Selling Guide Announcement SEL-2019-01

February 6, 2019

Selling Guide Updates

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

- Loan Quality Connect™
- Cost of Funds Index (COFI) Retirement
- Requirements for Postponed Improvements
- 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 6, 2019.

Loan Quality Connect

Lenders and Fannie Mae have been using the Quality Assurance System (QAS) to manage the post-purchase review process. We have transitioned to Loan Quality Connect, a new platform that replaces QAS. Loan Quality Connect is an interactive loan quality management system in which Fannie Mae and our lenders work together to drive loan quality, providing:

- **Simplified technology**: One-stop shop for loan file submissions and status updates. Save time and money with simplified document management; no integration required.
- **Seamless collaboration**: Instant communication tools for process efficiencies; no email or spreadsheets – all documents and communications stay within the system.
- **Increased certainty**: Instant status updates, real-time loan quality feedback, and self-serve reporting and data visualization. For example, Loan Quality Connect offers the Loan Quality Defect Notice, which provides lenders 15 days to cure significant defects before a resolution request is sent. This feature is exclusive to Fannie Mae.

The Guide has been updated to remove references to QAS and reflect other process changes implemented in Loan Quality Connect. For more information, visit Loan Quality Connect to access overview videos, eLearnings, and job aids.

Effective Date

Lenders have begun working in Loan Quality Connect. All loan files will be transitioned to Loan Quality Connect by April 30, 2019, and QAS will be retired on that date.

Cost of Funds Index (COFI) Retirement

We currently offer several adjustable-rate mortgage (ARM) plans that use the monthly weighted-average cost of funds index (COFI) as computed each month by the Federal Home Loan Bank of San Francisco. Due to the retirement of this index scheduled to occur in January 2020, with the December 2019 COFI being the last published rate, Fannie Mae is proactively removing all references to this index and associated ARM plans (681, 682, 760, and 761) from the Selling Guide and Standard ARM Plan Matrix. We are also retiring all legal documents specific to use of COFI from our website.

Impact on Loan Servicing

We will provide further guidance to servicers on the substitute index for COFI loans that are being serviced on Fannie Mae’s behalf in a future communication.
Effective Date
Because Fannie Mae has not received delivery of COFI-indexed ARM loans for quite some time, we are requiring deliveries of these loans to utilize our bulk purchase process. The last issue date for negotiated MBS deliveries will be April 1, 2019. Whole loan delivery of COFI ARMs is not currently offered. Please contact your customer account team for additional information.

Requirements for Postponed Improvements
The Guide has been updated to clarify that completion escrow accounts must be custodial accounts that satisfy the criteria in the Servicing Guide. This clarification aligns with existing policies in the Selling and Servicing Guides that apply to HomeStyle® Renovation Mortgages.

Effective Date
Lenders may implement this change immediately, but are required to do so on or before May 6, 2019.

Miscellaneous Selling Guide Updates
Removal of Second Lien References. Because we no longer accept delivery of second lien loans, we have removed all references to this practice from the Selling Guide. In the event second lien loans are approved for delivery in the future, we will update the Guide accordingly.

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

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

<table>
<thead>
<tr>
<th>Section of the Announcement</th>
<th>Updated Selling Guide Topics</th>
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| Loan Quality Connect        | ▪ D1-1-01, Lender Quality Control Programs, Plans, and Processes  
                                ▪ D2-1-02, Fannie Mae QC File Request and Submission Requirements  
                                ▪ E-1-01, References to Fannie Mae's Website  
                                ▪ E-1-02, Acronyms and Abbreviations  
                                ▪ E-1-03, List of Contacts |
| Cost of Funds Index         | ▪ B2-1.3-02, Adjustable-Rate Mortgages (ARMs)  
                                ▪ E-1-02, Acronyms and Abbreviations  
                                ▪ E3-3-03, Glossary of Fannie Mae Terms: C |
| Requirements for Postponed Improvements | ▪ B4-1.2-03, Requirements for Postponed Improvements |
| Miscellaneous Updates       | ▪ A2-1-01, Contractual Obligations for Sellers/Servicers  
                                ▪ A2-2.1-03, Document Warranties  
                                ▪ A2-4-01, Master Agreement Overview  
                                ▪ B2-1.3-01, Fixed-Rate Loans  
                                ▪ B2-1.4-01, Loan Limits  
                                ▪ B3-4.2-03, Individual Development Accounts  
                                ▪ B7-2-04, Special Title Insurance Coverage Considerations  
                                ▪ B7-2-05, Title Exceptions and Impediments  
                                ▪ B8-2-01, Security Instruments for Conventional Mortgages  
                                ▪ B8-3-01, Notes for Conventional Mortgages  
                                ▪ C2-1.1-03, Mandatory Commitment Terms, Amounts, Periods and Other Requirements |