



Selling Guide Announcement SEL-2018-02

February 27, 2018

Selling Guide Updates

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

- HomeStyle® Renovation
- HomeStyle® Energy
- Business Continuity and Disaster Recovery
- Age of Document Requirements for Loans Impacted by a Disaster
- Compliance with Laws and Responsible Lending
- Miscellaneous *Selling Guide* Updates

Each of the updates is described below. The affected topics for each policy change are listed on the Attachment. The *Selling Guide* provides full details of the policy changes. The updated topics are dated February 27, 2018.

HomeStyle Renovation

The HomeStyle Renovation mortgage enables a borrower to purchase a property or refinance an existing loan and include funds in the loan amount to cover the costs of repairs, remodeling, renovations, or energy improvements to the property. Lenders have the option to deliver loans to us before completion of the renovation, subject to limited recourse and additional requirements the lender (or servicer) must comply with.

An increased interest in renovation financing and the opportunity to support our Duty to Serve objectives has led us to enhance many aspects of HomeStyle Renovation. The *Selling Guide* has been updated with the following changes:

- Sellers/servicers no longer need to be approved for HomeStyle Renovation if they choose to deliver all HomeStyle Renovation loans to Fannie Mae after renovation is complete. Sellers/servicers that deliver loans before renovation is complete must still be approved.
- The maximum allowable LTV, CLTV, and HCLTV ratios (“LTV ratios”) have been increased to 97% for fixed-rate mortgages for one-unit, principal residence, purchase, and limited cash-out refinance transactions underwritten through Desktop Underwriter® (DU®).
 - There are no changes to the LTV ratios for manually underwritten loans.
 - All other requirements related to loans with LTV ratios of 95.01 to 97% continue to apply. HomeStyle Renovation loans originated as HomeReady loans will be subject to all HomeReady requirements
- Manufactured homes are now eligible for HomeStyle Renovation provided the improvements do not require structural changes. The current LTV ratio requirements in place for manufactured housing will apply. The total funds for renovation are limited to the lesser of 50% of the “as-completed” appraised value, or \$50,000.
- The limit on eligible renovation funds for a purchase transaction has been increased to 75% of the lesser of
 - acquisition plus renovation costs, or
 - the “as-completed” appraised value.
- The limit on eligible renovation funds for a refinance is up to 75% of the “as-completed” appraised value.
- We have removed the requirement that the renovation must add value to the property.



- Funds may be used to construct accessory units on the subject property provided the unit is in compliance with local zoning requirements.
- Lenders may release material draws at the beginning of the project for the purpose of acquiring materials that are identified in the project estimate - up to 50% of the total up-front material costs. A portion of this 50% may be used to pay expenses associated with architect fees, design, and permits.
- We have clarified that licensed contractors or subcontractors must be used where licensing is required per state or local regulations for the specific trade or type of renovation being completed.
- Inspections must occur before escrow draws are made to ensure that work is being completed in accordance with plans and specifications.
- Lenders may increase the contingency reserve up to 15% if they determine a larger reserve is needed.
- HomeStyle Renovation loans delivered before renovation is complete will be eligible for future representation and warrant relief under Versions 1 and 2 of the framework. To be eligible for relief, the renovation must be complete and recourse removed.
- The requirements for removing recourse when renovation is complete have been updated to include a borrower payment history component.
- The *Appraisal Update and/or Completion Report* (Form 1004D) is required to document the completion of renovation work (and must be submitted when requesting removal of recourse). The *HomeStyle Completion Certificate* (Form 1036) has been retired.
- We added requirements that apply if
 - the construction cannot be completed within 12 months from delivery, or
 - the improvements are not completed as planned.
- To ensure that the renovation escrows and completion of the improvements are appropriately managed, we are restricting servicing transfers until the renovation is complete.

We also clarified several existing requirements based on questions received from our customers.

The *Servicing Guide* will be updated in March 2018 to align with the applicable policies in the *Selling Guide* that ensure timely and quality completion of the renovation and management of the renovation account. These servicing policies only apply if the loan is delivered before renovations are complete.

NOTE: [The Eligibility Matrix](#) has been updated to reflect changes to the eligibility requirements.

Effective Dates

- Lenders may implement these policy changes immediately, but must be in compliance with all updates by September 1, 2018.
- The changes listed above that impact DU will apply to new loan casefiles submitted on or after the weekend of March 17, 2018. See the [DU Version 10.2 Release Notes](#).
- The new requirements for recourse removal will apply to loans delivered on or after June 1, 2018.
- The expansion of representation and warranty relief is applicable to all HomeStyle Renovation loans, including loans previously delivered to us.



HomeStyle Energy

With this update we removed requirements and added flexibilities that will allow increased utilization of HomeStyle Energy to support our Duty to Serve. The *Selling Guide* has been updated with the following changes:

- The maximum allowable LTV ratios have been increased to 97% for fixed-rate mortgages on one-unit, principal residence, purchase, and limited cash-out refinance transactions underwritten through DU.
 - There are no changes to the LTV limits for manually underwritten loans.
 - All other requirements related to loans with LTV ratios of 95.01 to 97% continue to apply.
- Manufactured homes are now eligible provided the improvements do not require structural changes. The current LTV ratio requirements in place for manufactured housing will apply.
- Property assessed clean energy (PACE) loans are now eligible to be paid off with no dollar restrictions.
- Radon remediation is now eligible under HomeStyle Energy.
- HomeStyle Energy may also be used to create home resiliency for environmental disasters such as floods, storms, and earthquakes, or to repair damage from these types of disasters.
- An energy report is no longer needed for
 - certain energy-related improvements (such as water efficiency devices, solar panels, radon remediation); or
 - refinances of existing consumer debt incurred to purchase or install energy-related improvements that a borrower pays off in the transaction.
- For manually underwritten loans, allow the following debt-to-income ratio flexibilities:
 - up to 38% for loans with a Department of Energy Home Energy Score of 6 or greater (changed from “greater than 6”);
 - up to 45% for all transactions in accordance with the credit score, LTV ratio, and reserve requirements in the *Eligibility Matrix*.

Effective Date

Lenders may implement these changes immediately. As a reminder, lenders must manually apply the requirements of HomeStyle Energy when underwriting with DU.

Business Continuity and Disaster Recovery

Currently the *Selling and Servicing Guides* contain high-level requirements for business continuity procedures. In an effort to provide more clarity around our expectations related to business continuity and disaster recovery, the *Guide* is updated with specific definitions and requirements for each.

Business continuity procedures are defined as plans to continue operations if adverse conditions occur, such as a storm, a fire, or a crime. The plan must include moving operations or recovering operations in another location if an adverse condition disaster occurs at a worksite or data center.

All sellers/servicers must have business continuity procedures in place that include:

- identification of critical functions and resources required to continue operations in the event of a business disruption or disaster, and
- alternate processing facilities.

Disaster recovery is defined as a documented process or set of procedures to recover and protect a business information technology infrastructure in the event of a disaster.

All sellers/servicers must have disaster recovery procedures in place that include:



- identification of critical functions and resources required to continue operations in the event of a business disruption or disaster,
- provisions for off-site retention of critical systems and data file resources, and
- alternate network and telecommunication capabilities.

Effective Date

Sellers/servicers may implement these policy changes immediately, but must do so by September 1, 2018.

Age of Document Requirements for Loans Impacted by a Disaster

In the past, we have issued communications such as Lender Letters and Frequently Asked Questions to address temporary flexibilities in response to recent disasters. In an effort to formalize those policies and increase efficiency, the *Guide* is updated to include the age of documentation flexibilities for loans securing properties impacted by a disaster. This flexibility increases the age of documentation from 120 days to 180 days and will apply when the property securing the mortgage loan is located in a FEMA-declared disaster area eligible for Individual Assistance. Additional requirements include:

- The underwriting documentation, including but not limited to credit reports, and verifications of income and assets, must be dated no more than 180 days before the note date.
 - Lenders may disregard the message in the DU Underwriting Findings Report that indicates if the loan casefile has not already closed, the credit report has expired.
- The appraisal must be dated no more than 180 days before the note date. Lenders must comply with additional property eligibility requirements detailed in B2-3-05, Properties Affected by a Disaster.
 - We also updated B2-3-05 to align with policies clarified in the recent disaster Lender Letters, such as clearly describing when lenders may or may not exercise a property inspection waiver.

Lenders who wish to receive representation and warranty relief offered by the DU validation service must continue to comply with all conditions in the DU Underwriting Findings Report, including the close by date.

Effective Date

Lenders may implement these policy changes immediately as additional disasters occur.

Compliance with Laws and Responsible Lending

We are continuing our efforts to consolidate shared policies from Part A of the *Selling and Servicing Guide*. In this release we have simplified requirements related to compliance with laws and responsible lending practices.

With this update we have

- eliminated the exhaustive lists of applicable laws and instead refer to more general categories,
- moved terms and general conventions from the Preface in the *Guide* into Part A, and
- streamlined and simplified language regarding responsible lending and prohibited refinance practices.

There were no changes to existing policies with this consolidation effort. The duplicate content was removed from the *Servicing Guide* on February 14, 2018.



Miscellaneous *Selling Guide* Updates

E-2-05, Signature Requirements for Mortgages to *Inter Vivos* Revocable Trusts. On October 31, 2017, we made a number of updates to the Guide regarding signature requirements when an *inter vivos* revocable trust is involved. At the time, we added a new block in this exhibit titled *Form of Trust's Signature Required on Mortgage Note*. However, based on questions received from lenders, it appears this new content was being interpreted in many different ways. As a result, we have replaced the content in question with a new block, *Optional Limitation on Trust Liability*. The new content more clearly describes the non-recourse option. This non-recourse provision is in addition to the existing provision for certain trustees described in *Trustee Exclusion from Personal Liability* in B8-5-02: *Inter Vivos Revocable Trust Mortgage Documentation and Signature Requirements*. The new, optional language applies to all *inter vivos* trusts whose trustee(s) are required to sign the note.

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

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Chief Credit Officer for Single-Family



Attachment

Section of the Announcement	Updated <i>Selling Guide</i> Topics
HomeStyle Renovation	<ul style="list-style-type: none"> ▪ B5-3.2-01, HomeStyle Renovation Mortgages ▪ B5-3.2-02, HomeStyle Renovation Mortgages: Loan and Borrower Eligibility ▪ B5-3.2-03, HomeStyle Renovation Mortgages: Collateral Considerations ▪ B5-3.2-04, HomeStyle Renovation Mortgages: Costs and Escrow Accounts ▪ B5-3.2-05, HomeStyle Renovation Mortgages: Completion Certification ▪ B5-3.2-06, HomeStyle Renovation: Construction Contract, Construction Loan Agreement, and Lien Waiver ▪ B5-6-02, HomeReady Mortgage Loan and Borrower Eligibility ▪ E-1-03, List of Contacts
HomeStyle Energy	<ul style="list-style-type: none"> ▪ B2-1.2-02, Limited Cash-Out Refinance Transactions ▪ B4-1.2-03, Requirements for Postponed Improvements ▪ B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties ▪ B5-3.4-01, Property Assessed Clean Energy Loans ▪ B5-6-02, HomeReady Mortgage Loan and Borrower Eligibility
Business Continuity and Disaster Recovery	<ul style="list-style-type: none"> ▪ A4-1-01, Maintaining Seller/Service Eligibility
Age of Document Requirements	<ul style="list-style-type: none"> ▪ B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns ▪ B2-3-05, Properties Affected by a Disaster ▪ B4-1.4-10, Property Inspection Waivers
Compliance with Laws and Responsible Lending	<ul style="list-style-type: none"> ▪ Preface ▪ A2-1-02, Nature of Mortgage Transactions ▪ A3-2-01, Compliance with Laws ▪ A3-2-02, Responsible Lending Practices ▪ B2.1.2-04, Prohibited Refinancing Practices