

Selling Guide Announcement SEL-2013-04

May 28, 2013

Selling Guide Updates

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

- Miscellaneous Income and Documentation Requirements
- Single Entity Ownership in a Project
- Texas Section 50(a)(6) Mortgages – Adding 5-Year Adjustable-Rate Mortgages
- Calculation of Real Estate Taxes for Housing Expense
- Measurement of Various Waiting Periods
- Miscellaneous *Selling Guide* 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 May 28, 2013.

Miscellaneous Income and Documentation Requirements

Age of Credit Documents

In June of 2009, Fannie Mae reduced the maximum age of income, asset, and credit documents from 120 to 90 days for mortgage loans on existing construction. However, that policy created inefficiencies for lenders, particularly when quarterly bank statements were used to verify assets. Fannie Mae is changing this policy such that credit documents must be no more than four months old on the date the note is signed for all mortgage loans (existing and new construction). This requirement is now stated in months rather than days to be consistent with other time-related policies.

Social Security Benefits Documentation and Continuance

The *Selling Guide* states that Social Security benefits for retirement and long-term disability may be expected to continue for three years, making the need for additional documentation unnecessary. However, Social Security benefits received on behalf of another beneficiary or under another's Social Security account or work record may not necessarily continue for three years. In these instances, documentation of continuance will be required. For example, a borrower may use Social Security income that is received by a dependent (such as a minor or disabled dependent) for qualifying purposes if three-year continuance of that income can be documented. A table has been added to the Guide that describes the specific documentation requirements depending on the type of Social Security benefit received.

Timing of Tax Returns, Tax Return Signature Alternatives, and Use of IRS Tax Transcripts

The following policies were addressed:

- detailed guidance on the allowable age of federal income tax returns and the tax-related documentation required, which now varies depending on the application date and disbursement date of the mortgage loan;

- definition of the “most recent year’s” tax return as the last tax return scheduled to have been filed with the IRS;
- clarification of borrower signature requirements on tax returns and allowable alternatives to obtaining a borrower’s signature;
- when multiple signed IRS 4506-T forms may be required;
- how IRS tax return transcripts that result from submission of an IRS Form 4506-T may (or may not) be used to verify income; and
- update to lender post-closing quality control requirements with regard to execution of the IRS Form 4506-T (only required for the tax returns used in the underwriting process, and not required for returns not used in the underwriting process).

Documentation of Other Income Types

The *Selling Guide* describes the requirements for numerous types of “other” income. The following updates or clarifications have been made:

- general requirements for documenting the current receipt of other income have been added, and exceptions noted for certain other income types;
- “Housing or Parsonage Income” has been added as an allowable “Other Income” source;
- the Allowable Age of Credit Documents policy has been added where applicable;
- the Guide has been clarified with regard to when checking and savings accounts can be considered an employment-related asset;
- a royalty contract, agreement, or other statement confirming amount, frequency, and duration of royalty payment income has been added; and
- the requirement for tax returns to document trust income has been removed.

Desktop Underwriter Considerations

Desktop Underwriter® (DU®) will be updated in a future release to incorporate the changes specified above. Until that time, lenders may manually apply the updated income and documentation requirements and may disregard any DU messages that contradict those updates.

Updated Selling Guide Topics

- [B1-1-03](#) , Allowable Age of Credit Documents and Federal Income Tax Returns (Allowable Age of Federal Income Tax Returns)
- [B3-3.1-02](#), Standards for Employment Documentation
- [B3-3.1-06](#), Requirements and Uses of IRS Form 4506-T
- [B3-3.1-09](#), Other Sources of Income (Documentation Requirements for Current Receipt of Income and Housing or Parsonage Income)
- B3-3.3-01, Documents Used for DU Income Assessment (topic retired and text moved to other topics)
- [B3-3.3-01](#), Income and Employment Documentation for DU
- [D1-3-03](#), Lender Post-Closing QC Review of Underwriting Decisions and Documentation (Use of IRS Form 4506-T in the Lender's QC Plan)

Effective Date

Lenders are encouraged to implement these changes immediately, but are required to implement them for applications dated on or after September 1, 2013.

Single Entity Ownership in a Project

The *Selling Guide* has been updated to clarify the policy related to the maximum number of units that a single entity may own in a condo, co-op, or PUD project and the types of units that must be included in calculating the number of single entity-owned units in order for mortgage loans in the project to be eligible for purchase or securitization by Fannie Mae. Projects in which a single entity (the same individual, investor group, partnership, or corporation) owns more than 10% of the total units in the project are not eligible for delivery to Fannie Mae. Furthermore, units owned by the developer/sponsor that are currently subject to any lease arrangement, which may or may not contain a provision allowing for the future purchase of the unit (including but not limited to lease-purchase or lease-to-own agreements), must be included in the calculation. Units owned by the developer/sponsor that are vacant and are being actively marketed for sale are not included in the calculation.

Updated Selling Guide Topics

- [B4-2.1-02](#), Ineligible Projects
- [B4-2.2-05](#), Lender Full Review: Additional Eligibility Requirements for New Condo Projects and Newly Converted Attached Condo Projects (Eligibility Criteria for the Full Review of New Condo Projects and Newly Converted Attached Condo Projects)
- [B4-2.2-06](#), Lender Full Review: Additional Eligibility Requirements for Established Condo Projects
- [B4-2.2-09](#), Condo Project Manager (CPM) Expedited Review for New and Established Condo Projects (Eligibility Requirements and Lender Review)
- [E-3-19](#), Glossary of Fannie Mae Terms: single entity ownership

Effective Date

These clarifications are effective immediately.

Texas Section 50(a)(6) Mortgages – Adding 5-Year Adjustable-Rate Mortgages

Currently, only certain seven- and ten-year ARM plans are eligible for delivery as Texas Section 50(a)(6) ARM mortgages. The *Selling Guide* further stipulates that other ARM plans “may be available on a negotiated basis.” Fannie Mae is updating the *Selling Guide* to allow certain five-year ARM plans as eligible for delivery as a Texas Section 50(a)(6) mortgage loan. The following five-year ARM plans are now eligible for delivery on a standard basis:

659, 660, 661, 1677, 2238, 2699, 2724, 2725, 2737, 3128 and 3557.

Updated Selling Guide Topics

- [B5-4-02](#), Texas Section 50(a)(6) Mortgage Eligibility (Eligible Mortgage Products and Transaction Types)
- [B5-5.2-01](#), DU Refi Plus and Refi Plus Eligibility (Texas Section 50(a)(6) Mortgages)

Effective Date

This change is effective immediately for both whole loan and MBS deliveries.

Calculation of Real Estate Taxes for Housing Expense

As a result of lender inquiries, the *Selling Guide* has been revised to clarify the method for calculating monthly real estate taxes for determining the total monthly housing expense for borrower qualification purposes. The Guide also clarifies how to treat short-term abatements and new construction when calculating projected real estate taxes to ensure that taxes are not underestimated.

Updated Selling Guide Topic

- [B3-6-03](#), Monthly Housing Expense (Calculating Monthly Real Estate Tax Payment)

Effective Date

These changes are effective immediately.

Measurement of Various Waiting Periods

Currently, the *Selling Guide* bases several policy eligibility requirements on the completion of an action prior to the application date of the new loan. For example, the waiting period for bankruptcies is currently based on the period of time between the bankruptcy discharge or dismissal date and the application date. Because lenders have no control over the application date and they may not have enough information at the time of application to determine if the required waiting period has been met (or even if one is required), it often forces the lender to require borrowers to withdraw and reapply in order to meet the waiting period requirement. This practice is inefficient for lenders and adds no value to the overall intent of the policy.

As lenders can, to a certain extent, control the credit report date (even if it requires them to pull a subsequent report) and the disbursement date, for certain policies the date measurement has been changed from application date to either credit report date or disbursement date (depending on the policy).

Note: The Guide was also updated to further address identification of significant derogatory credit events. Lenders are responsible for reviewing the credit report and the declarations section of the loan application to identify instances of significant derogatory credit events. Significant derogatory credit events may not be accurately reported or consistently reported in the same manner by all creditors or credit reporting agencies. This is particularly important with regard to preforeclosure sales (short sales), which may not accurately appear on the credit report.

Updated Selling Guide Topics

- [B2-1.2-02](#), Limited Cash-Out Refinance Transactions (Eligibility Requirements, Refinances to Buy Out An Owner's Interest, Exceptions to Limited Cash-Out Refinance Requirements for DU Refi Plus and Refi Plus)
- [B2-1.2-03](#), Cash-Out Refinance Transactions (Eligibility Requirements, Ineligible Transactions, Delayed Financing Exception)
- [B3-5.3-07](#), Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit (General Information, Identification of Significant Derogatory Credit Events in the Credit Report, Deed-in-Lieu of Foreclosure and Preforeclosure Sale, Summary — All Waiting Period Requirements)
- [B3-5.3-09](#), DU Credit Report Analysis (Prior Bankruptcy, Foreclosure, Deed-in-Lieu of Foreclosure, and Preforeclosure Sales)
- [E-3-04](#), Glossary of Fannie Mae Terms: disbursement date

Effective Date

These changes are effective immediately.

Miscellaneous *Selling Guide* Updates

The following miscellaneous changes have been made to the *Selling Guide*:

- [B5-5.2-01](#), DU Refi Plus and Refi Plus Eligibility and [B5-5.2-04](#), DU Refi Plus and Refi Plus Closing, Pricing, and Delivery were updated to reflect the revised application and delivery dates for DU Refi Plus™ and Refi Plus™ loans. As noted in the Selling Notice issued on April 16, 2013, these mortgage loans must now have application dates on or before December 31, 2015. In addition, whole loans must be purchased by Fannie Mae on or before September 30, 2016, or in MBS pools with issue dates on or before September 1, 2016.
- [E-1-03](#), List of Contacts, was updated to include contact information for lenders that do not have an assigned lead Fannie Mae regional office.

Effective Date

These changes are effective immediately.

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

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