

***Selling Guide* Announcement SEL-2014-12**

September 30, 2014

***Selling Guide* Updates**

This Announcement describes updates to the following:

- Automated Asset Verification
- Rental Income Treatment
- Employment-Related Assets
- Texas 50(a)(6) Title Insurance
- Affordable Lending for Native American and Rural Housing
- List of Approved Mortgage Insurance Forms
- 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 30, 2014.

Automated Asset Verification

The *Selling Guide* currently provides two documentation options for verifying deposit and asset accounts. Fannie Mae has updated its policy to accept third-party vendor verifications of asset and depository information (similar to that provided in the income and employment section of the *Selling Guide*).

Updated Selling Guide Topics

- [B3-4.2-01](#), Verification of Deposits and Assets (Verification of Deposits and Assets, Blanket Authorization Form)

Effective Date

This policy is effective immediately.

Rental Income Treatment

In [B3-3.1-08](#), Rental Income, the *Selling Guide* addresses rental income policy. This topic describes eligibility and documentation requirements, explains rental income calculations, and provides guidance on how to treat the resulting net income or loss. There has been an increase in the number of loans where the borrower receives rental income through a partnership or S corporation as well as borrowers who own multiple financed properties and rental income has been used to qualify. As a result, the calculations have become more complex and, based on post-purchase file review results, there is a higher incidence of lenders incorrectly evaluating rental income, particularly when reported on business, rather than personal, income tax returns.

The *Selling Guide* is being updated to specifically clarify and address business rental income to:

- permit rental income received through a partnership or an S corporation to offset the PITIA on an investment property (when the borrower is personally obligated on the mortgage) by obtaining the borrower's business tax returns for the most recent year and evaluating IRS Form 8825 in a manner consistent with the evaluation of rental income reported on Schedule E of a borrower's personal tax returns; and
- confirm that in order to include positive net rental income in qualifying such borrowers, the income received through a partnership or a S corporation must be evaluated per existing guidelines for business income received from a partnership or corporation.

Fannie Mae is also publishing three rental income worksheets (posted on [Fannie Mae's website](#)) to assist lenders in calculating rental income. The worksheets provide step-by-step guidance in calculating individual rental income from investment property; rental income on a principal residence, 2- to 4-unit property; and the impact of business rental income from investment property on the property PITIA. Use of these worksheets is encouraged but not required.

The following specific updates are made to [B3-3.1-08](#):

- the acknowledgement that rental income may be reported not only on Schedule E of the borrower's personal tax return but also on Form 8825 of the borrower's business tax return;
- lenders may be justified in using a current lease agreement to document rental income, if the borrower does not have a history of renting the subject property or in certain cases where tax returns do not accurately reflect the ongoing income and expenses of the property;
- if the lender determines that a situation warrants the use of a lease agreement in lieu of tax returns, an explanation and justification must be included and retained in the loan file; and
- the addition of a section in the topic (Offsetting Monthly Obligations for Rental Property Reported through a Partnership or S Corporation) that lays out the method of evaluation if a borrower is personally obligated on a mortgage and rental income is reported on the borrower's partnership or S corporation tax returns.

Updated Selling Guide Topics

- [B3-3.1-08](#), Rental Income (General Requirements for Documenting Rental Income, Partial or No Rental History on Tax Returns, Calculating Monthly Qualifying Rental Income (or Loss), Offsetting Monthly Obligations for Rental Property Reported through a Partnership or S Corporation)
- [B3-3.2-03](#), IRS Forms Quick Reference
- [B3-3.2.1-06](#), Income or Loss Reported on IRS Form 1040, Schedule E (Rental Income)
- [B3-3.3-02](#), Income From Rental Property in DU (Entering Net Rental Income in DU, Documentation of Net Rental Income)
- [E-3-05](#), Glossary of Fannie Mae Terms: E (remove definition of *effective gross income*)

Effective Date

Lenders may implement these changes immediately but must implement them no later than December 1, 2014.

Employment-Related Assets

The current policy relating to Employment-Related Assets as Qualifying Income states that borrowers must have “unrestricted access without penalty” to a 401(k), IRA, SEP, or Keogh retirement account. Fannie Mae is updating this policy to permit a retirement account to be eligible when it is subject to a penalty. If a penalty applies, the borrower asset must be reduced by the amount of any penalty that could apply upon distribution when determining this income stream. Fannie Mae will continue to require that borrowers have “unrestricted access” to a 401(k), IRA, SEP, or Keogh retirement account. The borrower must have, at the time of calculation, the unqualified and unlimited right to request a distribution of all funds in the account (regardless of any possible tax withholding or applicable penalty applied to such distribution). The income stream calculation has also been updated to now be based on the term of the loan (in months) instead of always using 360 months.

Updated Selling Guide Topics

- [B3-3.1-09](#), Other Sources of Income (Employment-Related Assets as Qualifying Income)

Effective Date

This policy is effective immediately.

Texas 50(a)(6) Title Insurance

Fannie Mae is updating the *Selling Guide* to clarify that lenders may use the state-promulgated short form title insurance policy in all non-ALTA states, including Texas and for Texas 50(a)(6) mortgages. The current title insurance requirements for Texas Section 50(a)(6) only reference the standard form (in addition to specific endorsements). With this policy change, for all Texas Section 50(a)(6) mortgages, lenders may use the standard or short form of title insurance.

Updated Selling Guide Topics

- [B5-4.1-05](#), Texas Section 50(a)(6) Mortgage Legal Considerations (Title Insurance)
- [B7-2-03](#), General Title Insurance Coverage (Terms of Coverage)

Effective Date

This update is effective immediately

Affordable Lending for Native American and Rural Housing

In an on-going effort to serve the affordable housing market and provide liquidity, throughout the country to lenders, including small lenders and lenders serving rural areas, Fannie Mae is revising the *Selling Guide* to allow the delivery of HUD-guaranteed Section 184 mortgage loans and RD-guaranteed Section 502 loans as standard products. With this revision, the restriction limiting HUD-guaranteed Section 184 mortgage loans and RD-guaranteed Section 502 mortgage loans to delivery on a negotiated basis is being removed.

Updated Selling Guide Topics

- [A2-4-01](#), Master Agreement Overview (Mortgage Loans that Require a Master Agreement)
- [B6-1-01](#), General Government Mortgage Loan Requirements (Lender Eligibility)

Effective Date

Effective November 3, 2014, these products will be available for whole loan committing and delivery. They will be available in eCommitting™ and eCommitONE® as "30-Year Fixed Rate HUD-184 Native American" and "30-Year Fixed Rate RD - 502 Guaranteed Rural Housing". Fannie Mae will communicate at a later date when an MBS execution will be available.

List of Approved Mortgage Insurance Forms

As noted in *Selling Guide* Announcement SEL-2014-08, *Fannie Mae Announces Approved Mortgage Insurance Forms*, Fannie Mae worked with approved mortgage insurers to update their master primary policies and related endorsements and other forms (Forms). The list of Fannie Mae-approved mortgage insurance Forms for each mortgage insurance provider has now been updated to include several additional state-required variation endorsements that have received state approval since the list was last updated on September 2, 2014. See Fannie Mae's website for the updated [Approved Mortgage Insurance Forms](#).

Miscellaneous *Selling Guide* Updates

- [Preface](#). Descriptions of the communication vehicles (announcements, lender letters, and notices) by which Fannie Mae relays *Selling Guide* policy and procedural updates to lenders have been added to the Preface. The definitions were previously posted on Fannie Mae's website.
- [A3-3.1-01](#), Operational Requirements for all Document Custodians. References to deadlines that have passed are being removed from the *Selling Guide*.
- [B2-1.4-02](#), Mortgage Loan Eligibility. Because of the extension of HOEPA to cover purchase loans in the Dodd-Frank Act, this topic is being updated to eliminate the "HOEPA threshold" concept.
- [B4-1.3-03](#), Neighborhood Section of the Appraisal Report. This topic is being updated to clarify that the reporting requirements for price range and age range within the appraisal report are dependent on the property type being appraised and the appraisal form being used.

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

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