



## ***Selling Guide Announcement SEL-2016-08***

**October 24, 2016**

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

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

- DU® Validation Service
- Property Inspection Waivers
- HomeReady® Enhancements
- Site Condos
- New Fannie Majors® Option and Changes to MBS Parameters
- Garnishments
- Co-Borrower Self-Employment Income Evaluation
- Extension of DU Refi Plus™ and Refi Plus™
- Miscellaneous *Selling Guide* Updates

Each of the updates is described below. The affected topics for each policy change are listed on the Attachment. Lenders should review each topic to gain a full understanding of the policy changes. The updated topics are dated October 24, 2016.

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

- Revisions to the Rhode Island and Massachusetts Security Instruments

### **DU Validation Service**

We are committed to developing solutions that offer our lenders more certainty when delivering loans to Fannie Mae. To that end, we are introducing the DU validation service for income. This is an optional service provided by Desktop Underwriter® (DU) that lenders must “opt in” in order to participate. Through this service, DU receives a copy of an electronic report obtained by the lender from a designated vendor. DU will use the data from the vendor report to validate specific borrower income information entered by the lender in DU. When income is validated by DU through the validation service, the lender will receive certain representation and warranty enforcement relief. Different quality control and documentation requirements may also apply.

The designated vendors and the types of income that can be validated, are listed below.

#### **Income Validation**

- The Work Number® from Equifax® will be used to validate income information for base, bonus, overtime, and commission income that is less than 25% of total income.
- Tax transcripts obtained from the Equifax 4506-T Tax Transcript Service and information obtained from The Work Number will be used to validate commission income equal to or greater than 25% or more of total income.
- Tax transcripts obtained from the Equifax 4506-T Tax Transcript Service will be used to validate income information for Social Security income, pension/retirement income, and self-employment income for sole proprietorships (as reported on IRS Form 1040, Schedule C or C-EZ).

Refer to the *Selling Guide*, the [Desktop Underwriter/Desktop Originator Release Notes](#) dated October 24, 2016, and the [DU Validation Service Reference Guide](#) for additional information.



## Effective Date

The DU validation service for income is available immediately for DU Version 9.3 and Version 10.0 loan casefiles submitted or resubmitted after the lender institution is activated. Activation is immediately available.

## Property Inspection Waivers

A property inspection waiver (PIW) is an offer to waive the appraisal requirement for certain refinance transactions and receive certain representation and warranty relief related to the collateral. Beginning with the December DU release, PIWs will be available to all lenders on eligible loan casefiles with no additional prerequisites or registration. To exercise the PIW offer the lender must provide the DU casefile ID and SFC 801 in the loan delivery file. There is a \$75 fee associated with exercising the PIW. If a lender declines the PIW offering, they are required to follow DU's appraisal recommendations to deliver the loan to Fannie Mae.

In order for a PIW to be considered, a prior appraisal must be found for the subject property in Fannie Mae's Collateral Underwriter® (CU™) data, and that appraisal must be associated with one of the borrowers on the loan casefile. The loan and property must also meet certain eligibility criteria. Purchase transactions and the majority of refinance transactions will not receive a PIW offer in DU and will continue to require an appraisal to establish market value.

When DU offers and the lender exercises a PIW, Fannie Mae accepts the submitted value estimate as the market value for the subject property and provides relief of representations and warranties on the value, condition, and marketability of the property. The lender maintains responsibility to warrant that the transaction data submitted to DU is complete and accurate, and must order an appraisal if they have reason to believe that it is warranted to confirm the property's current market value. (For example, a property located in an area impacted by a recent disaster must have an appraisal.)

## Effective Date

PIWs will be available for DU Version 10.0 loan casefiles created on or after the weekend of December 10, 2016

## HomeReady Enhancements

As noted in *Selling Guide* Announcement SEL-2016-06, we continue to assess the HomeReady product in an effort to incorporate features that enable lenders to expand access to credit in a safe and responsible manner. This month, we are announcing the product enhancements available for HomeReady borrowers, including:

- The maximum allowable LTV, CLTV, and HCLTV ratios will be increased from 95% to 97% for one-unit limited cash-out refinance transactions underwritten by DU when the mortgage being refinanced is owned by Fannie Mae (in alignment with standard DU eligibility). The requirement that the existing mortgage being refinanced be owned by Fannie Mae does not apply when the LTV is 95% or less, or when the CLTV only exceeds 95% due to a Community Seconds® loan.
- We are expanding current HomeReady eligibility for temporary buydowns and ARM loans to include three- to four-unit properties to align with our current standard eligibility requirements for this property type.
- The following additional benefits are exclusively for HomeReady loans where at least one borrower on the loan has received customized one-on-one assistance from a HUD-approved nonprofit counseling agency, as evidenced by completion of a *Certificate of Pre-purchase Housing Counseling* ([Form 1017](#)):
  - if the HomeReady loan is delivered with Special Feature Code (SFC) 184, the lender will receive a loan-level price adjustment credit of \$500; and
  - when the lender indicates in DU that the HUD-approved one-on-one counseling was completed, that information will be considered a compensating factor for those loan casefiles with debt-to-income ratios greater than 45% up to 50%.



The [Eligibility Matrix](#), [Special Feature Codes](#), and [Loan-Level Price Adjustment Matrix](#) have been updated to reflect the applicable changes.

### **Effective Date**

These updates are effective December 10, 2016 as follows:

- loan casefiles submitted or resubmitted to DU Version 10.0,
- manually underwritten loans with applications dates on or after that date, and
- the LLPA credit will be applied to DU and manually underwritten loans delivered on or after that date.

### **Site Condos**

In response to industry feedback and to align with other industry investors, we are no longer requiring project reviews for a subset of detached condos commonly referred to as “site condos.” Site condo projects consist of single-family detached houses where unit owners own the entire dwelling and the land. These projects, located in limited markets, have few or no common elements or amenities. A condo project review is not required for units that meet our criteria for site condos. However, lenders are responsible for determining that the project meets the criteria, which may require review of certain documents.

When delivering these loans, the lender must use Project Type Code V and SFC 588, which is used for detached condos. In the future, we will require a new SFC (in lieu of SFC 588) to specifically identify site condos. We will provide lenders with advance notice about this in the coming months.

### **Effective Date**

Lenders can begin implementing these changes immediately provided they are able to deliver the required Project Type Code and SFC noted above.

### **New Fannie Majors Option and Changes to MBS Parameters**

The Fannie Majors program offers lenders increased flexibility in MBS execution for loan products that may not otherwise meet the minimum single-issuer unpaid principal balance requirement. In addition to the current twelve month seasoning program, we are introducing a new three-month seasoning option that will enhance and increase liquidity in the Fannie Majors program. With this new option, mortgages may be no older than three months as of the security issue date.

Additionally, the pooling parameters for single, multiple lender, and Fannie Majors will now be aligned as follows:

- Note rate
  - Fixed-rate Mortgage - Note rate in pool must be greater than or equal to 25 basis points (bps) and less than or equal to 250 bps over the pool pass-thru rate.
- Original term
  - 30 Year MBS - Original terms must be between 181–360 months
  - 15 Year MBS - Original terms must be between 85–180 months
  - 10 Year MBS - Original terms must be between 85–120 months



## Effective Date

The new Fannie Majors seasoning option will be available in the first quarter of 2017. Refer to the Fannie Majors page on our website for availability. The updated pooling parameters are effective for MBS pool deliveries after December 10, 2016.

## Garnishments

We are changing the policy requiring pay off of garnishments prior to closing. A garnishment, which repays a debt through monthly reductions from the borrower's income, must now be treated as a recurring monthly obligation for qualifying purposes. We no longer require a garnishment to be paid off prior to closing.

## Effective Date

This policy change is effective immediately.

## Co-Borrower Self-Employment Income Evaluation

For greater clarity, we are updating the *Selling Guide* policy related to a co-borrower's self-employment income on loans where such income is not used for qualifying purposes. In these cases, the lender will no longer need to document or evaluate the co-borrower's self-employment income or loss.

All borrowers on these loans continue to be evaluated for creditworthiness, and all debts listed in their respective credit histories will be evaluated by DU or the lender (manual underwriting). If any self-employment (or other reason) caused a co-borrower to become delinquent on their individual tradelines, that will be taken into consideration by the credit assessment.

## Effective Date

This policy update is effective immediately.

## Extension of DU Refi Plus and Refi Plus

On August 25, 2016, the Federal Housing Finance Agency notified Fannie Mae that the Home Affordable Refinance Program (HARP) has been extended to September 30, 2017. HARP was set to expire on December 31, 2016.

As a result, we have extended DU Refi Plus and Refi Plus and are updating the *Selling Guide* accordingly:

- mortgage loans must now have application dates on or before September 30, 2017; and
- whole loans must be purchased by Fannie Mae on or before June 30, 2018, or in MBS pools with issue dates on or before June 1, 2018.

## Miscellaneous *Selling Guide* Updates

- **B4-1.3-05, Improvements Section of the Appraisal Report.** In response to lender questions, we are updating the Guide to clarify the policy on accessory units. Lenders may deliver a one-unit property with one accessory dwelling unit; multiple accessory units on the same property are not permitted.
- **B3-2-10, DU Underwriting Findings Report.** DU provides "potential red flag" messages, which are designed to help the lender detect inconsistencies in the loan casefile. The list of potential red flag messages in the *Selling Guide* has been updated to align with changes to the messages. (A few of the messages are no longer issued.)



## Rhode Island and Massachusetts Security Instruments

Fannie Mae and Freddie Mac have revised the Rhode Island and Massachusetts security instruments. The Rhode Island mortgage (Form 3040) has been revised due to recent changes in state law regarding homestead estates. The Massachusetts mortgage (Form 3022) has been revised to conform to state law provisions regarding homestead estates. The revised forms (with a revision date of 10/16) are available on the [Single Family Security Instruments](#) page on our website.

### Effective Date

Lenders are encouraged to begin using the updated documents immediately, and must do so for mortgage loans with note dates on or after April 1, 2017.

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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
DU Validation Service	<ul style="list-style-type: none"> <li>▪ <a href="#">A2-2-01</a>, Contractual Representations and Warranties</li> <li>▪ <a href="#">A2-2.1-04</a>, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU</li> <li>▪ <a href="#">A3-4-02</a>: Data Quality and Integrity</li> <li>▪ <a href="#">B1-1-03</a>, Allowable Age of Credit Documents and Federal Income Tax Returns</li> <li>▪ <a href="#">B3-2-02</a>, DU Validation Service</li> <li>▪ <a href="#">B3-3.1-01</a>, General Income Information</li> <li>▪ <a href="#">B3-3.1-02</a>, Standards for Employment Documentation</li> <li>▪ <a href="#">B3-3.1-06</a>, Requirements and Uses of IRS Form 4506-T</li> <li>▪ <a href="#">B3-3.1-09</a>, Other Sources of Income</li> <li>▪ <a href="#">B3-3.3-01</a>, Income and Employment Documentation for DU</li> <li>▪ <a href="#">D1-2-01</a>, Lender Prefunding Quality Control Review Process</li> <li>▪ <a href="#">D1-3-02</a>, Lender Post-Closing Quality Control Review of Approval Conditions, Underwriting Decisions, and Documentation</li> </ul>
Property Inspection Waivers	<ul style="list-style-type: none"> <li>▪ <a href="#">B4-1.1-02</a>, Lender Responsibilities</li> <li>▪ <a href="#">B4-1.2-02</a>, Appraisal Age and Use Requirements</li> <li>▪ <a href="#">B4-1.3-01</a>, Review of the Appraisal Report</li> <li>▪ <a href="#">B4-1.4-10</a>, Property Inspection Waivers (new)</li> <li>▪ <a href="#">B4-2.2-01</a>, Limited Review Process</li> <li>▪ <a href="#">B4-2.2-02</a>, Full Review Process</li> <li>▪ <a href="#">B5-4.1-03</a>, Texas Section 50(a)(6) Underwriting and Collateral Considerations</li> <li>▪ <a href="#">D1-2-01</a>, Lender Prefunding Quality Control Review Process</li> <li>▪ <a href="#">D1-3-01</a>, Lender Post-Closing Quality Control Review Process</li> <li>▪ <a href="#">E-1-02</a>, Acronyms and Abbreviations</li> <li>▪ <a href="#">E-3-16</a>, Glossary of Fannie Mae Terms: P</li> </ul>



Section of the Announcement	Updated <i>Selling Guide</i> Topics
HomeReady Enhancements	<ul style="list-style-type: none"> <li>▪ <a href="#">B2-1.2-02</a>, Limited Cash-Out Refinance Transactions</li> <li>▪ <a href="#">B2-2-06</a>, Homeownership Education and Housing Counseling</li> <li>▪ <a href="#">B5-6-02</a>, HomeReady Mortgage Loan and Borrower Eligibility</li> <li>▪ <a href="#">B5-6-03</a>, HomeReady Mortgage Underwriting Methods and Requirements</li> <li>▪ <a href="#">B5-6-04</a>, HomeReady Mortgage Loan Pricing, Mortgage Insurance, and Special Feature Codes</li> </ul>
Site Condos	<ul style="list-style-type: none"> <li>▪ <a href="#">B4-2.1-01</a>, General Information on Project Standards</li> <li>▪ <a href="#">B4-2.2-05</a>, Requirements for Review of Site Condos</li> </ul>
New Fannie Majors Option and MBS Parameters	<ul style="list-style-type: none"> <li>▪ <a href="#">C3-2-01</a>, Determining Eligibility for Loans Pooled into MBS</li> <li>▪ <a href="#">C3-4-01</a>, Term-Related Fixed-Rate Mortgage Pooling Parameters</li> <li>▪ <a href="#">C3-6-01</a>, Parameters for Pooling Loans Into Fannie Majors</li> </ul>
Garnishments	<ul style="list-style-type: none"> <li>▪ <a href="#">B3-5.3-09</a>, DU Credit Report Analysis</li> <li>▪ <a href="#">B3-6-05</a>, Monthly Debt Obligations</li> <li>▪ <a href="#">B3-6-07</a>, Debts Paid Off At or Prior to Closing</li> </ul>
Co-Borrower Self-Employment Income Evaluation	<ul style="list-style-type: none"> <li>▪ <a href="#">B3-3.2-01</a>, Underwriting Factors and Documentation for a Self-Employed Borrower</li> </ul>
Extension of DU Refi Plus and Refi Plus	<ul style="list-style-type: none"> <li>▪ <a href="#">B5-5.2-01</a>, DU Refi Plus and Refi Plus Eligibility</li> <li>▪ <a href="#">B5-5.2-02</a>, DU Refi Plus and Refi Plus Underwriting Considerations</li> <li>▪ <a href="#">B5-5.2-04</a>, DU Refi Plus and Refi Plus Closing, Pricing, and Delivery</li> </ul>

NOTE: *Beginning with the publication of this updated Selling Guide, Fannie Mae will no longer provide a highlighted version of the PDF. A PDF version without highlights will be published on Fannie Mae's website. AllRegs® provides a comprehensive revision history for all topics in the Selling Guide that were updated as a result of a Guide Announcement.*