



## ***Selling Guide Announcement SEL-2016-07***

**August 30, 2016**

### ***Selling Guide Updates***

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

- Independent Dispute Resolution
- Nontraditional Credit Policies
- Liability Insurance Requirements
- Substituting Mortgage Loans in MBS
- Miscellaneous *Selling Guide* Updates

Each of the updates is described below. The affected topics are noted for each policy change and are listed in the Attachment to the Announcement. Lenders should review each topic to gain a full understanding of the policy changes. The updated topics are dated August 30, 2016.

#### **Independent Dispute Resolution**

On February 2, 2016, Fannie Mae and Freddie Mac jointly announced the Independent Dispute Resolution (IDR) process, the final phase of the origination defects and remedies framework (see [Selling Guide Announcement SEL-2016-01](#), *Lender Selling Representations and Warranties Framework – Independent Dispute Resolution*). The IDR process is specifically designed to address alleged loan-level breaches that remain unresolved after completion of the appeal, impasse, and management escalation processes.

Earlier this month, in [Servicing Guide Announcement SVC-2016-07](#), *Servicing Guide Updates*, we introduced the [Appeal and Independent Dispute Resolution Processes](#) document. This document describes the steps and legal requirements involved in the appeal, impasse, management escalation, and IDR processes for both selling and servicing. It is intended for use by any responsible party identified in these demands--a lender, servicer, or Fannie Mae.

We have updated the Guide topics noted in the Attachment to incorporate references to the impasse, management escalation, and IDR processes available to lenders.

#### **Effective Date**

As communicated in our prior announcements, the IDR process is available for

- demands related to a breach of a selling representation, warranty, duty or responsibility, for whole loans purchased, and mortgage loans delivered into MBS with pool issue dates, on and after January 1, 2016;
- demands for servicing remedies issued on and after December 1, 2016.

#### **Nontraditional Credit Policies**

As previously announced in the Desktop Originator®/Desktop Underwriter® (DU®) Version 10.0 Release Notes, we are implementing a number of enhancements for underwriting borrowers with nontraditional credit histories, as evidenced by the lack of a credit score. The *Selling Guide* has been updated to incorporate the changes described in the Release Notes.

- For loan casefiles where no borrower has a credit score, we have added:
  - the eligibility and documentation requirements that apply, and
  - the risk factors DU will consider when evaluating the overall credit risk of the loan.



- For loan casefiles that include a borrower(s) with a credit score and a borrower(s) without a credit score, the following updates were made:
  - income from self-employment will now be permitted,
  - the borrower with a credit score will no longer be required to contribute more than 50% of the qualifying income, and
  - identification of when nontraditional credit sources must be documented for each borrower without a credit score.

In addition to the updates for DU, we have also revised a number of requirements that apply to manually underwritten loans that include one or more borrowers without a credit score. These updates include the following:

- Income from self-employment will now be permitted.
- Non-occupant borrowers are now permitted in accordance with standard manual underwriting eligibility policy.
- There is now an option for loans in which no borrower has a rental payment history, provided the minimum number of nontraditional credit sources are documented and the borrower has a minimum of 12 months reserves.

The requirements for documenting nontraditional credit sources for DU and manually underwritten loans have been clarified and simplified, including

- removal of the tiered structure for eligible sources of nontraditional credit,
- expanded guidelines for documenting rental payment histories, and
- updated the payment history requirements for nontraditional credit sources.

NOTE: *The Eligibility Matrix has been updated to reflect the changes related to DU Version 10.0 (mainly in the “Notes” section).*

## **Effective Date**

The updates that apply to DU loan casefiles will be effective with the release of DU Version 10.0 the weekend of September 24, 2016. The updates that apply to manually underwritten loans are effective for loan applications dated on or after September 24, 2016.

## **Liability Insurance Requirements**

### **Removal of Liability Insurance for New Attached PUD Projects**

Currently, the *Selling Guide* states that liability insurance coverage is required and must be verified for attached units in new PUD projects. The *Selling Guide* has been updated to remove the requirement of project-level liability coverage on new attached PUD projects.

### **Flexibility on Liability Insurance for Two- to Four-Unit Condos**

Liability insurance is required and must be verified as part of the review of a condo project under the Full Review process. We have updated the *Selling Guide* to provide flexibility for two- to four-unit projects reviewed under the Full Review process that meet a specific set of criteria. These projects are no longer required to maintain a project liability insurance policy.

## **Effective Date**

These policy updates are effective immediately.



## **Substituting Mortgage Loans in MBS**

To align with the Single Family Master Trust Agreement that was issued in June 2016, the *Selling Guide* is being updated to remove lenders' ability to substitute a qualified mortgage loan in an MBS in lieu of repurchase.

### **Effective Date**

This update is effective immediately.

## **Miscellaneous *Selling Guide* Update**

- **A3-2-01, Compliance With Laws.** The anti-money laundering requirements were updated to reference 31 C.F.R. Part 1020, as an alternative to Part 1029, in addition to Part 1010. Parts 1020 and 1029 apply to different types of institutions, so lenders must determine which is applicable.

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

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



## Attachment

Section of the Announcement	Updated <i>Selling Guide</i> Topics
Independent Dispute Resolution	<ul style="list-style-type: none"><li>▪ <a href="#">A2-1-03</a>, Indemnification for Losses</li><li>▪ <a href="#">A2-3.2-01</a>, Loan Repurchases and Make Whole Payments Requested by Fannie Mae</li><li>▪ <a href="#">A2-3.2-02</a>, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility</li><li>▪ <a href="#">A2-3.2-03</a>, Remedies Framework</li><li>▪ <a href="#">D2-1-04</a>, Identifying and Remedying Origination Defects Under the Remedies Framework</li><li>▪ <a href="#">E-1-02</a>, Acronyms and Abbreviations</li><li>▪ <a href="#">E-3-01</a>, Glossary of Fannie Mae Terms: A</li><li>▪ <a href="#">E-3-04</a>, Glossary of Fannie Mae Terms: D</li><li>▪ <a href="#">E-3-09</a>, Glossary of Fannie Mae Terms: I</li><li>▪ <a href="#">E-3-13</a>, Glossary of Fannie Mae Terms: M</li></ul>
Nontraditional Credit Policies	<ul style="list-style-type: none"><li>▪ <a href="#">B2-1.2-01</a>, Purchase Transactions</li><li>▪ <a href="#">B2-1.2-02</a>, Limited Cash-Out Refinance Transactions</li><li>▪ <a href="#">B2-2-04</a>, Guarantors, Co-Signers, or Non-Occupant Borrowers</li><li>▪ <a href="#">B3-2-02</a>, Risk Factors Evaluated by DU</li><li>▪ <a href="#">B3-5.1-01</a>, General Requirements for Credit Scores</li><li>▪ <a href="#">B3-5.1-02</a>, Determining the Representative Credit Score for a Mortgage Loan</li><li>▪ <a href="#">B3-5, 2-01</a>, Requirements for Credit Reports</li><li>▪ <a href="#">B3-5.2-02</a>, Types of Credit Reports</li><li>▪ <a href="#">B3-5.4-01</a>, Eligibility Requirements for Loans with Nontraditional Credit</li><li>▪ <a href="#">B3-5.4-02</a>, Number and Types of Nontraditional Credit Sources</li><li>▪ <a href="#">B3-5.4-03</a>, Documentation and Assessment of a Nontraditional Credit History</li><li>▪ <a href="#">B3-6-02</a>, Debt-to-Income Ratios</li><li>▪ <a href="#">B5-6-02</a>, HomeReady Mortgage Loan and Borrower Eligibility</li></ul>



Section of the Announcement	Updated <i>Selling Guide</i> Topics
	<ul style="list-style-type: none"> <li>▪ <a href="#">B5-6-03</a>, HomeReady Mortgage Underwriting Methods and Requirements</li> <li>▪ <a href="#">E-3-06</a>, Glossary of Fannie Mae Terms: F</li> </ul> <p style="margin-left: 40px;">NOTE: <i>The above topics related to nontraditional credit have been updated and reorganized in the Selling Guide.</i></p>
Liability Insurance Requirements	<ul style="list-style-type: none"> <li>▪ <a href="#">B4-2.3-01</a>, Eligibility Requirements for Units in PUD Projects</li> <li>▪ <a href="#">B7-4-01</a>, Liability Insurance</li> </ul>
Substituting Mortgage Loans in MBS	<ul style="list-style-type: none"> <li>▪ <a href="#">A2-2.1-02</a>, Delivery Information and Delivery-Option Specific Representations and Warranties</li> <li>▪ <a href="#">A2-3.2-01</a>, Loan Repurchases and Make Whole Payments Requested by Fannie Mae</li> </ul>

NOTE: *Going forward, all affected Selling Guide topics for each policy change will be listed separately in an Attachment to the Announcement.*