

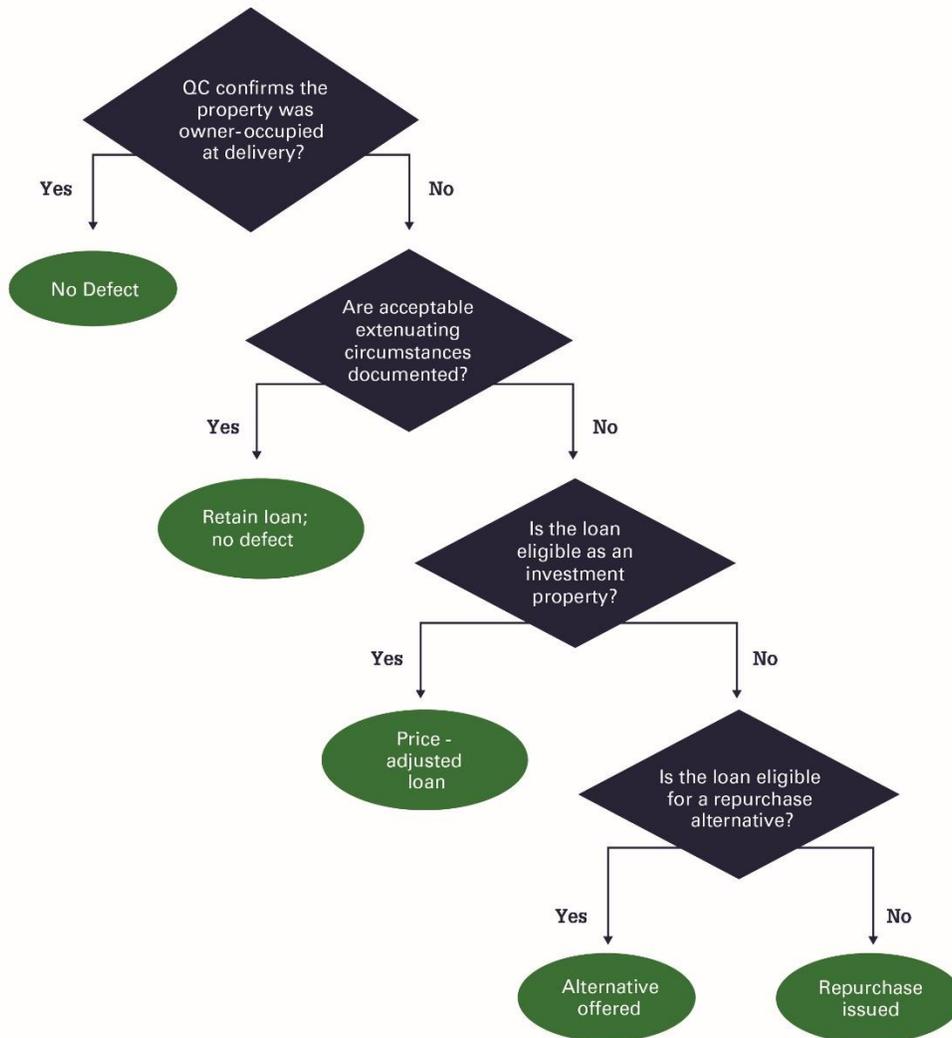


Occupancy Defect Guidelines and Scenarios

Overview

Lenders frequently inquire about how Fannie Mae assesses occupancy misrepresentation defects during a post-acquisition loan file review. To standardize the protocol for handling occupancy defects and provide transparency to lenders, Fannie Mae created the *Occupancy Defect Guidelines* documented in the process below so lenders can see how Fannie Mae presently reviews loans delivered as a principal residence for compliance with the occupancy representation and warranty. Other types of loan defects may follow similar defect remediation practices.

A detailed loan-level example of the various outcomes of the *Occupancy Defect Guidelines* is on page two.



This summary is intended for reference only. All criteria are subject to the formal terms and conditions of the Fannie Mae Selling Guide and Servicing Guide. In the event of any conflict with this document, the Selling Guide and/or Servicing Guide will govern.



Loan-Level Scenarios

Borrower Smith purchased and closed on a new principal residence in January 2016. The loan was delivered to Fannie Mae in February 2016 and was selected for a post-acquisition quality control (QC) file review in March 2016. During the QC review process, Fannie Mae may have encountered one of the following occupancy defect scenarios:

- **Scenario A:** Fannie Mae finds that Borrower Smith did not occupy the subject property at the time of loan delivery, but the lender provides documentation that minor renovations needed to make the property American Disabilities Act (ADA) compliant and accessible took longer than anticipated, which delayed the borrower from occupying the property. Fannie Mae makes the determination that the delay was an acceptable extenuating circumstance and does not cite a significant defect.
- **Scenario B:** Fannie Mae finds that Borrower Smith did not occupy the subject property at the time of loan delivery, and no acceptable extenuating circumstances are documented. The loan is re-evaluated, and proves to be eligible as an investment property. Since the loan is eligible as an investment property, Fannie Mae retains the loan as a price-adjusted loan (PAL) with appropriate loan-level price adjustments (LLPA).
- **Scenario C:** Fannie Mae finds that Borrower Smith did not occupy the subject property at the time of loan delivery, and no acceptable extenuating circumstances are documented. The loan is re-evaluated and does not prove to be eligible as an investment property. Fannie Mae elects to offer an alternative to repurchase as provided by [Selling Guide Section A2-3.2-03 Remedies Framework](#).
- **Scenario D:** Fannie Mae finds that Borrower Smith did not occupy the subject property at the time of loan delivery, and no acceptable extenuating circumstances are documented. The loan is re-evaluated as an investment property. The loan is ineligible as an investment property, and Fannie Mae is unwilling to offer a repurchase alternative as provided in [Selling Guide Section A2-3.2-03 Remedies Framework](#). The lender must repurchase the loan.