Selling Guide Announcement SEL-2017-06

July 25, 2017

Selling Guide Updates

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

- Debt-to-Income Ratios
- ARM Enhancements
- Employment Offers or Contracts
- Fidelity Bond and Errors and Omissions
- Disputed Tradelines
- Timeshare Accounts
- Simplification of Document Custody Requirements
- Student Loan Clarifications
- Alimony Treatment
- Mortgages Paid by Others
- Miscellaneous *Selling Guide* Updates

Each update is described below. The affected topics for each policy change are listed in the Attachment. The *Selling Guide* provides full details of the policy changes. The updated topics are dated July 25, 2017.

Debt-to-Income Ratios

We are introducing simpler, more certain underwriting guidelines by allowing more loans with debt-to-income (DTI) ratios between 45 and 50% to receive an Approve/Eligible recommendation through Desktop Underwriter® (DU®) based on the comprehensive risk assessment of the loan. We will no longer require specific, additional compensating factors outside of DU's standard risk assessment to support a DTI ratio above 45%. Relying on the certainty of the DU risk assessment, which considers a broad range of loan characteristics and borrower credit factors, including DTI ratio, will expand access to credit for creditworthy borrowers in a responsible way. We will continue to monitor loans with high DTI ratios and may adjust pricing in the future, as appropriate.

Because this policy change applies to all loans submitted to DU, reference to specific compensating factors that were used to allow DTIs greater than 45% up to 50% for HomeReady® loans (non-borrower household income and completion of housing counseling prior to the execution of the sales contract) will be removed. Note that HomeReady borrowers who meet the housing counseling requirement are still eligible for a loan-level price adjustment credit.

> ***Note**: The increase in the maximum DTI ratio does not apply to DU Refi Plus™, where higher DTIs are already permitted, manually underwritten loans, where lower DTI limits continue to apply, or Refi Plus™ loans.*

Effective Date

These changes will be effective for new loan casefiles submitted to DU Version 10.1 on or after the weekend of July 29, 2017.

ARM Enhancements

Increased LTV Ratios

In order to support access to credit and simplify our guidelines, we are aligning the maximum allowable LTV, CLTV and HCLTV (LTV ratios) for adjustable-rate mortgages (ARMs) with fixed-rate mortgages for all transactions, occupancy, and property types, up to a maximum of 95% for DU and manually underwritten loans. There are no other changes being made to our current requirements that apply to ARMs.

The *Eligibility Matrix* and *LLPA Matrix* have been updated to reflect this change.

Effective Dates

ARM loans with higher LTV ratios are eligible for delivery as follows:

- DU loans: Lenders can begin committing and delivering whole loans or delivering loans into MBS pools on or after September 1, 2017. Note that lenders may deliver higher LTV ARM loans underwritten in DU Version 10.0 with an Approve/Ineligible recommendation as long as the only reason for the ineligible recommendation is the LTV ratio and the higher LTV ratio complies with the Eligibility Matrix.
- Manually underwritten loans: Lenders can begin committing and delivering whole loans or delivering loans into MBS pools on or after December 11, 2017.

5/5 ARM Plan

We are adding a five year ARM plan to our standard eligible ARM plans. Some of the characteristics associated with this plan are

- Plan Number – 3846
- Initial Fixed Period – 5 years
- Subsequent Adjustments – every 5 years
- Index – 5-year Weekly CMT
- Caps – 2% initial adjustment and 2% subsequent adjustments
- Lifetime Interest Rate Cap – 6%
- Lifetime Interest Rate Floor – the rate can never go below the margin
- Execution – eligible for MBS only

Refer to the updated *Standard ARM Plan Matrix* for additional details.

> ***Note**: Loans using ARM Plan 3846 should be underwritten through DU using the FM-GENERIC, 5 YR ARM plan.*

Effective Date

Loans originated as ARM Plan 3846 are eligible for delivery into MBS pools as follows:

- DU loans: On or after September 1, 2017
- Manually underwritten loans: On or after January 1, 2018

Employment Offers or Contracts

We currently permit the lender to deliver a loan where the borrower's qualifying income is based on future employment under an employment offer or contract, provided the borrower has started the new employment prior to delivery of the loan to Fannie Mae. We are updating this policy to provide an additional option that will permit the delivery of the loan prior to the borrower starting the new employment. This additional option will apply only to the following transactions:

- one-unit, principal residence, purchase transactions;
- the borrower is not employed by a family member or by an interested party to the transaction;
- the borrower is qualified using only fixed base income; and
- the borrower's start date is within 90 days of the note date.

See the *Selling Guide* for additional requirements, including the use of Special Feature Code 707 at delivery. Note that DU Version 10.1 will issue a message related to these requirements when the years and months on the current job are "0" or blank.

The *Special Feature Codes* document has been updated to reflect this new code.

Effective Date
This policy is effective immediately.

Fidelity Bond and Errors and Omissions

Our requirements for fidelity bond and errors and omissions insurance have not been materially updated for almost 20 years. As a result, some of the requirements are outdated, and do not represent current risk management practices or market conditions.

We have updated the *Selling Guide* to reflect the following changes:

- Introduced a fidelity bond coverage amount cap of $150 million.
- Added an errors and omission coverage amount cap of $30 million for seller/servicers that have single-family and multifamily mortgage loan portfolios. Previously, Fannie Mae had coverage cap requirements that only addressed single-family mortgage loan portfolios.
- Clarified that fidelity bond and errors and omissions insurance coverage must be equal to a percentage of the greater of the seller/servicer's annual:
  - total UPB of single-family and multifamily mortgage loan annual originations; or
  - highest monthly total UPB of single-family and multifamily servicing of mortgage loans that the seller/servicer owns, including mortgage loans owned by the seller/servicer and serviced by others.
- Increased the maximum allowed deductible for fidelity bond and errors and omissions insurance to:
  - 10% for mortgage loan portfolios less than $1 billion, or
  - 15% for mortgage loan portfolios greater than or equal to $1 billion.
- Clarified when we will consider a captive or reinsurance arrangement for fidelity bond and errors and omissions insurance.
- Eliminated a surety bond requirement.
- Updated fidelity bond and errors and omissions insurance coverage requirements for master servicers and subservicers to clarify that master servicers are responsible for maintaining coverage for any loans serviced by others on their behalf.

- Changed the requirement for when the seller/servicer must notify us of a fidelity bond or errors and omissions insurance loss from 10 business days from the date of the loss event to within 30 days from discovery.
- Clarified the provisions related to Fannie Mae's rights under a seller/servicer's fidelity bond and errors and omissions insurance policy.
- Eliminated the annual requirement for a seller/servicer to provide a copy of the fidelity bond or errors and omissions insurance policy upon Fannie Mae's request. (We will rely instead on related information sellers/servicers provide us annually.)

Effective Date

Sellers/servicers are encouraged to implement these policy changes immediately; but must implement these changes by October 1, 2018.

Disputed Tradelines

As announced in the DU Version 10.1 Release Notes, the risk assessment and messaging for loan casefiles with disputed tradelines will be simplified. DU will assess the loan considering any disputed tradelines, and determine whether or not any investigation of the disputed tradelines is required. The DU Underwriting Findings report will specify the steps the lender must take to investigate and document the disputed information, if required. The *Selling Guide* has been updated to reflect the details of the requirements.

Effective Date

These changes will be effective for new loan casefiles submitted to DU Version 10.1 on or after the weekend of July 29, 2017.

Timeshare Accounts

Timeshare accounts may be identified in a borrower's credit report as being installment debt or mortgage-related debt, depending on the individual timeshare. With this update of the *Selling Guide,* we are clarifying that timeshares are to be treated as installment loans rather than mortgage debt, even if they are identified as mortgage debt on the credit report (or other documentation). DU Version 10.1 (to be implemented the weekend of July 29th) will align with this change.

In addition, we also removed a misplaced reference to home equity lines of credit (HELOC) in the installment account requirements. The policy on HELOCs is described in the Revolving Charge/Lines of Credit section of the topic.

Effective Date

This update is effective immediately.

Simplification of Document Custody Requirements

Previous to this update, a number of *Selling* and *Servicing Guides* topics contained duplicate content that described the custody of mortgage documents, requirements for document custodians, and related seller and servicer requirements. The requirements that apply to document custodians are also more fully described in Fannie Mae's *Requirements for Document Custodians* (RDC) on our website, or in the Master Custodial Agreements (Forms 2003 or 2010).

In an effort to simplify our Guides, we have removed the duplicate content from the *Servicing Guide*, Chapter A2-6, Requirements Related to Custodial Documents, and have replaced it with a reference to the updated content in the *Selling Guide.* The *Selling Guide* has been updated with the following changes:

- removal of the content that applies specifically to document custodians that is already in the RDC;
- the remaining document custody content was rewritten, reorganized, and streamlined; and

- clarification of a few related policies, such as:
  - for whole loans and MBS loans delivered as eNotes, Fannie Mae is the document custodian (third parties, including Fannie Mae's designated document custodian, certify eNotes); and
  - changed "recertifying the pool" to "recertifying the custodial documents" to clarify that recertification is required for whole loans and MBS loans.

No other policy changes were made.

Effective Date

The updates are effective immediately.

Student Loan Clarifications

In Announcement SEL-2017-04, we simplified our policy and changed how to handle student loan payments on the credit report with a missing or $0 payment amount. That policy stated the lender could use either 1% of the outstanding balance, or a calculated payment that would fully amortize the loan based on the documented loan repayment terms.

With this update, we are further updating this policy and providing lenders with some additional options. If the lender obtains documentation to evidence the actual monthly payment is $0, the lender may qualify the borrower with the $0 payment as long as the $0 payment is associated with an income-driven repayment plan.

Effective Date

This policy change is effective immediately.

Student Loan Cash-Out Refinance

When the student loan cash-out refinance transaction was announced in April, DU did not issue any messages regarding these types of transactions. With the release of DU Version 10.1, DU will now issue a message on cash-out refinance transactions when it appears that only subject property liens and student loans are marked paid by closing. The *Selling Guide* now references this new messaging.

Effective Date

With the release of DU Version 10.1 the weekend of July 29, 2017.

Alimony Treatment

We are updating the Guide to allow more flexibility on the treatment of alimony paid by the borrower. Lenders will now have the option of reducing the borrower's monthly qualifying income by the amount of the monthly alimony payment in lieu of including it as a monthly payment in the calculation of the debt-to-income (DTI) ratio. Going forward, lenders may choose to use either option – reducing income or treating it as a debt – when qualifying borrowers.

When using the option of reducing the borrower's monthly qualifying income by the monthly alimony payment, enter the adjusted income figure as the income amount in DU. In this case, the lender can disregard the DU message requiring inclusion of the alimony obligation as a monthly liability that is issued whenever the borrower declares on the loan application that they are obligated to pay alimony. The lender must still obtain documentation confirming the amount of the alimony obligation.

Effective Date

This policy change is effective immediately.

Mortgages Paid by Others

In our April *Selling Guide* Announcement SEL-2017-04, we simplified our requirements for excluding non-mortgage debts from the DTI ratio when the monthly payment is paid by another party. With this update, we are addressing mortgages paid by others. When a borrower is obligated on a mortgage debt – but is not the party who is actually repaying the debt – the lender may exclude the monthly mortgage payment from the calculation of the DTI ratio if the party making the payments is obligated on the mortgage debt and can document the most recent 12-month payment history with no delinquencies.

Effective Date

This policy change is effective immediately.

Miscellaneous *Selling Guide* Updates

B3-3.1-01, General Income Information: Minor updates were made to the list of income or employment types requiring either the past one or two years of federal income tax returns to reflect current policies.

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

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Senior Vice President and
Chief Credit Officer for Single-Family

Attachment

Section of the Announcement	Updated *Selling Guide* Topics
Debt-to-Income Ratios	▪ B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report ▪ B3-6-02, Debt-to-Income Ratios ▪ B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations ▪ B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements
ARM Enhancements	▪ B2-1.3-02, Adjustable-Rate Mortgages (ARMs) ▪ B2-2-04, Guarantors, Co-Signers, or Non-Occupant Borrowers on the Subject Transaction ▪ B5-5.1-02, Community Seconds Loan Eligibility ▪ B5-6-02, HomeReady Mortgage Loan and Borrower Eligibility
Employment Offers or Contracts	▪ B3-3.1-01, General Income Information ▪ B3-3.1-09, Other Sources of Income
Fidelity Bond and Errors and Omissions	▪ A3-5-01, Fidelity Bond and Errors and Omissions Coverage Provisions ▪ A3-5-02, Fidelity Bond Policy Requirements ▪ A3-5-03, Errors and Omissions Policy Requirements ▪ A3-5-04, Reporting Fidelity Bond and Errors and Omissions Events
Disputed Tradelines	▪ B3-5.2-03, Accuracy of Credit Information in a Credit Report ▪ B3-5.3-09, DU Credit Report Analysis
Timeshare Accounts	▪ B3-5.3-03, Previous Mortgage Payment History ▪ B3-5.3-07, Significant Derogatory Credit Events – Waiting Periods and Re-establishing Credit ▪ B3-6-05, Monthly Debt Obligations
Simplification of Document Custody Requirements	▪ A3-3-04, Document Custodians ▪ A3-3-05, Custody of Mortgage Documents ▪ A3-3-06, Fannie Mae's Designated Document Custodian (deleted) ▪ A3-3.1, Other Document Custodians (deleted)

Section of the Announcement	Updated *Selling Guide* Topics
	▪ A3-3.1-01, Operational Requirements for All Document Custodians (deleted) ▪ A3-3.1-02, Document Custodian Reporting Requirements: Active and Inactive Status (deleted) ▪ C3-1-02, Preparing to Pool Loans into MBS ▪ C3-7-04, Delivering Data and Documents ▪ E-1-03, List of Contacts
Student Loan Clarifications	▪ B2-1.2-03, Cash-Out Refinance Transactions ▪ B3-6-05, Monthly Debt Obligations
Alimony Treatment	▪ B3-6-02, Debt-to-Income Ratios ▪ B3-6-05, Monthly Debt Obligations
Mortgages Paid by Others	▪ B3-6-05, Monthly Debt Obligations