

***Announcement 09-09***

***April 3, 2009***

***Amends these Guides: Selling***

***Product Updates: Government Mortgage Loans, Lease-Purchase Option, and Community Living<sup>®</sup> Group Homes***

### **Introduction**

This Announcement contains new and updated policies for government mortgage loans eligible for purchase or securitization by Fannie Mae. In addition, Fannie Mae is clarifying the policies relative to a lender's eligibility to underwrite loans with a lease-purchase option, and outlining changes to the Community Living mortgage product.

**Note: This Announcement is being released in conjunction with the release of the new Fannie Mae *Selling Guide*. With a few exceptions (as noted below), the contents of this Announcement are already contained in the new *Selling Guide*. All references to the *Selling Guide* going forward are to the *Selling Guide* dated April 1, 2009 (or later versions) and not the July 2007 version.**

### **Government Mortgages**

***Selling Guide*, B6-1, Government Insured and Guaranteed Mortgages; and B7-1-06, Government Mortgage Loan Guaranty or Insurance**

### **Overview**

In the new *Selling Guide*, Fannie Mae eliminated specific federal agency requirements for mortgage loans insured or guaranteed by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), the Department of Housing and Urban Development (HUD), and Rural Development (RD), an agency of the Department of Agriculture. Remaining in the *Selling Guide* are Fannie Mae's policies and requirements that differ from those of the government agencies. Lenders must refer to the individual government agency for specific program requirements.

This Announcement describes a number of important changes that Fannie Mae is making to its requirements for loans originated pursuant to certain government programs. The Announcement also reiterates certain existing policies that were included in the 2007 *Selling Guide* and have been carried over to the new *Selling Guide*. Several other policies that Fannie Mae had imposed

over and above the respective government agency's requirements have been eliminated from the new *Selling Guide*, some of which have not been specifically identified in this Announcement.

## General Government Mortgage Requirements

All eligible government mortgages purchased or securitized by Fannie Mae must comply with the respective government agency's requirements. These loans must also comply with Fannie Mae requirements as specifically addressed in this Announcement and the *Selling Guide*. The following table outlines new and revised requirements that pertain to government mortgage loans.

| <b>Criteria</b>  | <b>Requirements</b>   |
|--|---|
| <b>Mortgage Term</b>   | The term of a government mortgage may not extend more than 30 years beyond the date of the first monthly payment.   |
| <b>Seasoned Mortgages</b>  | All government mortgages must have been originated within the 12 months that precede the date of delivery to Fannie Mae. Lenders must contact their lead Fannie Mae regional office for delivery terms if a loan is greater than 12 months old.   |
| <b>Lien Requirements</b>   | The security instrument for a government mortgage must be a first lien on the borrower's real property. The security property may be subject only to liens for taxes and special assessments that are not yet due and payable and to conditions, restrictions, and encumbrances that Fannie Mae does not consider material. The lender must provide documentation to show that the current installments of taxes and assessments (including those that may have been attached as prior liens, but are not now in arrears) have been paid or that sufficient deposits are being collected to pay them. |
| <b>Notice of Transfer</b>  | When lenders deliver government loans to Fannie Mae for purchase or securitization, they must report the transfer of the loan in accordance with the applicable agency's requirements, if applicable.   |
| <b>MBS Pool Parameters</b>   | Government loans (e.g., FHA-insured, VA-guaranteed, HUD-guaranteed, and RD-guaranteed) that are securitized must be pooled in government-prefix MBS pools. Government loans cannot be commingled in the same pool with conventional mortgages.  |
| <b>Remittance Types</b>  | For all government loans, the actual/actual remittance type is required for whole loans. The scheduled/scheduled remittance type is required for all government loans delivered into MBS. (When the <i>Selling Guide</i> is updated, it will refer lenders to eCommitting™ or eCommitONE™ for eligible whole loan remittance types.)  |
| <b>Repurchase of Loans When There is a Lapse in Government Authority</b> | For whole loans in Fannie Mae's portfolio, if there is a lapse in the government agency's guaranty or insurance authority, the lender must repurchase the mortgage loan if the mortgage becomes delinquent before the insurance or guaranty is issued.  |

| <b>Criteria</b>     | <b>Requirements</b>   |
|---------------------|---|
| <b>Credit Score</b> | There is a minimum credit score requirement for all government-insured and -guaranteed mortgages as documented in Announcement 08-35, <i>Credit Score Requirements for Government Loans, Debt-to-Income Ratio Changes, Community Seconds<sup>®</sup> Rider, and Seller/Builder Affiliation Policy</i> . All government loans are subject to a minimum representative credit score of 580. Manually underwritten government loans with nontraditional credit are exempt from this policy. (This will be added to the <i>Selling Guide</i> in a future update.) |

## **Government Mortgage Loan Guaranty or Insurance**

### **Evidence of Government Guaranty or Insurance**

Lenders must obtain the required government guaranty or government insurance. The following table lists the acceptable forms of evidence of government guaranty or insurance.

| <b>Loan Type</b> | <b>Evidence</b>                                     |
|------------------|---|
| FHA              | FHA Mortgage Insurance Certificate (HUD Form 59100) |
| VA               | VA Loan Guaranty Certificate (VA Form 26-1899)      |
| RD               | RD Loan Note Guarantee (Form RD 1980-17)            |
| HUD Section 184  | Indian Loan Guaranty Certificate (HUD Form 53039)   |

### **Inability to Obtain Guaranty or Insurance Prior to Delivery**

Evidence of the guaranty or insurance should be obtained before loan delivery, if possible. If this is not possible, the lender represents and warrants, by delivery of the loan, all of the following:

- A complete and satisfactory mortgage guaranty or insurance application was submitted to the government agency within the required time frame, either based on an agency's prior approval of the loan application and issuance of a commitment to guaranty or insure, or subject to an agency's delegated or automatic loan approval processing, as applicable.
- The mortgage insurance premiums or guaranty fees were paid to the government agency within the government agency's required time frame.
- The government agency has the legal authority to issue the guaranty or insurance and will have such authority for long enough to issue the guaranty or insurance within a time period that is consistent with its past practice.

The lender is now required to notify its lead Fannie Mae regional office if the government agency declines to issue the mortgage guaranty or insurance (for any reason) for any loan delivered to Fannie Mae.

If a lender fails to obtain the guaranty or insurance in a timely manner, as determined by Fannie Mae, the lender may be required to repurchase the mortgage and make Fannie Mae whole for any losses suffered.

In addition, Fannie Mae may suspend or terminate the lender’s authority to deliver the following:

- mortgages for which it has not already received the government mortgage guaranty or insurance,
- any government mortgage or any particular category of government mortgage, or
- any mortgage.

Fannie Mae may require the lender to provide periodic reports on the guaranty or insurance status for all government mortgages sold to Fannie Mae. Such reports must be provided within the requested time frame.

### **FHA-Insured Mortgage Loans**

Fannie Mae will purchase or securitize single-family mortgage loans that are insured by FHA. The following table describes the types of FHA mortgage loans that Fannie Mae will purchase. It also outlines certain FHA programs that are inactive, and programs for which loans may only be delivered to Fannie Mae on a negotiated basis.

| <b>FHA Loans Insured under Title II of the National Housing Act that Fannie Mae will Purchase</b> | <b>Section of Act</b>  | <b>Description</b>  |
|---|--|---|
|   | <ul style="list-style-type: none"> <li>• Section 203(b)</li> <li>• Section 203(h)</li> <li>• Section 203(k)</li> <li>• Section 234</li> <li>• Section 251</li> <li>• Section 255</li> </ul>  | <ul style="list-style-type: none"> <li>Home Mortgages</li> <li>Home Mortgages for Disaster Victims</li> <li>Rehabilitation First Mortgages</li> <li>Condominium Units (individual mortgages only)</li> <li>Adjustable-Rate Mortgages</li> <li>Home Equity Conversion Mortgages (HECMs)</li> </ul> <p>With the exception of Section 255 HECMs, any lender may deliver the above-listed FHA mortgage loans. Lenders must obtain special approval and have a Master Agreement that provides for the delivery of HECMs to Fannie Mae.</p> |
| <b>FHA Adjustable-Rate Mortgages (ARMs)</b>   | <ul style="list-style-type: none"> <li>• 1/1 ARM Plan 515, 1/1/5 cap</li> <li>• 3/1 ARM Plan 3549, 1/1/5 cap</li> <li>• 5/1 ARM Plan 3550, 1/1/5 cap</li> <li>• 5/1 ARM Plan 3640, 2/2/6 cap</li> <li>• 7/1 ARM Plan 3551, 2/2/6 cap</li> <li>• 10/1 ARM Plan 3552, 2/2/6 cap</li> </ul> | <p>When purchasing or securitizing an eligible FHA adjustable-rate mortgage, Fannie Mae will no longer require that the loan have a minimum remaining term of ten years.</p>  |

|   |  |   |
|---|--|---|
| <p><b>FHA Loans Insured under Title II or Title I of the National Housing Act that Fannie Mae will Purchase only on a Negotiated Basis</b></p> <p>(Note: The content pertaining to these programs was removed from the <i>Selling Guide</i>.)</p> | <p><b>Section of Act</b></p> <ul style="list-style-type: none"> <li>• Section 203(i)</li> <li>• Section 213</li> <li>• Section 223(e)</li> <li>• Section 245</li> <li>• Section 247</li> <li>• Section 248</li> <li>• Title I</li> </ul>     | <p><b>Description</b></p> <p>Home Mortgages in Outlying Areas<br/>Cooperative Mortgages (individual share loans only)</p> <p>Home Mortgages in older, declining areas specified by HUD (individual mortgages only)</p> <p>Graduated-Payment and Growing-Equity Mortgages</p> <p>Mortgages on Hawaiian Home Lands</p> <p>Mortgages on Indian Reservations</p> <p>FHA-insured mortgage or unsecured loan that finances home improvement, if insured under Title I of the National Housing Act</p> |
| <p><b>Inactive FHA Programs</b></p> <p>(Note: The content pertaining to these programs was removed from the <i>Selling Guide</i>.)</p>  | <p><b>Section of Act</b></p> <ul style="list-style-type: none"> <li>• Section 220</li> <li>• Section 221(d)(2)</li> <li>• Section 222</li> <li>• Section 233</li> <li>• Section 235</li> <li>• Section 237</li> <li>• Section 240</li> </ul> | <p><b>Description</b></p> <p>Mortgages in Urban Renewal Areas (individual mortgages only)</p> <p>Low-Cost and Moderate-Income Mortgages (approved prior to 04/21/01)</p> <p>Servicemen’s Mortgages</p> <p>Experimental Housing Units (individual mortgages only)</p> <p>Homeownership Assistance (individual mortgages only)</p> <p>Special Credit Risks</p> <p>Fee Simple Title from Lessors</p>   |

**Other Fannie Mae Policies that Pertain to FHA Loans**

Fannie Mae imposes the following additional policies for FHA loans:

- Fixed-rate FHA-insured mortgages that are subject to interest rate buydowns are now eligible for delivery to Fannie Mae as long as the borrower is qualified at the note rate. (This will be added to the *Selling Guide* in a future update.)
- FHA-insured loans that were previously included in a Ginnie Mae MBS pool but removed due to delinquency or other reasons are only eligible for sale to Fannie Mae on a negotiated basis. (This will be added to the *Selling Guide* in a future update.)

**VA-Guaranteed Mortgage Loans**

The following new or revised policies apply to VA-guaranteed mortgage loans:

- Fannie Mae will purchase or securitize mortgages secured by one- to four-unit residential properties that are guaranteed by the VA only under the following sections in the United States Code:

- Section 3710 of Title 38 for fixed-payment mortgages
- Section 3703(d) of Title 38 for graduated-payment mortgages
- VA ARM mortgage loans will continue to be sold to Fannie Mae on a negotiated basis. (Information about VA ARMs has been removed from the new *Selling Guide*.)
- Late charges for VA mortgages shall no longer be computed on the principal and interest portion of the payment. Lenders must now follow VA guidelines.
- The dollar amount of the VA guaranty must be at least equal to 25 percent of the original principal amount of the mortgage loan. (This will be added to the *Selling Guide* in a future update.)
- VA mortgages that are subject to interest rate buydowns are now eligible for delivery to Fannie Mae as long as the borrower is qualified at the note rate.

**Note:** Public Law 110-389, the Veterans’ Benefits Improvement Act of 2008, provides a temporary increase in the maximum guaranty amount for loans closed January 1, 2009, through December 31, 2011. VA does not impose a maximum loan amount that an eligible veteran may borrow using a VA-guaranteed loan. However, the new law allows for maximum guaranty amounts that vary for high-cost areas. Notwithstanding the maximum guaranty amounts published by VA, Fannie Mae is limiting the maximum loan amount for VA mortgage loans that are delivered to \$625,500 (for contiguous states, District of Columbia, and Puerto Rico) and \$938,250 (for Alaska, Hawaii, Guam, and the U.S. Virgin Islands), regardless of the number of units in the property.

## **HUD-Guaranteed Section 184 Mortgage Loans**

Fannie Mae purchases mortgage loans guaranteed under HUD’s Section 184 Indian Home Loan Guarantee Program under the following conditions:

- Any lender can deliver HUD Section 184 mortgages to Fannie Mae. This is no longer a negotiated product.
- The loan must be secured by one- to four-unit properties located on individual lots or in a condominium, cooperative, or PUD project.
- A HUD Section 184 mortgage loan may be secured by a manufactured home if it meets HUD’s requirements.
- The mortgage transaction may be a purchase money transaction or a refinance transaction.
- HUD Section 184 mortgages that are subject to an interest rate buydown plan are not permitted. (This will be added to the *Selling Guide* in a future update.)
- Special Feature Code 202 is required at delivery.

Fannie Mae will not purchase a HUD Section 184 mortgage loan that includes as part of the collateral any of the following: personal property, cash, notes, an interest in securities, royalties, annuities, and any other property that is transferable and for which a present value may be determined.

However, the construction escrow account that is required when these mortgages are closed as combination construction/permanent mortgages—as well as any partially completed improvements—must be part of the collateral.

It is no longer a requirement that Fannie Mae approve modifications that take the form of riders to the standard leasehold instruments, or approve terminations of the leasehold interest while the mortgage is still outstanding.

### **HUD Section 184 Combination Construction/Permanent Mortgages**

Fannie Mae will no longer require lenders to comply with the following terms:

- Funds representing the monthly payments that will be due during the construction period may not be financed as part of the mortgage amount.
- The Construction Loan Agreement must provide for construction to be completed within 30 days after the agreed-upon completion date.
- The length of the construction period may be no longer than three months if the mortgage is secured by a manufactured home or other factory-built housing.

**Note:** HUD Section 184 mortgages that are combination construction/permanent mortgages are limited to whole loan deliveries only.

### **RD-Guaranteed Mortgage Loans**

Fannie Mae will purchase RD-guaranteed Section 502 mortgages under the following conditions:

- The loans must be secured by one-unit residential properties.
- Manufactured home loans are accepted under negotiated transactions only.
- RD loans may be securitized only in government-prefix MBS pools or sold to us on a whole loan basis. (This will be updated in the *Selling Guide* in a future update.)
- Fixed-rate RD Section 502 mortgages that are subject to interest rate buydowns are eligible for delivery to Fannie Mae as long as the borrower is qualified at the note rate. (This will be added to the *Selling Guide* in a future update.)
- Special Feature Code 087 is required at delivery.

The following additional changes were made in the *Selling Guide*:

- All references to Rural Housing Service and RHS have been replaced by Rural Development and RD.
- All references to the RHS Native American Pilot were removed because the pilot is no longer active.
- All references to the RHS Direct Leveraging Program were removed because these mortgage loans are only purchased on a negotiated basis.

### **Lease-Purchase Option and Community Living Group Homes**

Fannie Mae is committed to providing financing opportunities for both lease-purchase option mortgages and for group homes. The changes noted below will ensure that those products that require lenders to have specific underwriting experience, such as underwriting legal entity

borrowers, are handled on a negotiated basis, while more standard products continue to be available to all lenders in accordance with the *Selling Guide*. Based upon the following changes, Fannie Mae has removed the content that pertains to negotiated products from the *Selling Guide*.

## **Lease-Purchase Option**

The Lease-Purchase option was designed to help low-income and moderate-income families overcome the difficult obstacle of accumulating savings for the down payment. Nonprofit organizations often purchase (and sometimes rehabilitate) homes that they then lease to lower-income families, giving the families an option to purchase the property at a later date.

Due to the unique nature of a lease-purchase transaction and because the borrower will initially be a legal entity (such as a nonprofit organization), Fannie Mae will be reviewing the lender's underwriting experience before approving any lease-purchase initiatives for a particular lender. Therefore, lease-purchase initiatives (no longer defined as a product) will continue to be available only on a negotiated basis.

## **Group Homes**

### ***Selling Guide*, B2-3, Occupancy and Property Eligibility**

Fannie Mae's Community Living mortgage product was designed to enable natural person and legal entity borrowers to obtain mortgage financing for group homes that provide housing to individuals with disabilities. With this Announcement, Fannie Mae is retiring the Community Living mortgage product and is clarifying the means by which Fannie Mae supports financing for group homes.

### **Group Homes for Natural-Person Borrowers**

There will be no special designation of loans made to natural persons for group homes, whether the property is utilized as a principal residence property, second home, or investment property. For borrowers who are natural persons, eligibility and pricing for group homes will be the same as currently provided under the terms and conditions established for the respective occupancy type in the *Selling Guide*. Special Feature Code 017 should not be utilized for this type of group home mortgage loan.

### **Group Homes for Legal Entity Borrowers**

For legal entity borrowers, financing of group homes is currently available only as a negotiated product. Although the provisions for the Community Living product have been removed from the *Selling Guide*, Fannie Mae encourages lenders to provide mortgage financing on group homes to legal entity borrowers. Lenders should contact their lead Fannie Mae regional office to discuss their proposals, and Fannie Mae will evaluate the purchase of such loans on a negotiated basis. Lenders must continue to use Special Feature Code 017 for group home mortgages to legal entity borrowers.



## **Effective Date**

The changes to Fannie Mae's requirements identified in this Announcement are effective on April 1, 2009.

\*\*\*\*\*

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

Michael A. Quinn  
Senior Vice President  
Single-Family Risk Officer