Selling Guide Announcement SEL-2011-12

November 15, 2011

Updates to Refi Plus™ and DU Refi Plus™

The Federal Housing Finance Agency (FHFA) recently announced changes to the Home Affordable Refinance Program (HARP) in an effort to attract more eligible borrowers who can benefit from refinancing their mortgage loan. As a result of FHFA's announcement, Fannie Mae will be making the changes to Refi Plus™ (manual underwriting) and DU Refi Plus™ as noted below. These refinance options are designed to assist borrowers who have demonstrated an acceptable payment history on their existing Fannie Mae mortgage loan, but may not have been able to refinance to obtain a lower payment or move to a more stable product.

> NOTE: *There are a variety of effective dates for the updates and each is described below. The updates to Refi Plus will be reflected in the next monthly update of the Selling Guide, which is scheduled for December 13, 2011. Desktop Underwriter® (DU®) will be updated in March 2012 to include any relevant DU Refi Plus changes. The changes will be described in the DU Release Notes that will be issued in advance of the release.*

Program Extension

The HARP program has been extended. Accordingly, lenders will now be able to originate Refi Plus and DU Refi Plus mortgage loans provided the note date is on or before December 31, 2013. Whole loans must be purchased by Fannie Mae no later than April 30, 2014 or in MBS pools with issue dates no later than April 1, 2014.

Maximum LTV Ratios and Eligible Products for Refi Plus

Fannie Mae is removing the maximum LTV ratio limit for Refi Plus mortgage loans secured by fixed-rate mortgages with terms up to 30 years. This includes loans with terms of 15 years, which were previously restricted to a maximum LTV ratio of 105%. There continue to be no limits on the CLTV or HCLTV ratios.

The maximum LTV ratio limits for all occupancy and property types are:

- no maximum for fixed-rate mortgages with terms up to 30 years,
- 105% for fixed-rate loans with terms greater than 30 years up to 40 years, and
- 105% for ARMs with initial fixed periods greater than or equal to five years and terms up to 40 years (as permitted by the ARM plan).

Refer to the Whole Loan Committing and MBS Pool Information sections of this Announcement for information about new committing and delivery options for loans with LTV ratios that exceed 105%. The updated *Eligibility Matrix* has also been posted on eFannieMae.com.

Effective Date

The expansion of the LTV ratio limits is effective for Refi Plus mortgage loans with application dates on or after December 1, 2011.

DU Implementation of LTV Expansion

The changes to the LTV ratio limits described above will be implemented in DU in March 2012. Until such time as DU is updated, DU loan casefiles that receive an Ineligible recommendation due to an LTV ratio above 125% will not be eligible for delivery.

Changes to Underwriting Requirements for Refi Plus

A number of changes are being made to the manual underwriting requirements for Refi Plus, including:

Mortgage payment history requirements: The lender must determine that the borrower has not had any mortgage delinquencies on the existing mortgage in the most recent six month period, and no more than one 30-day delinquency in months 7 – 12. This is a change from the existing mortgage delinquency policy, which varies based on whether the borrower's payment is increasing or decreasing.

Requalification requirements for large payment increases: A new policy is being introduced that requires the borrower to be requalified for the new loan if there is a large payment increase. The following requirements must be met when the principal and interest payment increases by more than 20% of the current contractually obligated payment under the note:

- minimum representative credit score of 620;
- maximum DTI ratio of 45%;
- verification of income sources and amounts in accordance with the *Selling Guide,* Chapter B3-3 Income Assessment; and
- verification of assets to close if the borrower is required to bring funds to closing in accordance with Chapter B3-4, Asset Assessment.

In the event that the note provides for more than one payment option, the lender must use the lowest payment option to determine whether the increase exceeds 20%. If the borrower's payment is increasing by 20% or less, the standard Refi Plus guidelines continue to apply.

Removal of bankruptcy and foreclosure policy: Fannie Mae is removing the requirement that the borrower (on the new loan) meet the standard waiting period and re-establishment of credit criteria in the Selling Guide following a bankruptcy or foreclosure. The requirement that the original loan must have met the bankruptcy and foreclosure policies in effect at the time the loan was originated is also being removed.

Borrower benefit requirement: To be eligible for Refi Plus and DU Refi Plus, the borrower must receive a benefit in the form of either a reduced monthly mortgage payment (principal and interest) or a more stable product, such as a move to a fixed-rate mortgage from an ARM. Fannie Mae is updating the borrower benefit criteria to also include a reduction in the interest rate or a reduction in the loan amortization term as eligible borrower benefits.

Effective Date

The changes to the Refi Plus underwriting requirements are effective for mortgage loans with application dates on or after December 1, 2011.

Loan-Level Price Adjustments for Refi Plus and DU Refi Plus

Fannie Mae is significantly reducing the maximum amount of loan-level price adjustments (LLPAs) that apply to "HARP" mortgage loans – loans secured by principal residences with LTV ratios greater than 80%. The following changes apply:

- The cap applicable to the sum of the LLPAs and the Adverse Market Delivery Charge (AMDC) on HARP mortgage loans with amortization terms less than or equal to 20 years is being reduced to 0.00%. *As a result, all delivery fees are effectively eliminated for this category of loans.*
- The cap applicable to the sum of the LLPAs and the AMDC on HARP mortgage loans with amortization terms greater than 20 years is reduced to 0.75%.
- LTV ratio ranges in the tables have been updated to reflect the higher LTV ratios that will now be permitted.

For Refi Plus and DU Refi Plus mortgage loans that are not defined as HARP loans, the LLPAs, AMDC, and the current caps will remain in effect. Refer to the updated *Refi Plus Pricing Matrix* on eFannieMae.com for complete information.

Effective Dates

The pricing changes are effective for all Refi Plus and DU Refi Plus whole loans purchased on or after January 3, 2012, and for mortgage loans delivered into MBS with issue dates on or after January 1, 2012.

Permissible Refinance Solicitation Practices

At the direction of the FHFA, Fannie Mae is modifying the policies by which lenders can solicit borrowers for a Refi Plus or DU Refi Plus refinance.

Requirements for the solicitation of Refi Plus and DU Refi Plus mortgage loans with LTV ratios greater than 80%:

- Lenders may solicit borrowers with mortgages owned or securitized by a particular government-sponsored enterprise (GSE), provided that the lender simultaneously applies the same advertising and solicitation activities with respect to borrowers of mortgage loans with LTV ratios greater than 80% and owned or securitized by the other GSE.
- Lenders must apply the same advertising and solicitation activities to all mortgage loans with LTV ratios greater than 80% and serviced for a particular GSE, regardless of whether the lender or a third-party owns the associated Fannie Mae MBS pools or Freddie Mac PC pools.
- All other provisions of the *Selling Guide*, B2-1.2-05, Prohibited Refinancing Practices, regarding refinance practices remain in effect.

If lenders choose to reach out to borrowers, and the lender's communication includes a reference to a GSE, then the communication must include the following:

- "Freddie Mac and Fannie Mae have adopted changes to the Home Affordable Refinance Program (HARP) and you may be eligible to take advantage of these changes."
- "If your mortgage is owned or guaranteed by either Freddie Mac or Fannie Mae, you may be eligible to refinance your mortgage under the enhanced and expanded provisions of HARP."
- "You can determine whether your mortgage is owned by either Freddie Mac or Fannie Mae by checking the following websites:

  www.freddiemac.com/mymortgage or http://www.fanniemae.com/loanlookup/."

Requirements for the solicitation of Refi Plus and DU Refi Plus mortgage loans with LTV ratios less than or equal to 80%:

Lenders must comply with the provisions of the B2-1.2-05, Prohibited Refinancing Practices, which among other requirements, prohibit lenders from specifically soliciting borrowers to refinance whose mortgages are owned or securitized by Fannie Mae.

Effective Date

These changes are effective for solicitations that occur on or after December 1, 2011.

Clarification of Lender Representations and Warranties

One of the important components of Refi Plus and DU Refi Plus is the waiver of certain representations and warranties that lenders commit to in the origination of these types of mortgage loans. The *Selling Guide* currently describes the representations and warranties that apply to the original loan being refinanced as well as the new loan being originated.

With this Announcement, Fannie Mae is providing further clarification on certain aspects of the lender's representations and warranties on the original loan for Refi Plus, including those related to project eligibility, fraud, Fannie Mae's Charter, and compliance with laws. Refer to the Attachment to this Announcement for the updated Refi Plus and DU Refi Plus Representation and Warranty section of the *Selling Guide* that will be published on December 13, 2011, when the *Selling Guide* is updated.

Effective Date

The changes to the lender representations and warranties are effective for all Refi Plus mortgage loans with application dates on or after December 1, 2011. (Note: The DU Refi Plus representations and warranties have not changed.)

Whole Loan Committing

The following outlines key whole loan requirements for Refi Plus with LTV ratios over 125%:

- Loans may not be delivered against standard whole loan commitments. Separate committing continues to be required.
- The following new products will be added to eCommitting® for mandatory commitments and eCommitONE® for best efforts commitments:
  - 30-year Fixed Rate, Refi Plus LTV >125 – available February 1, 2012,
  - 15-year Fixed Rate, Refi Plus LTV > 125 – available June 1, 2012, and
  - 15-year Fixed Rate, Refi Plus LTV 105.01 Thru 125 – available June 1, 2012.

  These new products are in addition to the existing 30-year Fixed Rate, Refi Plus LTV 105.01 Thru 125 product that is currently available for whole loan committing and delivery.

> NOTE: *In an effort to help support the expansion of HARP and these higher LTV borrowers, Fannie Mae will initially price the >125 LTV "flat" to 15-year and 30-year Fixed Rate mandatory and best efforts whole loan pricing. The above committing requirements will apply to DU Refi Plus mortgage loans after the LTV ratios have been updated in DU.*

MBS Pool Information

Refi Plus and DU Refi Plus loans with LTV ratios above 125% may be delivered into existing MBS contracts and will use the same base guaranty fees as those used for the lender's standard conforming mortgage loans. Loans with LTV ratios above 105% are not permitted to be included in TBA-eligible MBS (pool prefixes CI, CL, and other TBA prefixes). The following three new MBS pool prefixes will be established for Refi Plus and DU Refi Plus loans:

- 30-Year Fixed Rate, Refi Plus LTV > 125: CR prefix;
- 15-year Fixed Rate, Refi Plus LTV > 125: CW prefix; and
- 15-year Fixed Rate, Refi Plus LTV 105.01 thru 125: CV prefix.

These new prefixes are in addition to pool prefix CQ, which is currently available for pooling 30-year fixed-rate loans with LTV ratios greater than 105% up to 125%.

Effective Dates

The new prefixes will be available for MBS delivery and issues dates beginning June 1, 2012.

Fannie Majors®

Beginning June 1, 2012, lenders may deliver Refi Plus and DU Refi Plus mortgage loans with LTV ratios above 125% into a Fannie Majors pool specifically available for these loans. Due to the separate pool prefix required for loans with LTV ratios above 105% (CQ, CR, CV, and CW), these loans may not be delivered into standard TBA-eligible Fannie Majors pools.

Delivery Data Requirements

No new special feature codes are required for loans delivered with any of the new criteria. Lenders should continue to use Special Feature Code 288 for Refi Plus mortgage loans and Special Feature Code 147 for DU Refi Plus mortgage loans.

> NOTE: *Lenders must continue to report LTV and CLTV ratios in the loan delivery data as they currently do, even for those loans for which there is no maximum LTV and CLTV limit.*

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All other existing requirements of Refi Plus and DU Refi Plus remain unchanged. Lenders who have questions about this Announcement should contact their Account Team.

John Forlines
Vice President
Chief Credit Officer for Single-Family Product

Attachment

Excerpt from *Selling Guide*, B5-5.1-05, DU Refi Plus and Refi Plus Eligibility (12/13/2011)

Representations and Warranties

For DU Refi Plus and Refi Plus (manual) mortgage loans, lenders are responsible for the standard representations and warranties described in the *Selling Guide*, with a number of exceptions as noted below.

DU Refi Plus:

- The lender is not responsible for any of the representations and warranties associated with the original loan.
- The lender is relieved of the standard underwriting representations and warranties (eligibility, credit history, liabilities, income and asset assessment) with respect to the new mortgage loan if the lender meets all of the following requirements:
  - 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 the *Selling Guide*, A2-2.1-04, Limited Waiver of Contractual Warranties for Mortgages Submitted to DU.
- When a lender exercises a DU Refi Plus property fieldwork waiver, Fannie Mae accepts the property value estimate submitted to DU as the market value for the subject property, and the lender is not required to make any representation or warranty as to value, marketability, or condition of the subject property.
- If the lender obtains an appraisal for the subject property, the lender is responsible for the standard representations and warranties related to the value, marketability, and condition of the property as reflected in the property valuation used to support the refinance transaction.
- The lender is not responsible for the standard representations and warranties related to project eligibility, with the exception that the lender must represent and warrant that the property is not in a condo or co-op hotel or motel.

  See B5-5.1-07, DU Refi Plus and Refi Plus Property Valuation and Project Standards for additional information about property and project requirements.

Refi Plus:

- With respect to the original loan, the lender must represent and warrant to the following:
  - The loan was eligible for sale in accordance with Fannie Mae's Charter at the time of delivery to Fannie Mae.
  - The loan was originated in compliance with laws. See the A3-2-01, Compliance with Laws.
  - The lender represents and warrants that the original loan being refinanced by a Refi Plus mortgage loan was not originated or sold pursuant to any scheme or pattern of fraud that involved two or more mortgages and two or more perpetrators acting in common effort with respect to such mortgages. For purposes of the foregoing, "fraud" is defined as a misstatement, misrepresentation or omission that cannot be corrected and that was relied upon by Fannie Mae to purchase the mortgage being refinanced. For purposes of the foregoing, a "perpetrator" is an individual or entity involved in the origination or sale of the mortgage or the related real estate transaction, including, but not limited to, a mortgage broker, loan officer, appraiser, appraisal company, title or closing agent, or property seller, or the borrower(s) acting in conjunction with one of the former.
  - If the subject property is in a condo, co-op or PUD project, the project met Fannie Mae's requirements at the time the original loan was originated.
  - If the lender does not obtain a new appraisal for the subject property, the lender must represent and warrant that the current value is not less than the value reflected in the original appraisal report.
- If the lender obtains an appraisal for the subject property, the lender is responsible for the standard representations and warranties related to the value, marketability, and condition of the property as reflected in the property valuation used to support the refinance transaction.

  See B5-5.1-07, DU Refi Plus and Refi Plus Property Valuation and Project Standards, for additional information regarding property requirements.

Fannie Mae's quality control process for Refi Plus loans will not:

- hold the lender responsible for information that may be obtained as a result of Fannie Mae's review of income or assets stated by the borrower;
- impose any maximum debt-to-income (DTI) ratio or other underwriting criteria (except when the principal and interest payment increases by more than 20%);
- require the lender to represent and warrant that the borrower has an acceptable credit history (other than the credit history and mortgage payment requirements that are specific to Refi Plus). See B5-5.1-06, DU Refi Plus and Refi Plus Underwriting Considerations (07/26/2011); or
- hold the lender accountable for undisclosed liabilities (except when the principal and interest payment increases by more than 20%).