

Selling Guide Announcement SEL-2014-10

July 29, 2014

(*With Corrections on Page 2 of the Attachment)

Selling Guide Updates

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

- Significant Derogatory Credit Events
- Property Insurance Requirements
- Lender Quality Control Policy Updates and Clarifications
- Notification Requirements for Misrepresentation or Breach of Selling Warranty and Fraud
- MBS Buyup and Buydown Ratio Grids
- Incorporation of Announcement SEL-2014-08, *Fannie Mae Announces Approved Mortgage Insurance Forms*
- Incorporation of Announcement SEL-2014-09, *Anti-Money Laundering Requirements*
- Special Feature Codes
- Miscellaneous *Selling Guide* Update

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 July 29, 2014.

Significant Derogatory Credit Events

Fannie Mae has made changes to a number of policies pertaining to significant derogatory credit events. Most of these changes were previously announced in the [Desktop Originator/Desktop Underwriter Release Notes](#), Version 9.1 August Update for DU loan case files. They also apply to manually underwritten loans.

Waiting Period for Mortgage Debt Discharged through Bankruptcy

The *Selling Guide* has been updated to indicate that if a mortgage debt has been discharged through bankruptcy, even if a foreclosure action is subsequently completed to reclaim the property in satisfaction of the debt, the borrower is held to the bankruptcy waiting periods and not the foreclosure waiting period. Lenders must obtain documentation to verify that the mortgage debt in question was in fact discharged as part of the bankruptcy.

Waiting Period after a Preforeclosure Sale or Deed-in-Lieu of Foreclosure

The current requirements that apply to waiting periods following a preforeclosure sale (short sale) or deed-in-lieu of foreclosure provide for different waiting periods of 2 years or 4 years and set out different maximum loan-to-value ratios (LTV) for those timeframes. These requirements are being updated to remove the LTV restrictions tied to different waiting periods, and establish a standard 4 year waiting period, with a 2 year waiting period permitted if a borrower has extenuating circumstances.

Charge Off Accounts – Mortgage Debt

A new policy has been established to specifically address charge-offs of mortgage accounts by requiring a 4-year waiting period following this derogatory credit (2 years if the borrower can demonstrate extenuating circumstances). In addition, the existing charge-off policy in the *Selling Guide* has been relabeled as “non-mortgage charge-offs” to clearly differentiate the two policies.

Effective Date

The *Waiting Period for Mortgage Debt Discharged through Bankruptcy* is effective immediately. The *Waiting Period after a Preforeclosure Sale or Deed-in-Lieu of Foreclosure and Charge Off Accounts – Mortgage Debt* changes are effective for mortgage loans with applications dated on and after August 16, 2014 (to align with DU Release 9.1).

Other Updates to Significant Derogatory Credit

- Updated [B3-5.3-07](#), Significant Derogatory Credit Events, to correctly state that DU Refi Plus loans are not subject to the significant derogatory credit policies. This correction aligns B3-5.3-07 with the policy as it currently exists in a DU Refi Plus topic (publically announced in August 20, 2013).
- Information regarding underwriting through DU when inaccurate foreclosure information exists or when extenuating circumstances exist was added. This includes the instruction to lenders on how to enter data into DU’s online interface so that DU will disregard certain credit events in its eligibility assessment. These policies were announced in DU Version 9.1 August Update.
- A number of redundant references to B3-5.3-07, Significant Derogatory Credit Events, were removed from [B3-5.3-09](#), DU Credit Report Analysis.

Updated Selling Guide Topics

- [B3-5.3-07](#), Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit
- [B3-5.3-09](#), DU Credit Report Analysis
- [B3-6-07](#), Debts Paid Off At/Prior to Closing (Collections, Charge-Offs of Non-Mortgage Accounts, Judgments, Garnishments, and Liens)

Property Insurance Requirements

The property insurance requirements for condos, co-ops, and PUDs in Part B7 of the *Selling Guide* have been revised to update terminology, address common lender questions, and align policies with acceptable industry practices. Following is a brief description of the major policy updates. An attachment to this announcement details the changes made to each individual topic in the Guide.

- Extended Replacement Cost coverage was added as an acceptable form of project insurance (in addition to the Guaranteed Replacement Cost and Replacement Cost coverage already permitted).
- If there is a coinsurance clause in the insurance policy, inclusion of an Agreed Amount Endorsement or selection of the Agreed Value Option (which waives the requirement for coinsurance) is considered acceptable evidence that the 100% insurable replacement cost requirement has been met.

- If the insurance policy includes a coinsurance clause, but the coinsurance provision is not waived, the policy is still eligible if evidence acceptable to the lender confirms that the amount of coverage is at least equal to 100% of the insurable replacement cost of the project improvements.
- A Building Ordinance or Law Endorsement for project policies is not required if it is not applicable; nor is it required if it is not obtainable in the insurance market available to the association.
- For all co-op projects, the amount of coverage has been revised to \$1 million for bodily injury and property damage for any single occurrence--the coverage amount currently required for all condo and PUD projects.
- \$5,000 is the minimum amount of HOA funds that triggers the requirement for fidelity/crime insurance. If the calculated amount to determine insurance coverage is equal to or less than \$5,000, fidelity insurance is not required.
- HOA fidelity/crime coverage must cover the management agent if the management agent handles the HOA's funds.
- The HOA's fidelity/crime policy must name the HOA as the named insured.
- Lenders have additional flexibility in verifying the financial control requirements for HOA funds in order to allow reduced fidelity/crime insurance coverage.
- Co-op fidelity policies must adhere to the 10-day cancellation notice provision already required for condo.

NOTE: *The term "hazard" insurance has been replaced with "property" insurance throughout the entire Selling Guide.*

Effective Date

Lenders are encouraged to implement these changes immediately but must do so for all mortgage loans with application dates on and after November 1, 2014.

Lender Quality Control Policy Updates and Clarifications

Several updates and clarifications are being made to the requirements contained in Subpart D1, Lender QC Process, of the *Selling Guide*.

Selling Guide Topic	Description of Changes
D1-1-01 , Lender Quality Control Programs, Plans, and Processes	Clarified that the minimum requirement is to set a target defect rate for the highest severity level for post-closing, random quality control (QC) samples. Target defect rates are not required to be set for lower severity levels, prefunding QC reviews, or discretionary reviews.
D1-1-02 , Lender Quality Control Staffing and Outsourcing of the Quality Control Process	Clarified that the requirement to review 10% of a QC vendor's work applies only to post-closing QC sample reviews.

Selling Guide Topic	Description of Changes
D1-2-01 , Lender Prefunding Quality Control Review Process	For loans acquired from a delegated third party, the lender's written prefunding QC plan that outlines requirements for reviewing a sample of its loans prior to closing must include review of a sample of its loans prior to acquisition.
D1-3-02 , Lender Post-Closing Quality Control Review of Approval Conditions, Underwriting Decisions, and Documentation	Clarified that although financial institutions may charge lenders a fee for reverification of assets, Fannie Mae's expectation is that the reverification be obtained notwithstanding any fee the institution may charge.
D1-3-04 , Lender Post-Closing Quality Control Review of Appraisers and Appraisals	Clarified that the 10% field review requirement is based on loans in the random sample that have an appraisal. Lenders are required to complete a desk review to evaluate the appraisal for the remaining 90% of mortgage loans the lender selected for QC review as part of its random sample.
D1-3-06 , Lender Post-Closing Quality Control Reporting, Record Retention, and Audit	Updated to direct lenders to A2-2-01, Contractual Representations and Warranties, and A3-4-03, Preventing, Detecting, and Reporting Mortgage Fraud, for details of self-reporting responsibilities related to misrepresentation or breach of selling warranty, including fraud.

Effective Date

Lenders are encouraged to implement these changes immediately, and are required to do so by October 1, 2014.

Notification Requirements for Misrepresentation or Breach of Selling Warranty and Fraud

The long-standing requirement that a lender must notify Fannie Mae immediately if it learns of any misrepresentation, breach of selling warranty, or fraud is being updated to clarify Fannie Mae's expectation that the lender perform due diligence to establish a reasonable belief that a misrepresentation, breach of selling warranty, or fraud may have occurred prior to making the self report to Fannie Mae. In addition, the requirement for notifying Fannie Mae of a breach of selling warranty has been moved from A3-4-03, Preventing, Detecting, and Reporting Mortgage Fraud, to A2-2-01, Contractual Representations and Warranties to combine like information. Direction for reporting a breach of selling warranty to the Lender Self-Report Mailbox has been added to the List of Contacts.

Effective Date

These changes are effective immediately.

Updated Selling Guide Topics

- [A2-2-01](#), Contractual Representations and Warranties (Lender Reporting Requirements)
- [A3-4-03](#), Preventing, Detecting, and Reporting Mortgage Fraud (Lender Reporting Requirements, and Tools and Resources)
- [E-1-03](#), List of Contacts

MBS Buyup and Buydown Ratio Grids

Fannie Mae posts buyup and buydown ratios by MBS issue month for most MBS-eligible products. Two changes are being made related to the MBS buyup and buydown ratio grids.

Posting of Grids

Fannie Mae will no longer post two buyup and buydown grids (currently called “early” and “late”). Starting with October MBS issuances, a single “early” buyup and buydown grid will be posted on the 6th business day of the month. In addition, the buyup and buydown grids will no longer be posted on Fannie Mae’s website.

The other means of obtaining the buyup and buydown grids will remain the same:

- subscribers to Message Manager can obtain them on the day after they are posted by accessing Message Manager, and
- lenders may request a copy of the posted ratios from their lead Fannie Mae regional office.

Maximum Buyup for ARMS

Fannie Mae is removing the 16.5 basis point maximum buyup for ARM plans with initial fixed-rate periods of 1 year or less. Going forward, all ARM plans will be subject to the standard maximum buyup of 25 basis points.

Updated Selling Guide Topics

- [C3-2-05](#), Obtaining a Pool Purchase Contract (Terms Established in Pool Purchase Contracts)
- [C3-3-02](#), Accessing Buyup and Buydown Ratios and Calculating Payments or Charges (Accessing Buyup and Buydown Ratios)
- [C3-3-03](#), Buying Up and Buying Down the Guaranty Fee for MBS (Guaranty Fee Buyup Maximums and Buydown Minimums for ARMs)

Effective Date

These changes will be effective with October 2014 MBS issuance.

Incorporation of Announcement SEL-2014-08, Fannie Mae Announces Approved Mortgage Insurance Forms

On June 24, 2014, Fannie Mae released Announcement SEL-2014-08. That Announcement provided notification about updated master primary policies, related endorsements and other forms (Forms), and the requirements pertaining to the use of these Forms. A list of [Approved Mortgage Insurance Forms](#) was made available on Fannie Mae’s website. These requirements have been incorporated into the *Selling Guide*.

Updated Selling Guide Topic

- [B7-1-01](#), Provision of Mortgage Insurance (General Requirements)

Effective Date

The updates are effective in accordance with Announcement SEL-2014-08, and are described in the topic noted above.

Incorporation of Announcement SEL-2014-09, *Anti-Money Laundering Requirements*

On July 1, 2014, Fannie Mae released Announcement SEL-2014-09. That Announcement outlined new reporting requirements for lenders related to the anti-money laundering provisions of the Bank Secrecy Act. These requirements have now been incorporated into the *Selling Guide*.

Updated *Selling Guide* Topics

- [A3-2-01](#), Compliance With Laws (Compliance with Laws and Anti-Money Laundering Requirements)
- [E-1-03](#), List of Contacts

Effective Date

As stated in Announcement SEL-2014-09, lenders are required to implement the policies no later than August 25, 2014.

Special Feature Codes

The [Special Feature Code](#) list published on Fannie Mae's website notes whether each code is related to a standard requirement found in the *Selling Guide* or to a negotiated contract. To enhance the usefulness of this list, those special feature codes (SFCs) relating only to inactive negotiated contracts have been removed from the list. In addition, a number of SFCs related to standard *Selling Guide* policy have been incorporated into the relevant section of the Guide.

Updated *Selling Guide* Topics

- [A2-5.1-03](#), Electronic Records, Signature, and Transactions (General Rules on Transactions with Fannie Mae)
- [B2-1.3-03](#), Convertible ARMs (Delivery Requirements and Security Instruments for ARMs Converted to Fixed-Rate Mortgages)
- [B2-1.3-05](#), Temporary Interest Rate Buydowns (Delivery Requirements)
- [B6-1-02](#), Eligible FHA-Insured Mortgage Loans (Overview)
- [B7-3-07](#), Flood Insurance Coverage Requirements (Delivery Requirements)
- [C3-5-06](#), Pooling ARMs with a Conversion Option (ARM Conversion Options)

Miscellaneous *Selling Guide* Update

[B5-4-08](#), Loans Secured by HomePath Properties. The title of this topic was slightly updated to clarify that the loan is secured by the property.



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

Carlos T. Perez
Vice President and
Chief Credit Officer for Single-Family

Attachment

The updates below pertain to the property insurance updates and clarifications. Note that all references to “hazard” insurance in these topics (and throughout the Guide) have been changed to “property” insurance.

<i>Selling Guide Topic</i>	<i>Description of Changes</i>
B7-3-01 , Property Insurance Requirements for Insurers	<ul style="list-style-type: none"> ▪ Topic title changed from Hazard Insurance Policy Requirements to clarify subject being addressed—requirements that insurers must meet.
B7-3-02 , General Property Insurance Coverage	<ul style="list-style-type: none"> ▪ Topic title changed from General Hazard Insurance Coverage. ▪ Clarified that property insurance coverage for a first mortgage is required for a property on which an individually held insurance policy is maintained.
B7-3-03 , Determining the Amount of Required Property Insurance Coverage	<ul style="list-style-type: none"> ▪ Topic title changed from Determining the Amount of Required Hazard Insurance Coverage.
B7-3-04 , Property Insurance Coverage for Units in Project Developments	<ul style="list-style-type: none"> ▪ Topic title changed from Hazard Coverage for Units in Project Developments. ▪ Added Extended Replacement Cost coverage as an acceptable form of project insurance (in addition to the Guaranteed Replacement Cost and Replacement Cost coverage already permitted). ▪ For policies with a coinsurance provision, the policy is considered acceptable evidence that the 100% insurable replacement cost requirements has been met if it also includes an Agreed Amount Endorsement or selection of the Agreed Value Option (which waives the requirement for coinsurance) as long as the Agreed Amount is no less than the estimated replacement cost. ▪ If the policy includes a coinsurance clause, but the coinsurance provision is not waived, the policy is still eligible if evidence acceptable to the lender confirms that the amount of coverage is at least equal to 100% of the insurable replacement cost of the project improvements. This evidence (documentation) must be maintained by the lender. ▪ Building Ordinance or Law Endorsement for project policies is not required if it is not applicable or the coverage is not obtainable in

<i>Selling Guide Topic</i>	<i>Description of Changes</i>
	<p>the insurance market available to the association.</p> <ul style="list-style-type: none"> ▪ The reference to Steam Boiler and Machinery Coverage Endorsement has been updated to Boiler and Machinery/Equipment Breakdown Endorsement.
B7-3-05 , Additional Insurance Coverage	<ul style="list-style-type: none"> ▪ References to construction site insurance have been changed to builder's risk insurance.
B7-3-06 , Evidence of Property Insurance	<ul style="list-style-type: none"> ▪ Topic title changed from Evidence of Hazard Insurance. ▪ Specified that the type of notice provided to the servicer if a project master or blanket policy is canceled or not renewed must be in writing.
B7-3-08 , Mortgagee Clause for Property and Flood Insurance	<ul style="list-style-type: none"> ▪ Topic title changed from Mortgagee Clause for Hazard and Flood Insurance.
B7-4-01 , Liability Insurance	<ul style="list-style-type: none"> ▪ For all co-op projects, the amount of coverage has been revised to \$1 million for bodily injury and property damage for any single occurrence. This coverage amount is the same as that required for all condo and PUD projects. ▪ The reference to "severability of interest" has been updated to "severability of interest/separation of insureds." (*Updated bullet).
B7-4-02 , Fidelity/Crime Insurance	<ul style="list-style-type: none"> ▪ Topic title changed from Fidelity Insurance. ▪ Expanded references to Fidelity insurance by adding "Crime." ▪ Added a threshold of \$5,000 as amount of HOA funds that will trigger the requirement for fidelity/crime insurance (if the calculated amount to determine insurance coverage is equal to or less than \$5,000, fidelity insurance would not be required). ▪ Clarified that HOA fidelity/crime coverage must cover the management agent if a management agent handles the HOA's funds; recommends (but does not require) that a management agent hold their own (separate) fidelity/crime policy.

<i>Selling Guide Topic</i>	<i>Description of Changes</i>
	<ul style="list-style-type: none"> ▪ Added text to clarify that lenders have additional flexibility in verifying the financial control requirements for HOA funds in order to allow reduced fidelity/crime insurance coverage. Lenders can either continue to confirm compliance with the listed financial controls in the <i>Selling Guide</i> by ensuring at least one control is included as a requirement in the HOA’s legal documents, or through the use of another verification method.
B7-4-03, Rent Loss Insurance for Co-op Projects	<ul style="list-style-type: none"> ▪ This topic and the rent loss insurance requirements have been removed from the Guide.
E-3-02 , Glossary of Fannie Mae Terms: B	<ul style="list-style-type: none"> ▪ The definition of builder’s risk insurance was added.
E-3-03 , Glossary of Fannie Mae Terms: C	<ul style="list-style-type: none"> ▪ The definition of construction site insurance was deleted and replaced with a reminder to see builder’s risk insurance.
E-3-08 , Glossary of Fannie Mae Terms: H	<ul style="list-style-type: none"> ▪ The definition of hazard insurance was removed.
E-3-16 , Glossary of Fannie Mae Terms: P	<ul style="list-style-type: none"> ▪ The definition of property insurance was added.
E-3-18 , Glossary of Fannie Mae Terms: R	<ul style="list-style-type: none"> ▪ The definition of rent loss insurance was removed