



Selling Guide Announcement SEL-2016-05

June 28, 2016

Selling Guide Updates

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

- HomeReady® Income Limits
- Business Income
- Restructured Loan Policy
- Project Insurance - Mortgagee Clause 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 June 28, 2016.

In addition, updates to the following are described in this Announcement:

- Minimum Interest Rate Floor for ARM Notes and Riders
- Wisconsin Security Instrument

HomeReady Income Limits

Fannie Mae continues to assess how to simplify the HomeReady product and incorporate features that enable lenders to expand access to credit in a safe and responsible manner. As a result, a number of product enhancements are planned for later this year.

With this Guide update, we are announcing the first change to HomeReady. We are simplifying the way that income limits are applied by establishing a single area median income (AMI) limit of 100% (previously the limit was 80% or 100% depending on the property location). We are maintaining the exception for properties located in low-income census tracts where no limit applies.

Updated *Selling Guide* Topics

- [B5-6-02](#), HomeReady Mortgage Loan and Borrower (Borrower Income Limits and Calculations)

Effective Date

This policy will be implemented in DU the weekend of July 16, 2016, and will apply to all DU Version 9.3 loan casefiles submitted (or resubmitted) on or after that date. For manually underwritten loans, this policy is effective for loans with application dates on or after July 16, 2016. Also note that the 2016 AMIs will be published at the same time.

Business Income

Since the self-employed income policy updates were announced last year, lenders have provided feedback regarding the difficulty in obtaining documentation to evidence a borrower's ongoing access to business income, and asked for additional guidance on how to determine whether the business has adequate liquidity to support the withdrawal of business earnings.

The documentation we currently require may not be readily available or may not directly affirm the borrower's access to income. Furthermore, some lenders may be generally unfamiliar with methods that may be used to determine adequate business liquidity.



With this Guide update, we are

- eliminating the requirement for the lender to confirm the borrower can document access to income, such as a partnership agreement or corporate resolution; and
- providing guidance regarding methods a lender may use when determining adequate business liquidity when that liquidity assessment is required.

This update also allows the verbal verification of employment for a self-employed borrower to be obtained within 120 days prior to the note date (extended from the current 30 day requirement).

Updated *Selling Guide* Topics

- [B3-3.1-07](#), Verbal Verification of Employment
- [B3-3.1-09](#), Other Sources of Income (Schedule K-1 Income)
- [B3-3.2-01](#), Underwriting Factors and Documentation for a Self-Employed Borrower (Overview)
- [B3-3.2.1-08](#), Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1 (Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1)
- [B3-3.2.2.-01](#), Analyzing Partnership Returns for a Partnership or LLC (Income from Partnerships, LLCs, Estates, and Trusts)
- [B3-3.2.2.-02](#), Analyzing Returns for an S Corporation (Borrower's Proportionate Share of Income or Loss)

Effective Date

Lenders may implement these policy updates immediately, but must do so for applications dated on and after October 1, 2016.

Restructured Loan Policy

In September 2008, we introduced the restructured mortgage loan policy in response to the uncertainty surrounding the performance of mortgage loans restructured as a result of the financial crisis. The policy was later updated to permit the subsequent refinance of a restructured mortgage (subject to certain conditions) after programs, such as the Hardest Hit Fund, were established to provide relief to underwater borrowers in the way of principal forgiveness.

In an effort to simplify our eligibility guidelines and support the housing market, we are eliminating our policy on restructured mortgages. With respect to restructured mortgages, lenders can now rely upon existing policy when determining whether the loan is eligible for delivery under a refinance transaction or as a modified mortgage loan. Eliminating this policy provides greater access to mortgage credit by enabling borrowers to refinance with more favorable rates and terms and streamline lender processes by removing requirements that required manual steps.

Updated *Selling Guide* Topics

- [B2-1.2-02](#), Limited Cash-Out Refinance Transactions (Ineligible Transactions)
- [B2-1.2-03](#), Cash-Out Refinance Transactions (Ineligible Transactions)
- [B2-1.4-02](#), Mortgage Loan Eligibility (Modified Mortgages, Restructured Mortgage Loans)
- [B3-4.1-02](#), Interested Party Contributions (Lender Incentives for Borrowers)

Effective Date

This policy update is effective immediately.



Project Insurance - Mortgagee Clause Update

Currently the Guide requires that project level property insurance policies include the standard mortgagee clause. In response to lender feedback, we are removing the requirement that a unit owner's lender or Fannie Mae be named in the mortgagee clause on a project's master policy.

Updated *Selling Guide* Topics

- [B7-3-04](#), Property Insurance Coverage for Units in Project Developments (Notices of Changes or Cancellation)
- [B7-3-08](#), Mortgage Clause for Property and Flood Insurance (Mortgagee Clause)

Effective Date

This policy update is effective immediately.

Minimum Interest Rate Floor for ARM Notes and Riders

In November 2015, we announced that lenders were permitted to add a lifetime interest rate floor, equal to the ARM's margin, to Fannie Mae ARM notes and ARM riders to the security instruments. This change was authorized for Fannie Mae-issued ARM documents only and did not apply to jointly issued Fannie Mae/Freddie Mac uniform ARM notes and riders.

With this Announcement, we are requiring the use of newly updated ARM notes and riders (revision date of 6/16), including both Fannie Mae and Fannie Mae/Freddie Mac uniform ARM notes and riders. Consistent with our existing policy, these updated ARM notes and riders include new language specifying that the interest rate can never go below the ARM's margin. The updated documents are posted on the [Single-Family Legal Documents](#) pages on our website.

Effective Date

Lenders are encouraged to use the updated documents immediately, but must do so for mortgage loans with note dates on or after October 1, 2016.

Wisconsin Security Instrument

Fannie Mae and Freddie Mac have revised the Wisconsin mortgage (Form 3050) to reflect recent changes to state law that shorten the redemption period in foreclosure actions. The revised Form 3050 (with a revision date of 6/16) is available on the [Single-Family Security Instruments](#) page on our website.

Effective Date

Lenders are encouraged to use the updated document immediately, but must do so for mortgage loans with note dates on or after January 1, 2017.

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

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