to reflect that “Refi Plus” products are available in eCommitting and eCommitONE. (These products are utilized for both Refi Plus and DU Refi Plus.) ▪ Pooling Loans with LTV Ratios Above 105% section was updated to reflect Fannie Majors requirements.
<p>B2-1.2-05, Prohibited Refinancing Practices</p>	<p>Lender Solicitation for Refinancing section was updated to reflect an exception exists for Refi Plus and DU Refi Plus mortgage loans.</p>
<p>B3-5.1-01, General Requirements for Credit Scores</p>	<p>Exception to the Minimum Credit Score Requirements was updated to reflect certain Refi Plus transactions have a minimum credit score requirement.</p>
<p>B3-5.3-07, Significant Derogatory Credit Events – Waiting Periods and Re-establishing Credit</p>	<p>General Information section was updated to reflect that the requirements are not applicable to Refi Plus mortgage loans.</p>

Topic Number and Title	Description of Update
B3-6-02 , Debt-to-Income Ratios	<ul style="list-style-type: none"><li data-bbox="634 237 1360 338">▪ Exceptions to the Maximum Debt-to-Income Ratio section was updated to reflect that certain Refi Plus transactions have a debt-to-income ratio requirement.<li data-bbox="634 359 1305 459">▪ Applying the Re-underwriting Criteria section was updated to clarify that these requirements are not applicable to most Refi Plus mortgage loans.