Fannie Mae

Lender Letter LL-2017-05

September 08, 2017

To: All Fannie Mae Single-Family Sellers
High Loan-to-Value Refinance Option

At the direction of the Federal Housing Finance Agency (FHFA), Fannie Mae will offer a new high loan-to-value (LTV) refinance option designed for Fannie Mae borrowers who are making their mortgage payments on time, but whose LTV ratios exceed the maximum allowed for standard limited cash-out refinance transactions in the *Selling Guide.* This option will not be available for a number of months, but we are sharing the details with lenders now to allow time for any needed operational and system updates. The *Selling Guide* will be updated with these requirements next year, closer to the time when lenders can begin originating these high LTV refinances.

Extension of DU Refi Plus™ and Refi Plus™

FHFA recently announced the extension of the Home Affordable Refinance Program (HARP). As a result, we are extending the expiration date of DU Refi Plus and Refi Plus. Lenders may continue to originate loans with application dates up to and including December 31, 2018. All whole loans must be purchased by us on or before September 30, 2019, or included in MBS pools with issue dates on or before September 1, 2019.

High LTV Refinance Requirements

The following tables describe all of the requirements of the existing loan being refinanced and the new loan that will be originated under the high LTV refinance option.

Requirements for the Existing Loan Being Refinanced	
Eligible Existing Loans	▪ The loan must be a first-lien, conventional mortgage loan, owned or securitized by Fannie Mae. ▪ The loan must have a note date on or after October 1, 2017. ▪ Loans that are part of a risk-sharing structure (for example, credit risk transfers) are eligible to be refinanced.
Servicer	The current servicer or a new servicer may refinance the existing loan.
Previously-Modified Mortgages	Borrowers who have applied for or received a modification are eligible provided ▪ the borrower benefit provision is met using the prevailing payment, and ▪ the payment history requirement is met.
Seasoning	At least 15 months have passed from the note date of the existing loan to the note date of the new loan. (For example, if the note date on the existing loan is January 1, 2018, the note date on the new loan can be no earlier than April 1, 2019.)

Ineligible Existing Loans	The following loans are ineligible to be refinanced: ▪ existing DU Refi Plus™ or Refi Plus™ loans; ▪ loans that are subject to outstanding repurchase demands; or ▪ loans that are subject to recourse, repurchase agreement, indemnification, or another negotiated credit enhancement required at origination for eligibility purposes are not eligible, unless • the new loan is also subject to a credit enhancement that meets eligibility requirements, or • such credit enhancement is not required for eligibility purposes on the new loan.
Requirements for the New Loan	
New Loan Requirements	▪ The new loan must have an application date on or after November 1, 2018. ▪ A new executed *Uniform Residential Loan Application* (Form 1003/1003(S)) is required from the borrower(s) with all information completed, including borrower income, employment, and assets. ▪ The new loan must be either: • a fixed-rate loan (existing loan may be fixed-rate or ARM); or • an ARM that refinances an existing ARM, with the new ARM having a minimum five-year fixed rate term. ▪ The term of the new loan may not exceed 30 years. ▪ The new loan must meet current general or high-balance loan limits, as applicable, at the time of loan delivery. ▪ The new loan cannot be originated pursuant to Section 50(a)(6) of Article XVI of the Texas Constitution. ▪ Temporary interest rate buydowns are not allowed. ▪ The new loan amount is limited to • the payoff of the unpaid principal balance (UPB) of the existing first mortgage loan being refinanced (including accrued interest); • the financing of closing costs, prepaid items, and points (up to $5,000 total) for the new loan; and • cash back to the borrower up to $250. (Excess proceeds may be applied as a curtailment on the new loan.) ▪ Lenders may provide an incentive to the borrower in the form of a payment to pay off a portion of the existing loan being refinanced. • Any such reduction of the existing loan balance will impact the LTV ratio as it is applied to the calculation of the new loan amount. (Lenders should be careful in that incentives have the potential to reduce the LTV ratio to below the minimum allowable for this program.)

<table>
<tr><td></td><td>

- Lenders are not required to evaluate borrower creditworthiness except for the requirements specifically stated in this Lender Letter.

</td></tr>
<tr><td>Minimum LTV Ratio</td><td>

For the new loan to be eligible, the following minimum LTV ratios are currently required for both fixed-rate and adjustable-rate mortgage (ARM) loans:

<table>
<tr><th>Occupancy Type</th><th>Units</th><th>Minimum LTV</th></tr>
<tr><td rowspan="3">Principal Residence</td><td>1</td><td>95.01%</td></tr>
<tr><td>2</td><td>85.01%</td></tr>
<tr><td>3-4</td><td>75.01%</td></tr>
<tr><td>Second Home</td><td>1</td><td>90.01%</td></tr>
<tr><td>Investment Property</td><td>1-4</td><td>75.01%</td></tr>
</table>

NOTE: *The loan being refinanced and the new loan do not have to represent the same occupancy. The occupancy of the subject property may have changed by the time of the high LTV refinance transaction.*

</td></tr>
<tr><td>Maximum LTV Ratio</td><td>

- No maximum LTV, CLTV, or HCLTV ratios for fixed-rate loans.
- 105% maximum LTV ratio for ARM loans, but no maximum CLTV or HCLTV ratio.

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<tr><td>Underwriting Methods</td><td>

- Except for the Alternative Qualification Path, which requires manual underwriting, high LTV refinance loans may be underwritten using Desktop Underwriter® (DU®) or manually.
- DU will determine if the borrower(s) and subject property address on the loan casefile match an existing eligible Fannie Mae loan.
- For manually underwritten loans the lender must determine that all eligibility requirements are met.

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<tr><td>Benefit to Borrower</td><td>

The new loan must provide a benefit to the borrower in the form of at least one of the following:

- a lower principal and interest (P&I) payment;
- a lower interest rate;
- shorter amortization term; or
- movement to a more stable product (for example, from an ARM or a step-rate modification to a fixed-rate loan).

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</table>

Borrower Eligibility	▪ Generally, the borrower(s) on the loan being refinanced (or the current borrower(s) if the existing loan was assumed) must be identical to the borrower(s) on the new loan. However, an existing borrower may be excluded from the new loan for either of the following: • the remaining borrower(s) meets the mortgage payment history requirements and provides evidence that they have been making the payments on the existing loan from their own funds for the most recent 12 months prior to the application of the new loan, or • due to the death of a borrower. Evidence of the deceased borrower's death must be documented in the loan file. If this criteria cannot be met, the new loan must be underwritten in accordance with the Alternative Qualification Path (see below). ▪ Borrower(s) may not be added to the new loan. ▪ If the loan being refinanced was assumed by the current borrower(s) prior to the refinance of the new loan, the current borrowers must have been qualified for the existing loan per the *Servicing Guide*.
Eligible Subordinate Financing	▪ New subordinate financing is only permitted if it replaces existing subordinate financing. ▪ Existing subordinate financing • may not be satisfied with the proceeds of the new loan, • can remain in place as long as it is resubordinated to the new loan, and • may be simultaneously refinanced as long as the new subordinate lien loan amount does not exceed the existing UPB. ▪ Other standard subordinate financing requirements will not apply. NOTE: *Although standard Fannie Mae policy prohibits subordinate financing on co-op share loans, an exception is permitted for high LTV refinance loans as long as the existing subordinate lien is subordinate to the new co-op share loan.*
Underwriting and Documentation Requirements for the New Loan	
Payment History Requirement	On the loan being refinanced, the borrower cannot have had ▪ any 30-day mortgage delinquencies in the most recent six-month period, and ▪ no more than one 30-day delinquency in months 7 through 12.
Minimum Credit Score	▪ There is not a minimum credit score requirement except for loans underwritten under the Alternative Qualification Path. ▪ A new credit report is required in accordance with standard *Selling Guide* requirements for payment history and pricing purposes.
Maximum Debt-to-Income Ratio	▪ There is not a maximum debt-to-income ratio except for loans underwritten under the Alternative Qualification Path.

Significant Derogatory Credit Events	▪ Lenders are not required to comply with the waiting period and re-establishment of credit requirements for significant derogatory credit events or the payoff or satisfaction of a judgment identified on the credit report. ▪ Lenders are not required to review or consider Form 1003 (or 1003(S)) VIII, Declarations (a through f) in the underwriting evaluation.
Employment and Income Verification	▪ The lender must obtain one of the following: • a verbal verification of employment for employment or self-employment income for at least one borrower, • documentation of a non-employment income source, or • documentation of liquid financial reserves equal to 12 months of the new monthly housing payment. ▪ Lenders are not required to assess continuity of income. ▪ Lenders are not required to verify income amount or calculate the debt-to-income ratio except for loans underwritten under the Alternative Qualification Path.
Asset Verification	Assets do not need to be verified except for loans underwritten under the Alternative Qualification Path where applicable.
Multiple Financed Properties	There are no limits on the number of financed properties the borrower may own.
Property Listing Requirements	The lender does not need to confirm the subject property is not listed for sale.
Collateral Requirements for the New Loan	
Valuation	▪ For certain loan casefiles, DU will offer a property inspection waiver (PIW) – an option to waive the appraisal requirement. Otherwise, an appraisal with an interior and exterior inspection will be required. If an appraisal is obtained, it must be used for valuation even if a waiver is offered by DU. Lenders exercising the PIW must deliver Special Feature Code 807. • When the lender is required by law to obtain an appraisal, the lender must comply with such requirements, but may still exercise the PIW. ▪ For manually underwritten loans, an appraisal with an interior and exterior inspection will be required.
Property Type	All Fannie Mae-eligible property types are permitted.
Condo, Co-op, and PUD Projects	▪ The project must not be a condo or co-op hotel or motel, houseboat project, or a timeshare or segmented ownership project. The lender is not required to perform any additional review of the project. ▪ Confirmation of property, flood, and liability insurance coverage is required.

Properties Affected by a Disaster	Repairs to a property damaged as the result of a disaster (as defined by the *Selling Guide*) will not be required prior to delivery as long as the loan meets the applicable property insurance requirements. An additional inspection and/or new appraisal of the property is not necessary after a disaster.
Leasehold Estates Eligibility	The term of the leasehold must run for at least five years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower. The lender is not required to perform any additional review of the leasehold terms.
Alternative Qualification Path for the New Loan	
Potential Material Change in Credit Risk or Higher-Priced Mortgage Loans	If any of the following apply to the new loan, the loan must conform to the Alternative Qualification Path requirements described below: ▪ the P&I payment increases by more than 20% based on the current P&I payment; ▪ a borrower on the loan being refinanced is being excluded from the new loan other than due to death, and the remaining borrower(s) cannot evidence making payments on their own for the prior 12 months; or ▪ the loan is a higher-priced mortgage loan or a higher-priced covered transaction under Regulation Z. NOTE: *Lenders must manually determine whether the loan being refinanced is a higher-priced loan or a higher-priced covered transaction under Regulation Z because DU cannot do so.*
Eligibility and Underwriting Criteria	Unless otherwise stated, all of the requirements in this Lender Letter apply to loans originated in accordance with the Alternative Qualification Path. In addition, these loans must have: ▪ a minimum credit score of 620, ▪ a maximum debt-to-income ratio of 45%, and ▪ verified assets needed to close, when applicable. See the Attachment for income and asset documentation requirements.
Underwriting Method	Manual underwriting is required.

Mortgage Insurance	
Mortgage Insurance Coverage Requirements	▪ If the loan being refinanced does not have mortgage insurance, mortgage insurance will not be required on the new loan. ▪ If the loan being refinanced has existing mortgage insurance, the existing mortgage insurance coverage must be continued on the new loan. To accomplish this, the mortgage insurer will modify the existing mortgage insurance certificate and transfer it to the new loan. Such transfer may or may not include assignment of a new mortgage insurance certificate number. Lenders should check with the mortgage insurer for specific requirements.
Financed Mortgage Insurance	Existing loans with financed mortgage insurance are eligible for high LTV refinance loans. There should be no difference in how coverage is continued on the refinance of such loans versus existing loans that do not have financed mortgage insurance. The existing coverage can be continued on the new loan regardless of whether the financed premium on the existing loan was paid as a single premium or a split premium. Lenders should check with the mortgage insurer for specific requirements.
Life Of Coverage	For high LTV refinance loans, mortgage insurance coverage must extend for the life of the new loan, or until cancellation or termination of coverage as required by law or Fannie Mae guidelines. For example, even if a 15-year loan that is 3 years old is refinanced into a 30-year loan, the mortgage insurance coverage should be extended for the full life of the new loan.
Cost to Transfer Certificate	A mortgage insurance company may charge a reasonable fee to transfer the certificate, and Fannie Mae permits such cost to be rolled into the unpaid principal balance of the new loan as a closing cost as long as the loan will still comply with Fannie Mae's and the mortgage insurance company's guidelines.
Loan Delivery Requirements	
Loan Delivery Application	▪ If the high LTV refinance loan was underwritten under the standard guidelines described above, the lender must provide the following data in the Loan Delivery application: • HighLTVRefi as the enumeration for RefinanceProgramIdentifier when importing a loan delivery XML file, or • High LTV Refi as the Refi Program ID when manually entering loan data in Loan Delivery. ▪ If the high LTV refinance loan was underwritten using the Alternative Qualification Path, the lender must provide the following: • HighLTVRefi as the enumeration for RefinanceProgramIdentifier and 840 as the value for InvestorFeatureIdentifier when importing a loan delivery XML file, or • High LTV Refi as the Refi Program ID and Special Feature Code 840 when manually entering loan data in Loan Delivery.

	NOTE: *The new HighLTVRefi enumeration will be added to Loan Delivery and additional guidance will be provided in the coming months.*
MBS Pool Prefixes	MBS deliveries of loans refinanced under this new option will be eligible for securitization utilizing existing Fannie Mae pool prefixes.
Pooling Loans with LTV Ratios Above 105%	High LTV refinance loans with LTV ratios above 105% cannot be included in TBA-eligible MBS but must be included in pools specifically created for loans with LTV ratios above 105%. Furthermore, lenders may be able to deliver high LTV refinance loans with LTV ratios above 105% into the respective Fannie Majors pool specifically available for these loans. Due to the separate pool prefixes required for loans with LTV ratios above 105%, these loans may not be delivered into standard TBA-eligible Fannie Majors pools.
Whole Loan Committing of Loans with LTV Ratios Above 105%	Separate committing will be required for high LTV refinance loans with LTV ratios above 105% — loans may not be delivered against standard whole loan commitments. Specific “High LTV Refi” products will be available in Fannie Mae’s whole loan committing application.
Solicitation	
Practices	Lenders may not solicit Fannie Mae loans for refinancing except in accordance with standard requirements per the *Selling Guide* B2-1.2-04, Prohibited Refinancing Practices.
Pricing	
Pricing	Fannie Mae will publish an updated Loan-Level Price Adjustment Matrix at a future date.

<table>
<tr><th colspan="3">Representations and Warranties</th></tr>
<tr><td rowspan="5">Limited Liabilities</td><td colspan="2">The representations and warranties will be consistent with current requirements for DU Refi Plus and Refi Plus loans. The following highlights a number of those key provisions.</td></tr>
<tr><th>DU</th><th>Manual Underwriting</th></tr>
<tr><td>■ The lender is not responsible for any of the representations and warranties associated with the loan being refinanced.
■ The lender is relieved of the standard underwriting representations and warranties (eligibility, credit history, liabilities, income and asset assessment) with respect to the new loan if the lender meets all of the following:
• All data in the loan casefile is complete, accurate, and not fraudulent.
• The lender follows the instructions in the DU Underwriting Findings report regarding income, employment, asset, and fieldwork documentation.
• The lender complies with all other requirements documented in Selling Guide A2-2.1-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU.</td><td>■ The lender is not responsible for any of the representations and warranties associated with the loan being refinanced with the following exception:
• The lender must represent and warrant that the existing loan is eligible for refinancing under this option (for example, the existing loan was not a Refi Plus loan).
■ The lender must represent and warrant that the new loan
• meets all the requirements of the high LTV refinance option as described above (as updated in the related future Selling Guide update), and
• is originated in compliance with laws.</td></tr>
<tr><td colspan="2">The lender is relieved of the representations and warranties on the value, marketability, or condition of the subject property (however, if an appraisal is obtained, the lender remains responsible for the appraisal only as it relates to value).</td></tr>
<tr><td colspan="2">The lender is not responsible for standard representations and warranties related to the project eligibility with the exception that the lender must represent and warrant that the property is not a condo or co-op hotel or motel, houseboat project, or a timeshare or segmented ownership project.</td></tr>
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<tr><td>Applicability of Representations and Warrant Framework</td><td>The representation and warranties framework will be consistent with current requirements for DU Refi Plus and Refi Plus loans (Selling Guide, A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility).

<table>
<tr><th colspan="2">Representations and Warranties Framework
Relief Criteria</th></tr>
<tr><td>Number of required consecutive monthly payments</td><td>12</td></tr>
<tr><td>Number of delinquencies permitted during first 12 monthly payments after Fannie Mae acquisition in order to be eligible for relief after the 12th monthly payment</td><td>0 x 30</td></tr>
<tr><td>Opportunity to re-establish acceptable payment history if there were delinquencies in the first 12 monthly payments after Fannie Mae acquisition?</td><td>Yes, as of the 36th monthly payment, provided no more than 2 x 30 delinquencies in first 36 monthly payments and 36th monthly payment is not delinquent</td></tr>
<tr><td>Eligible for relief after satisfactory conclusion of quality control review?</td><td>Yes</td></tr>
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<tr><th colspan="2">Additional Information</th></tr>
<tr><td>Expiration</td><td>There is no expiration date for this refinance option.</td></tr>
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Lenders who have questions about this Lender Letter should contact their Account Team.

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

Attachment

Alternative Qualification Path – Documentation Requirements	
Income Type and Eligible Income Sources	**Documentation Requirements**
All Employment Income	Verbal verification of employment (See B3-3.1-07, Verbal Verification of Employment, for additional requirements.) NOTE: *Each borrower must complete and sign a separate IRS Form 4506-T at or before closing.*
Base Pay (salary or hourly) **Tip, Bonus, and Overtime Income**	One paystub or a completed *Request for Verification of Employment* (Form 1005 or Form 1005(S)). Applies to primary employment, secondary employment (second job and multiple jobs), and seasonal income.
Commission Income	One paystub or Form 1005 or Form 1005(S) or one year personal tax return. Applies without regard to the percentage of commission earnings.
Military Income	A military Leave and Earnings Statement or a verification of employment.
Self-Employment	One year personal tax return. Applies to primary and secondary self-employment.
Alimony or Child Support	Copy of divorce decree, separation agreement, court order or equivalent documentation, and one month documentation of receipt.
Employment-Related Assets as Qualifying Income	Lender must obtain standard documentation for this type of income as described in B3-3.1-09, Other Sources of Income.
Rental Income	Lease or one year personal tax return (Form 1007 is not required). Applies to rental income from subject property or from other properties owned by the borrower.
Retirement and Pension	One of the following: ▪ award letter, ▪ one year personal tax return, ▪ W-2 or 1099 form, or ▪ one month bank statement reflecting direct deposit.

Alternative Qualification Path – Documentation Requirements	
Social Security	One of the following: ▪ award letter, ▪ one year personal tax return, ▪ Form SSA-1099, or ▪ one month bank statement reflecting direct deposit.
Temporary Leave Income	Lender must receive: ▪ the borrower’s written confirmation of his or her intent to return to work, and ▪ no evidence or information from the borrower's employer indicating that the borrower does not have the right to return to work after the leave period. Regardless of the date of return, the amount of the “regular employment income” the borrower received prior to the temporary leave must be used to qualify.
All Other Income Types	**Documentation Requirements**
▪ Automobile Allowance ▪ Boarder Income ▪ Capital Gains Income ▪ Disability Income – Long-Term ▪ Employment Offers or Contracts ▪ Foreign Income ▪ Foster-Care Income ▪ Housing or Parsonage Income ▪ Interest and Dividends Income ▪ Mortgage Credit Certificates ▪ Mortgage Differential Payments Income ▪ Non-Occupant Borrower Income ▪ Notes Receivable Income ▪ Public Assistance Income ▪ Royalty Payment Income ▪ Schedule K-1 Income ▪ Trust Income ▪ Unemployment Benefits (seasonal or non-seasonal in nature) ▪ VA Benefits Income	Lender must determine appropriate documentation. Examples include (but are not limited to): ▪ an award letter or equivalent documentation or agreement, ▪ one paystub or equivalent documentation, ▪ one year personal tax return, ▪ IRS 1099 Form, or ▪ one month bank statement reflecting direct deposit.

Asset Type	Documentation Requirements
▪ Checking Accounts ▪ Savings Accounts ▪ Certificates of Deposit ▪ Money Mark Accounts ▪ Stocks, Bonds, Mutual Funds ▪ Retirement Accounts ▪ Trust Accounts ▪ Secured Borrowed Funds ▪ Donations from Entities (Hardest Hit Fund) ▪ Gifts	One recent statement (monthly, quarterly, or annual) showing asset balance