

Selling Guide Announcement SEL-2013-07

September 24, 2013

Selling Guide Updates

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

- Desktop Underwriter[®] Version 9.1 Updates
- Flood Insurance Coverage
- Maintaining Lender Eligibility
- Authorization to Transfer Funds
- Allowable Age of Federal Income Tax Returns
- Temporary Leave
- 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 September 24, 2013.

The *Standard ARM Plan Matrix* has also been updated to specify which legal documents should be used in closing Texas Section 50(a)(6) ARMs. The ARM Matrix notes that Texas Section 50(a)(6) mortgages can be commingled in MBS pools with non-Texas Section 50(a)(6) mortgages with the same ARM plan number. They are identified separately in the ARM Matrix only because they require different uniform instruments. The updated Matrix is available on [Fannie Mae's website](#).

Desktop Underwriter Version 9.1 Updates

As described in the Desktop Underwriter (DU[®]) Version 9.1 Release Notes, a number of changes will be implemented for new loan casefiles submitted to DU on or after the weekend of November 16, 2013. Many of the changes described in Announcement SEL-2013-06, *Selling Guide Updates Related to Ability to Repay and Qualified Mortgages*, were incorporated in the August update of the *Selling Guide*. The remaining policy changes that are included in this Guide update are:

- DU Refi Plus[™] enhancements, such as:
 - the retirement of the estimated value message;
 - updates to the DU Underwriting Findings report to reflect that the underwriting recommendation is based on expanded eligibility offered for DU Refi Plus;
 - a new message regarding the maximum allowable debt-to-income ratio and minimum credit score requirement that must be manually applied to higher-priced mortgage loans (HPMLs);
 - to align with manual Refi Plus[™] guidelines, the standard waiting period and re-establishment of credit requirements following a significant derogatory credit event have been removed;
 - updated non-employment income and asset messages; and

- updated leasehold requirements.
- Removal of all references to LTV, CLTV, and HCLTV ratios greater than 95% as a result of the reduction in these LTV ratios for standard and MyCommunityMortgage® fixed-rate mortgage loans secured by a one-unit residence.
- Enhancements for borrowers with a previous foreclosure, deed-in-lieu of foreclosure, or preforeclosure sale.
- Due to the retirement of DU Version 8.3, the *Selling Guide* has been updated to remove all references to Refer with Caution/IV recommendations, which will no longer be issued on any loan casefiles submitted to DU.

Updated Selling Guide Topics

The affected *Selling Guide* topics are listed in the Attachment

Effective Date

Changes will apply to new DU casefiles submitted to version 9.1 the weekend of November 16, 2013.

Fannie Mae will implement a flow delivery cut-off for mortgage loans with LTV ratios exceeding 95%.

- All whole loans must be committed in eCommitting™ or eCommitONE® on or before June 30, 2014, and purchased by Fannie Mae on or before July 31, 2014.
- All loans in MBS must have issue dates on or before July 1, 2014.

After this time, Fannie Mae will consider deliveries of loans with these product features on a negotiated basis only.

Note: The [Eligibility Matrix](#) has been updated to reflect the changes that will apply to DU Version 9.1 loan casefiles, including removal of references to LTV ratios greater than 95%, Interest Only, and loan terms greater than 30 years. The only changes made to manual underwriting requirements were to remove references to terms greater than 30 years for Refi Plus mortgage loans.

Flood Insurance Coverage

[B7-3-07](#), *Flood Insurance Coverage Requirements*, has been updated to clarify policy, address common lender questions, and align with prevalent industry practices. Fannie Mae has also changed its requirements for flood insurance on attached condo projects. There must be a master flood insurance policy in effect that is at least equal to the lower of

- 80% of the replacement cost, or
- the maximum insurance available from the National Flood Insurance Program (NFIP) per unit (which is currently \$250,000).

If the condo project has no master flood insurance policy or if the master flood insurance policy does not meet the requirements above, mortgages securing units in that project are not eligible for delivery to Fannie Mae.

This Guide update also clarifies that flood insurance is required if any part of a security structure on the subject property is in a Special Flood Hazard Area and definitively allows delivery of mortgages on properties located in Emergency Program communities with additional insurance requirements. (A “security structure” is any structure that is securing the subject mortgage.)

Updated Selling Guide Topics

- [B4-1.4-09](#), Appraisal Report Review: Special Flood Hazard Area

- [B7-3-07](#), Flood Insurance Coverage Requirements (Special Flood Hazard Areas)

Effective Date

These policy updates are effective for mortgage loans with an application date on and after February 1, 2014.

Maintaining Lender Eligibility

The *Selling Guide* has been updated to reflect that Fannie Mae will assess each lender an Eligible Lender Maintenance Fee (formerly referred to as an “inactivity fee”) at the beginning of each calendar year. This fee will be waived if the lender has met a mortgage loan delivery threshold, a servicing portfolio unpaid principal balance threshold, or a Desktop Originator[®]/DU fee threshold in the previous calendar year. Furthermore, the mortgage loan delivery threshold is changing from \$2 million in mortgage loans to one mortgage loan. This topic has also been updated to describe circumstances in which the reactivation fee imposed on deactivated sellers or servicers will be waived.

Updated Selling Guide Topic

- [A4-1-01](#), Maintaining Lender Eligibility

Effective Date

These policy updates are effective January 1, 2014, for 2013 calendar-year activity.

Authorization to Transfer Funds

The *Certificate of Authority, Incumbency, and Specimen Signatures* (Form 360) and the instructions for the Form have been revised to clarify that Form 360 must be completed and signed by an officer of the lender or, if the lender is not a corporation, a member of senior management. Though the Form is now available in an interactive PDF format on [Fannie Mae's website](#), the completed Form must still be printed and signed in ink. Additionally, a copy of a corporate resolution identifying and authorizing the individuals named in Form 360 to act on the lender's behalf must be delivered to Fannie Mae along with the completed Form 360. A sample corporate resolution is provided in the instructions for the Form.

Updated Selling Guide Topic

- [C2-2-06](#), Authorization to Transfer Funds

Effective Date

The updated Form 360 is effective immediately.

Allowable Age of Federal Income Tax Returns

In Announcement SEL-2013-04, *Selling Guide Updates*, Fannie Mae provided detailed guidance on the allowable age of federal income tax returns and the tax-related documentation required, which varies depending on the application date and disbursement date of the mortgage loan. This guidance has been enhanced by adding disbursement dates to the table so that the entire calendar year is covered. Also added is the prohibition against the use of an Application for Extension of Time To File U.S. Income Tax Return (IRS Form 4868) in two specific categories.

Updated Selling Guide Topic

- [B1-1-03](#), Allowable Age of Credit Documents and Federal Income Tax Returns.

Effective Date

This policy clarification is effective for mortgage loans with an application date on or after January 1, 2014.

Temporary Leave

Fannie Mae is clarifying the temporary leave income policy to clearly state that documentation concerning the timing of the borrower's return to work can be provided directly to the lender by the borrower or the employer. The documentation can include previous correspondence between the employer (or its designee, if applicable), and is not required to comply with the Allowable Age of Credit Documentation policy.

Updated Selling Guide Topic

- [B3-3.1-09](#), Other Sources of Income

Effective Date

This policy clarification is effective immediately.

Miscellaneous Selling Guide Updates

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

- [A4-3-01](#), Report of Changes in the Lender's Organization, has been updated to align with a policy update announced in *Servicing Guide* Announcement SVC-2013-17, *Miscellaneous Servicing Policy Changes*. Fannie Mae no longer requires servicers to treat a servicer name change as a transfer of servicing. The servicer must contact its Servicing Consultant, Portfolio Manager, or Fannie Mae's National Servicing Organization's Servicer Support Center when changing its organization's name. All other notification requirements relating to name changes, as indicated in the *Servicing Guide*, remain unchanged.
- [B2-1.4-02](#), Mortgage Loan Eligibility. The treatment of *inter vivos* revocable trust loans with respect to the ability to repay (ATR) rule has been further clarified. An *inter vivos revocable* trust loan that is securing a principal residence is treated as an ATR Covered loan. An *inter vivos* revocable trust loan that secures an investment property (defined as such under the Truth in Lending Act) is considered an ATR Exempt loan. In either case, the loan is eligible for sale to Fannie Mae as long as it meets all other relevant requirements of the *Selling Guide*.
- [B3-4.1-01](#), Minimum Reserve Requirements. For certain transactions, Fannie Mae requires that borrowers have liquid or near liquid financial reserves after the mortgage loan closes. The minimum required reserves vary depending on a number of factors, such as transaction type, the number of other financed properties the borrower currently owns, and the status of the borrower's current principal residence (pending sale or converting to a second home or an investment property). In response to lender questions, Fannie Mae has clarified the minimum reserve requirements for manually underwritten loans.
- [B7-2-02](#), Title Insurer Requirements. The reference to *Title Insurance Rating Agencies and Ratings* (Form 4317) has been deleted from the Guide because the form has been retired. The rating information in the form is already contained in this topic.
- [E-2-02](#), Required Custodial Documents. The title of this topic was changed from "Document Submission Packages for All Mortgages" to "Required Custodial Documents" to more clearly identify the purpose of the Exhibit.



Effective Date

The changes described above are effective immediately.

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

John Forlines
Senior Vice President
Chief Credit Officer for Single-Family

Attachment

This table lists the topics that have been updated in the September 24, 2013, *Selling Guide* update with regard to DU Version 9.1. For many of the topics, the specific paragraph that has been updated has also been identified in parenthesis. Refer to the specific topics in the *Selling Guide* to see the actual changes.

Topic Number and Title	Update
<ul style="list-style-type: none"> ▪ A2-2.1-04, Limited Waiver of Contractual Warranties for Mortgages Submitted to DU 	<ul style="list-style-type: none"> ▪ Removed references to Refer with Caution/IV.
<ul style="list-style-type: none"> ▪ B2-1.1-01, Loan-to-Value (LTV) Ratios (Calculation of LTV Ratios) 	<ul style="list-style-type: none"> ▪ Removed references to LTV ratios greater than 95%.
<ul style="list-style-type: none"> ▪ B2-2-04, Guarantors, Co-Signers, or Non-Occupant Co-Borrowers (Guarantor, Co-signer, and Non-occupant Co-borrower Occupancy Requirements) 	<ul style="list-style-type: none"> ▪ Removed references to LTV ratios greater than 95%.
<ul style="list-style-type: none"> ▪ B3-2-01, General Information on DU (Expanded Approval Recommendations) 	<ul style="list-style-type: none"> ▪ Removed references to Refer with Caution/IV. ▪ Updated reference to DU Version 9.1.
<ul style="list-style-type: none"> ▪ B3-2-04, Approve/Eligible, EA-I/Eligible, EA-II/Eligible, and EA-III/Eligible Recommendations 	<ul style="list-style-type: none"> ▪ Updated reference to DU Version 9.1.
<ul style="list-style-type: none"> ▪ B3-2-05, Approve/Ineligible, EA-I/Ineligible, EA-II/Ineligible, and EA-III/Ineligible Recommendations 	<ul style="list-style-type: none"> ▪ Clarified that EA-I/, EA-II/, and EA-III/Eligible recommendations will only be issued on DU Refi Plus loan casefiles underwritten with a version of DU that preceded Version 9.1.
<ul style="list-style-type: none"> ▪ B3-2-06, Refer with Caution Recommendations 	<ul style="list-style-type: none"> ▪ Removed references to Refer with Caution/IV.
<ul style="list-style-type: none"> ▪ B3-2-10, DU Underwriting Findings Report (Overview) 	<ul style="list-style-type: none"> ▪ Removed references to Refer with Caution/IV.
<ul style="list-style-type: none"> ▪ B3-3.1-09, Other Sources of Income (Non-Occupying Co-Borrower Income) 	<ul style="list-style-type: none"> ▪ Removed references to LTV ratios greater than 95%.
<ul style="list-style-type: none"> ▪ B3-4.3-04, Personal Gifts (Minimum Borrower Contribution Requirements) 	<ul style="list-style-type: none"> ▪ Removed reference to 3% borrower contribution for MyCommunityMortgage (MCM) loans.
<ul style="list-style-type: none"> ▪ B3-4.3-06, Donations From Entities (Minimum Borrower Contribution Requirements) 	<ul style="list-style-type: none"> ▪ Removed reference to 3% borrower contribution for MCM loans.
<ul style="list-style-type: none"> ▪ B3-4.3-08, Employer Assistance (Minimum Borrower Contribution Requirements) 	<ul style="list-style-type: none"> ▪ Removed reference to 3% borrower contribution for MCM loans.
<ul style="list-style-type: none"> ▪ B3-4.4-02, Documentation Requirements (Depository Assets) 	<ul style="list-style-type: none"> ▪ Updated to state that DU will require two consecutive monthly bank statements.
<ul style="list-style-type: none"> ▪ B3-5.3-09, DU Credit Report Analysis 	<ul style="list-style-type: none"> ▪ Removed references to Refer with Caution/IV. ▪ Updated with regard to how DU will deal with prior bankruptcy, foreclosure, deed-in-lieu of foreclosure, and preforeclosure sales.
<ul style="list-style-type: none"> ▪ B4-2.2-12, Geographic-Specific Condo Project (Florida – Project Review LTV Requirements for Attached Projects (New, Newly Converted and Established) 	<ul style="list-style-type: none"> ▪ Removed references to LTV ratios greater than 95%.

Topic Number and Title	Update
<ul style="list-style-type: none"> ▪ B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions 	<ul style="list-style-type: none"> ▪ Deleted reference to DU Expanded Approval recommendation as it applies only to DU Refi Plus mortgage loans, not to single-closing transactions.
<ul style="list-style-type: none"> ▪ B5-5.1-02, Community Seconds Loan Eligibility (Minimum Borrower Contribution Requirements) 	<ul style="list-style-type: none"> ▪ Removed reference to 3% borrower contribution for MCM loans.
<ul style="list-style-type: none"> ▪ B5-5.2-01, DU Refi Plus and Refi Plus Eligibility (insert block name) 	<ul style="list-style-type: none"> ▪ Deleted the requirement that the lender verify that the terms of a leasehold meet Guide requirements.
<ul style="list-style-type: none"> ▪ B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations 	<ul style="list-style-type: none"> ▪ Added notation that, for loan casefiles underwritten with DU Version 9.1 and subsequent versions, the DU Underwriting Findings report will clearly indicate that the recommendation received was for DU Refi Plus. ▪ Added requirement that the lender must manually determine whether a DU Refi Plus loan is a higher-priced mortgage loan (HPML). If the loan does meet the HPML criteria, it must have a representative credit score of 620 or more and a debt-to-income ratio of 45% or less in order to be eligible for delivery to Fannie Mae. ▪ The mortgage loan must comply in all respects with Regulation Z requirements for HPMLs, including the underwriting and consumer protection requirements. ▪ Lenders are not required to comply with the waiting period and re-establishment of credit requirements for significant derogatory credit events for DU Refi Plus loans. DU will issue a message when a significant derogatory credit event is identified that indicates the loan is eligible for delivery regardless of when the event occurred. ▪ The HPML underwriting requirements also apply to Refi Plus mortgage loans. ▪ If using employment-related assets as qualifying income, the maximum LTV, CLTV, HCLTV ratio and minimum credit score requirements are not applicable to DU Refi Plus or Refi Plus transactions.
<ul style="list-style-type: none"> ▪ B5-5.2-03, DU Refi Plus and Refi Plus Property Valuation and Project Standards 	<ul style="list-style-type: none"> ▪ Updated DU Refi Plus property valuation requirements and property fieldwork waivers.
<ul style="list-style-type: none"> ▪ B5-6-03, MyCommunityMortgage Underwriting Methods and Requirements (Minimum Borrower Contribution for Purchase Transactions) 	<ul style="list-style-type: none"> ▪ Removed reference to 3% borrower contribution for MCM loans.
<ul style="list-style-type: none"> ▪ B5-6-05, MyCommunityMortgage Pricing, Mortgage Insurance, and Special Feature Codes 	<ul style="list-style-type: none"> ▪ Removed reference to Expanded Approval special feature code for MCM loan casefiles.

Topic Number and Title	Update
▪ B7-1-02 , Mortgage Insurance Coverage Requirements	▪ Removed references to LTV ratios greater than 95% and related mortgage insurance coverage requirements.
▪ E-2-04 , Master Agreement Terms and Conditions	▪ Removed reference to Refer with Caution/IV.