

Announcement SEL-2010-07**May 27, 2010*****Selling Guide Updates***

The *Selling Guide* is being updated to include changes to the following topics:

- Mortgage insurance clarifications
- Community Seconds[®] loan eligibility
- Title exceptions and defects
- Miscellaneous updates and clarifications

Each of the updates is briefly described below. The affected topics (and specific paragraphs) are noted for each policy change and are linked to the updated *Selling Guide*. Lenders should review each topic to gain a full understanding of the policy changes. The updated topics are dated May 27, 2010.

Mortgage Insurance Clarifications

In Announcement 09-29, *Updates to Minimum Credit Scores, Mortgage Insurance, Pricing for Certain Desktop Underwriter[®] Loans, Biweekly Loans and Special Feature Codes*, Fannie Mae updated several policies pertaining to its mortgage insurance requirements. The changes in this Announcement were incorporated into the December 30, 2009 *Selling Guide* update.

Since that time, Fannie Mae has received a number of questions about mortgage insurance policies, particularly those pertaining to financed mortgage insurance. To address those questions, several topics in the *Guide* have been modified to more clearly state the policies and requirements.

Types of Mortgage Insurance Payment Plans

The topic was updated to more accurately reflect the types of payment plan options the mortgage insurers offer for borrower-paid mortgage insurance premiums.

Updated *Selling Guide* Topic

[B7-1-01](#), Provision of Mortgage Insurance (Payment of Mortgage Insurance Premiums)

Mortgage Insurance Coverage

For certain transactions, Fannie Mae offers two mortgage insurance coverage level options: standard coverage and minimum coverage (which requires a corresponding loan-level price adjustment (LLPA)). This topic was updated to reflect that if the lender chooses coverage that is less than standard, but no lower than minimum coverage, the minimum mortgage insurance LLPA will apply. For example, standard coverage for an ARM loan with a 95% LTV ratio is 30%

and minimum coverage is 16%. If the lender delivers the loan with 25% coverage, the minimum mortgage insurance LLPA will apply.

Updated *Selling Guide* Topic

[B7-1-02](#), Mortgage Insurance Coverage Requirements

Special Feature Code for Lender-Purchased Mortgage Insurance

In this topic the reference to SFC 019 was moved from the last list item regarding servicing transfers to its own bullet to more clearly reflect that the SFC applies to all lender-purchased mortgage insurance transactions.

Updated *Selling Guide* Topic

[B7-1-03](#), Lender-Purchased Mortgage Insurance (Lender Requirements)

Financed Mortgage Insurance

The majority of this topic was rewritten to provide clarity on the policies and requirements for financed mortgage insurance transactions, including (but not limited to):

- Split- and single-premium plans can be financed into the loan amount.
- The mortgage insurance coverage amount can be standard coverage or minimum coverage.
- The mortgage insurance coverage amount is determined based on the net LTV ratio – the LTV ratio calculated without the financed premium.
- The gross LTV ratio – the LTV ratio that includes the financed premium – is used for eligibility and pricing purposes.
- The exception that Desktop Underwriter (DU[®]) allows to the standard 95% LTV ratio limitation allowing an LTV ratio up to 97% with financed mortgage insurance if certain criteria is met.
- The delivery requirements for financed mortgage insurance transactions, including the use of SFCs for financed mortgage insurance, Flexible mortgages, and MyCommunityMortgage[®] loans.

This topic also introduces the concept of a “prepaid mortgage insurance transaction,” which exists when the borrower finances all or a portion of the mortgage insurance premium and monthly escrows into the loan amount of a refinance. The mortgage insurance coverage amount is based on the LTV ratio after all closing costs and mortgage insurance are included in the loan amount. (The concepts of “net” and “gross” LTV ratios are not applicable.) Furthermore, the loan is not delivered as a financed mortgage insurance transaction.

Updated *Selling Guide* Topic

[B7-1-04](#), Financed Borrower-Purchased Mortgage Insurance

Effective Date

All updates and clarifications are effective immediately.

Community Seconds Loan Eligibility

Fannie Mae recently revised eligibility requirements for interest-only mortgage loans to position the feature as a financial management tool, rather than an affordability tool. To ensure alignment of policies, Fannie Mae is now removing Community Seconds as eligible in connection with interest-only mortgage loans.

Updated *Selling Guide* Topics

[B5-5.1-02](#), Community Seconds Loan Eligibility (Community Seconds Mortgage Terms/Proceeds)

Effective Date

Lenders are encouraged to implement this policy immediately; however, DU will be updated at a later date to issue an Ineligible recommendation on interest-only loan casefiles with a Community Seconds loan.

Title Defect – Mortgage Loans Secured by Properties Subject to Unexpired Redemption Period

Certain state laws provide for a “redemption period” after a foreclosure or tax sale has occurred, during which time the prior owner may reclaim the property upon payment of all amounts owed. Unexpired redemption periods create an unacceptable title defect on the subject property, and do not conform to the existing policy that requires the property to have “good and marketable” title. As such, Fannie Mae is clarifying the *Selling Guide* to state that properties with unexpired redemption periods have unacceptable title defects. Therefore, these mortgage loans are not eligible for delivery to Fannie Mae until after the expiration of the redemption period. The purchase of additional insurance, a redemption bond or similar coverage during the redemption period does not remedy the title defect and the mortgage loan remains ineligible for delivery to Fannie Mae.

This topic was also updated to remove the paragraph pertaining to FHA and VA mortgage loans. Lenders must follow the applicable federal agency’s requirements pertaining to allowable title exceptions.

Updated *Selling Guide* Topic

[B7-2-05](#), Title Exceptions and Defects (Title Defect - Mortgage Loans Secured by Properties with Unexpired Redemption Periods)

Effective Dates

This clarification is effective immediately.

Miscellaneous Updates and Clarifications

This *Selling Guide* update includes a number of other miscellaneous changes:

- New link to information on refinances to buy out an owner's interest
 - [B2-1.2-04](#), Continuity of Obligation (No Acceptable Continuity of Obligation)
- Clarification that the payment of up to 12 months of HOA fees is not considered an abatement, but HOA fees in excess of 12 months are considered an abatement
 - [B3-4.1-03](#), Types of Interested Party Contributions (Payment Abatements)
- Update to standard ARM plans for Flexible mortgages – added five-year ARM Plan 2737 (which is currently permitted)
 - [B5-2.3-01](#), Flexible Mortgage Eligibility (Eligible Loan Terms)
- Clarification that construction-to-permanent is not related to rehabilitation of an existing property but rather new construction
 - [B5-3.1-02](#), Conversion of Construction-to-Permanent Financing Loan Eligibility (Purchase Transaction)
- In Announcement 09-29, Fannie Mae announced minimum credit score requirements for mortgage loans. The following topics have been updated to reflect the minimum credit score requirements:
 - [B5-6-03](#), MyCommunityMortgage Underwriting Methods and Requirements (MCM Borrowers with Low Credit Scores: Manual Underwriting Only)
 - [B6-1-01](#), General Government Mortgage Requirements (Credit Score)

(The remainder of this Announcement was incorporated into the December 30, 2009 *Selling Guide* update.)

- Reference to FHA Section 248 mortgage loans was removed since the HUD Section 184 program has rendered the FHA 248 program obsolete
 - [B7-2-04](#), Special Title Insurance Coverage Considerations (Other Mortgages)
- In Announcement SEL-2010-06, *Selling Guide Updates*, Fannie Mae announced the removal of balloon mortgages as a standard product offering. The reference to balloon mortgages is being removed from the following topic:
 - [B8-4-01](#), Riders and Addenda (General Information)
- The phone number or address information in Part E, List of Contacts was updated for a few Fannie Mae contacts:
 - Counterparty Risk Monitoring Unit
 - New Loan Submissions
 - Triparty Wiring Instructions

Effective Date

These changes are effective immediately.

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

Marianne E. Sullivan
Senior Vice President
Single-Family Chief Risk Officer