

Selling Guide Announcement SEL-2014-03

April 15, 2014

Selling Guide Updates

The *Selling Guide* has been updated to include changes to the following:

- Property Eligibility and Appraisal Requirements
- Retirement of the Two-Step[®] ARM
- Retirement of Standard ARM Plans 1030 and 1031
- Use of MERS Rider ([Form 3158](#)) in Specified Geographic Areas
- Incorporation of Announcement SEL-2013-10
- Miscellaneous *Selling Guide* Updates
- Web-based Version of the *Selling Guide*

Each of the updates is described below. The affected *Selling Guide* topics are identified below or in the Attachment to this Announcement. Lenders should review each topic to gain a full understanding of the policy changes. The updated topics are dated April 15, 2014.

Property Eligibility and Appraisal Requirements

Fannie Mae conducted a comprehensive review of the Property Eligibility (B2-3) and Appraisal Requirements (B4-1) chapters of the *Selling Guide*. As a result of that review, new policies have been developed, current policies have been clarified, and additional guidance has been incorporated. Further, significant changes to the organization of both chapters have been made. In some cases, topics and paragraphs have been re-titled and content has been reorganized with the expectation that searching for specific information will be much easier.

The clarifications are a result of internal reviews, frequently asked questions, and the analysis of Uniform Appraisal Dataset (UAD) data. Additional guidance has been incorporated into the *Selling Guide* to help lenders in their underwriting of appraisals.

The new and updated policies are described in the table below. In addition, there is an Attachment to this Announcement that summarizes the clarifications and additional guidance that have been incorporated into the *Selling Guide*. Lenders should carefully review the language in the *Selling Guide* for the specific changes that are being made to ensure a full understanding of the requirements.

<i>Selling Guide</i> Topics	New or Updated Policies
Chapter B2-3, Property Eligibility	
B2-3-01 , General Property Eligibility	<ul style="list-style-type: none"> ▪ The list of properties that are not eligible for acquisition by Fannie Mae has been updated to include boarding houses and bed and breakfast properties.
B2-3-02 , Special Property Eligibility and Underwriting Considerations: Factory-Built Housing	<ul style="list-style-type: none"> ▪ Added the requirement that a manufactured housing unit must not have been previously installed (or occupied at any other site or location), except from the manufacturer or the dealer's lot as a new unit.

<i>Selling Guide Topics</i>	<i>New or Updated Policies</i>
Chapter B2-3, Property Eligibility	
	<ul style="list-style-type: none"> ▪ Provided an alternative to the requirement for an original HUD Certification Label/Data Plate for a manufactured home. ▪ Added that manufactured homes that have an addition or have had a structural modification are eligible under certain conditions.
B2-3-03 , Special Property Eligibility and Underwriting Considerations: Leasehold Estates	<ul style="list-style-type: none"> ▪ Revised the policy that required the lender to contact Fannie Mae before approving a lease. The expectation is that the lender has confirmed the lease meets the requirements outlined in the <i>Selling Guide</i>.
B2-3-04 , Special Property Eligibility Considerations	<ul style="list-style-type: none"> ▪ Added an exception to the requirement that properties with multiple parcels must be adjoined in order for the loan to be eligible for delivery. ▪ The multiple parcels policy has been revised to provide flexibility. Each parcel is no longer required to have residential zoning - rather each parcel must have the same basic zoning (e.g., residential, agricultural).

<i>Selling Guide Topics</i>	<i>New or Updated Policies</i>
Chapter B4-1, Appraisal Requirements	
B4-1.2-01 , Appraisal Report Forms and Exhibits	<ul style="list-style-type: none"> ▪ Added the requirement that a front photograph of the subject must be taken when completing the Appraisal Update portion of the <i>Appraisal Update and/or Completion Report</i> (Form 1004D) to validate that the appraiser has inspected at least the exterior of the property when he or she performed the appraisal update.
B4-1.2-02 , Appraisal Age and Use Requirements	<ul style="list-style-type: none"> ▪ When an appraisal update is required, it must be reported on the <i>Appraisal Update and/or Completion Report</i> (Form 1004D). ▪ Fannie Mae will allow the use of an origination appraisal for a subsequent transaction if certain requirements relating to the transaction type, age of the appraisal, and continuity of ownership and the lender are met, and there is no change to the property condition impacting the market value of the property.
B4-1.3-05 , Improvements Section of the Appraisal Report	<ul style="list-style-type: none"> ▪ Information related to Fannie Mae's acceptance of unique property types has been provided. ▪ The definition/characteristics and the eligibility of an accessory dwelling unit have been provided. ▪ If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

<i>Selling Guide Topics</i>	<i>New or Updated Policies</i>
B4-1.3-08 , Comparable Sales	<ul style="list-style-type: none"> ▪ Revised the policy by removing the requirement that an explanation is required when using a comparable sale that is older than six months. ▪ Provided an example to illustrate that in some instances it may be appropriate to use older sales with proper time adjustments rather than a dissimilar more recent sale. An older sale may be more appropriate in situations when market conditions have impacted the availability of recent sales as long as the appraisal reflects the changing market conditions.

Updated Selling Guide Topics

See the Attachment to this Announcement.

Effective Date

Lenders may implement these changes immediately and must implement them no later than August 1, 2014.

NOTE: Lenders are reminded that Fannie Mae publishes a “highlighted” PDF version of the Selling Guide on Fannie Mae’s website to help facilitate easy identification of the changes. Due to the extent of the updates made in Chapters B2-3, Property Eligibility, and B4-1, Appraisal Requirements, only the topic titles in Chapters B2-3 and B4-1 have been highlighted. See the Web-based version of the Selling Guide section below for additional information.

Retirement of the Two-Step ARM

Given the future retirement of interest-only and graduated-payment mortgage products, Fannie Mae analyzed the volume of deliveries of other, related product types. This analysis revealed that Fannie Mae has not had any deliveries of the Two-Step mortgage (ARM Plans 975 and 1029) since 2008. As a result, this ARM product will also be retired, according to the schedule adopted for the retirement of interest-only and graduated-payment products.

Updated Selling Guide Topics

- [B2-1.3-02](#), Adjustable-Rate Mortgages (ARMs) (Acceptable ARM Characteristics, Acceptable ARM Plan Buydown Structures, ARM Plan Indexes, and Mortgage Margin)
- [B3-6-04](#), Qualifying Payment Requirements (Qualifying Interest Rate Requirements)
- [B5-4-02](#), Texas Section 50(a)(6) Mortgage Eligibility (Eligible Mortgage Products and Transaction Types)
- [E-3-20](#), Glossary of Fannie Mae Terms: T

Effective Date

All Two-Step whole loans, which can only be delivered on a negotiated basis, must be committed on or before June 30, 2014, and purchased by Fannie Mae on or before July 31, 2014. All MBS with Two-Step loans must have issue dates on or before July 1, 2014.

Retirement of Standard ARM Plans 1030 and 1031

The Federal Reserve Board announced on December 5, 2013, that it would no longer publish certificate of deposit (CD) rates – the index used in ARM Plans 1030 and 1031. As a result, these two ARM plans were retired and removed from the [Standard ARM Plan Matrix](#). In addition, references to the CD index have been removed from the Guide.

Updated Selling Guide Topics

- [B2-1.3-02](#), Adjustable-Rate Mortgages (ARMs) (ARM Plan Indexes, and Disclosures Regarding Availability of Index Values)
- [E-1-02](#), Acronyms and Abbreviations
- [E-3-03](#), Glossary of Fannie Mae Terms: C

Effective Date

This update is effective immediately.

Use of MERS Rider (Form 3158) in Specified Geographic Areas

For newly originated mortgage loans that the lender elects to be registered with the Mortgage Electronic Registration System, Inc. (MERS), Fannie Mae requires lenders to modify the standard security instruments to name MERS as the nominee for the mortgagee. As a result of recent judicial decisions regarding MERS and its role as the nominee for the mortgagee, Fannie Mae is requiring the use of a *Mortgage Electronic Registration Systems, Inc. Rider (MERS Rider)* (Form 3158) to modify the standard security instruments in the states of Montana, Oregon and Washington. The MERS Rider must be used in these three states for newly originated mortgage loans that will be registered with MERS. Consequently, post-closing assignments into MERS are prohibited in these states. Lenders must also make changes to the standard security instruments for these three states as detailed in the Instructions to the MERS Rider. The new rider and instructions are available on the Single-Family Riders & Addenda page of [Fannie Mae's website](#).

Updated Selling Guide Topics

- [B8-7-01](#), Mortgage Electronic Registration Systems (MERS) (Naming MERS as the Nominee for the Beneficiary in the Security Instrument, and Use of MERS Rider in Specified Geographic Areas)

Effective Date

Lenders may begin using the new MERS Rider immediately in the three specified states and must begin using it for mortgage loans with notes dated on or after October 15, 2014.

Incorporation of Announcement SEL-2013-10

Margin Calls

As described in *Selling Guide* Announcement SEL-2013-10, *Miscellaneous Selling Policy Updates*, Fannie Mae implemented a policy regarding margining of forward-settling agency MBS transactions that provided for the ability to exchange bilateral margin with lenders that transact business with Fannie Mae's Capital Markets Sales Desk. The Announcement contained a complete version of the updated topic, which has now been incorporated into the Guide.

Updated Selling Guide Topics

- [C3-7-01](#), Establishing an MBS Trading Account (Establishment of Trading Limits and Margin Requirements, Offsetting Price Differentials, Designated Threshold Amount and Minimum Transfer Amount, and Transactional Intent of the Lender and Fannie Mae)
- [E-3-04](#), Glossary of Fannie Mae Terms: D
- [E-3-13](#), Glossary of Fannie Mae Terms: M

Definitions of Higher-Priced Mortgage Loan and Higher-Priced Covered Transactions

In Announcement SEL-2013-10, Fannie Mae clarified the debt-to-income ratio and minimum credit score requirements for second homes for DU Refi Plus™ and Refi Plus™ transactions as it pertains to the definition of “higher-priced mortgage loans” (HPML). This policy change has been incorporated into the *Selling Guide*.

Updated Selling Guide Topics

- [B5-5.2-02](#), DU Refi Plus and Refi Plus Underwriting Considerations (Underwriting and Documentation Requirements – DU Refi Plus, and Underwriting and Documentation Requirements – Refi Plus)
- [E-3-08](#), Glossary of Fannie Mae Terms: H

Exceptions to Ability to Repay Rule for Certain Transactions

In *Selling Guide* Announcement SEL-2013-07, *Selling Guide Updates*, Fannie Mae clarified the treatment of *inter vivos* revocable trust loans with respect to the ability to repay (ATR) rule. This policy was further clarified in Announcement SEL-2013-10, and has now been incorporated into the *Selling Guide*.

Updated Selling Guide Topic

- [B2-1.4-02](#), Mortgage Loan Eligibility (Ability to Repay Loan Eligibility Requirements)

Miscellaneous Selling Guide Updates

- [A4-2-03](#), Lender Record Information ([Form 582](#)). The links to Form 582 and to information on how to obtain access to the electronic version of Form 582 have both been updated.
- [B2-1.4-02](#), Mortgage Loan Eligibility. Text was added to clarify the pertinent application date for any mortgage loan for which the original application was made before January 10, 2014, but which was assumed on or after January 10, 2014, and subsequently purchased or securitized by Fannie Mae. For eligibility purposes, the application date of such a mortgage loan is considered to be the date on which Truth in Lending Act disclosure requirements were triggered in respect of such assumption.
- [B3-4.3-13](#), Sweat Equity. The acceptability of sweat equity as an acceptable source of funds for down payment, closing costs, and reserves has not changed, but the policy was slightly clarified to reflect that it only applies to MyCommunityMortgage® loans. Lenders are no longer instructed to contact their lead Fannie Mae office for case-by-case guidance.
- [B3-5.3-09](#), DU® Credit Report Analysis. The blocks titled “Using Fannie Mae Data” have been removed from the *Selling Guide* because the messages based on Fannie Mae data were not added with Desktop Underwriter® Version 9.1, as was announced in the Desktop Originator®/Desktop Underwriter Release Notes.

- [B3-6-07](#), Debts Paid Off At/Prior to Closing. This topic was updated to remove the requirement to obtain evidence that collection or charge-off accounts are not likely to affect a borrower's equity position.
- [B4-2.1-06](#), Priority of Common Expense Assessments. This topic has been updated to reflect *Selling Guide* Announcement SEL-2014-02, *Priority of Common Expense Assessments*.
- [B7-1-01](#), Provision of Mortgage Insurance. The link to the updated (and retitled) *Approved Mortgage Insurers and Related Identifiers* was updated.
- [E-1-01](#), References to Fannie Mae's Website. Links to websites that had moved were corrected and updated.
- [E-1-04](#), List of Lender Contracts. Lender contracts that had been retired were removed and other references were updated.
- Updated the text of numerous *Selling Guide* introductions to contain more meaningful descriptions.

Web-based Version of the *Selling Guide*

Last month, Fannie Mae began publishing the *Selling Guide* in a new format on its Business Portal (the Portal). The [new main Web page for the *Selling Guide*](#) clearly shows all five parts of the most recent version of the Guide at a glance; from there, a user can drill down to specific topics with only one or two additional clicks. Users can easily bookmark a section, email a link to a certain topic, or print a topic. A Google™-powered search engine makes searching easier and more effective.

This new access to the *Selling Guide* is in addition to the free access that continues to be available through AllRegs® from the Portal. In addition, Fannie Mae will continue to publish a PDF version of the *Selling Guide*. The following information highlights some key elements of these various published formats:

- The Portal only displays the current version of the *Selling Guide* in the new format.
- A “highlighted” version of the *Selling Guide* is published in PDF format on the Portal. The highlights identify topics and text within the Guide that were updated in the specific version.
- Prior highlighted PDF versions are available on the Portal for the current year and for the previous three years.
- The *Selling Guide* announcement that is published with each Guide update will continue to have links to the updated topics in the Guide.
 - If accessing the announcement from the Portal, the links go to the applicable PDF version of the Guide. This allows users to go to any *Selling Guide* Update announcement and link to the version of the topic that was in place at the time the announcement was published.
 - If accessing an announcement from AllRegs, the links always go to the current version of the Guide on AllRegs.
- AllRegs publishes the current version of the *Selling Guide*, and certain historical versions going back to 2002. For the years 2009 – 2013, AllRegs publishes the last version that was available that year; for example, the October 22, 2013 version is posted as the 2013 *Selling Guide*, the December 18, 2012 version is posted as the 2012 *Selling Guide*, etc.
- AllRegs is accessible for free from the Portal and it contains additional documents published by Fannie Mae, including (but not limited to) historical *Selling* and *Servicing Guides* and all announcements, lender letters, and notices issued by Fannie Mae going back to 1994. Lenders can also subscribe directly to AllRegs for an enhanced electronic version with additional features and a higher degree of functionality (than the free version) on the AllRegs Web site.



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

Carlos Perez
Vice President
Chief Credit Officer for Single-Family

Attachment

This table briefly describes and highlights the major clarifications and guidance that have been incorporated in the *Selling Guide* related to the property eligibility and appraisal requirements. These updates are in addition to the updates more fully described in pages 1 – 3 in this Announcement.

NOTE: *The majority of the topics listed below underwent significant editing. For example, new guidance was added to help lenders interpret and implement the policies, existing policies were clarified, and like content was consolidated. However, due to the number of edits, this table does not identify all of the instances where text changed. Refer to the specific topics in the Selling Guide for additional details. In the event of any discrepancy between the information in this Attachment and the Selling Guide, the provisions in the Selling Guide will prevail.*

Part, Chapter, Topic Number, and Title	Summary of Changes, Clarifications, and Updates
Part B, Chapter B2-1, Mortgage Eligibility	
B2-1-01 , Occupancy Types	<ul style="list-style-type: none"> ▪ Updated and moved contents from topic B2-3-01, titled Occupancy Type Requirements, into this topic.
Part B, Chapter B2-3, Property Eligibility	
B2-3-02 , Special Property Eligibility and Underwriting Considerations: Factory-Built Housing	<ul style="list-style-type: none"> ▪ Moved contents from B5-2-02, Manufactured Housing Loan Eligibility, and updated contents concerning manufactured home property requirements and borrower ownership of land. ▪ Clarified that loans secured by on-frame modular construction are not eligible for sale to Fannie Mae.
B2-3-04 , Special Property Eligibility Considerations	<ul style="list-style-type: none"> ▪ Moved contents from B2-3-01, Occupancy Type Requirements, and clarified current requirements.
B2-3-05 , Properties Affected by a Disaster	<ul style="list-style-type: none"> ▪ Renumbered topic and updated a link to another topic.
Part B, Chapter B4-1, Appraisal Requirements	
B4-1.1-01 , Definition of Market Value	<ul style="list-style-type: none"> ▪ Moved contents from B4-1.2-03, Definition of Market Value, into this topic and clarified current requirements. ▪ Removed the reference to the <i>Guidance for Lenders and Appraisers</i> document, which has been retired and removed from Fannie Mae’s website.
B4-1.1-02 , Lender Responsibilities	<ul style="list-style-type: none"> ▪ Clarified the importance of identifying the seller or borrower on a transaction to help identify potential fraud schemes.
B4-1.1-03 , Appraiser Selection Criteria	<ul style="list-style-type: none"> ▪ Clarified that the lender must ensure that the appraiser’s state license or state certification is active as of the effective date of the appraisal report.
B4-1.1-04 , Unacceptable Appraisal Practices	<ul style="list-style-type: none"> ▪ Moved contents related specifically to unacceptable appraisal practices from B4-1.1-01, General Information on Appraisal Requirements, into this topic; moved contents related to the lender’s responsibilities into B4-1.1-02, Lender Responsibilities.
B4-1.1-05 , Disclosure of Information to Appraisers	<ul style="list-style-type: none"> ▪ Moved contents from B4-1.1-02, Lender Disclosure of Information to Appraisers, into this topic, and clarified current requirements, including creating two separate tables titled “Financial Information” and “Property Information” instead of one comprehensive table.

B4-1.1-06 , Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal® (UCDP®)	<ul style="list-style-type: none"> Clarified that the final version of the corrected or amended appraisal report must be the one that is uploaded to UCDP.
B4-1.2-03 , Requirements for Postponed Improvements	<ul style="list-style-type: none"> Moved contents from B4-1.2-04, Requirements for Postponed Improvements, into this topic and clarified current requirements.
B4-1.3-01 , Review of the Appraisal Report	<ul style="list-style-type: none"> Created a new topic to provide an overview of the general requirements for analyzing an appraisal report.
B4-1.3-02 , Subject and Contract Sections of the Appraisal Report	<ul style="list-style-type: none"> Incorporated UAD requirements with respect to the Subject and Contract sections of the appraisal.
B4-1.3-03 , Neighborhood Section of the Appraisal Report	<ul style="list-style-type: none"> Clarified and/or provided guidance concerning the following: <ul style="list-style-type: none"> the appraiser's analysis of the neighborhood; the degree of development and growth rate; the need for consistency in reporting between the <i>Uniform Appraisal Report</i> (Form 1004) and the <i>Market Conditions Addendum</i> (Form 1004MC); the completion of Form 1004MC when there is limited data available for the neighborhood, and the requirement for an explanation regarding the lack of data; the price range and predominant price of comparable properties within the subject's neighborhood; the need to account for over-improvements in the appraisal; and the impact the land use may have on the value and marketability of the property.
B4-1.3-04 , Site Section of the Appraisal Report	<ul style="list-style-type: none"> Clarified and/or provided guidance regarding the highest and best use analysis, site utilities, and community-owned or privately maintained streets.
B4-1.3-05 , Improvements Section of the Appraisal Report	<ul style="list-style-type: none"> Provided guidance concerning energy efficient improvements, and provided an example when it is appropriate to deviate from above grade to above grade comparisons and below grade to below grade comparisons.
B4-1.3-06 , Property Condition and Quality of Construction of the Improvements	<ul style="list-style-type: none"> Required that appraisers must use consistent reporting of the Condition, Quality and other Characteristic ratings when using a sale in a subsequent appraisal.
B4-1.3-07 , Sales Comparison Approach Section of the Appraisal Report	<ul style="list-style-type: none"> Moved and revised the "Overview" and "Sources of Comparable Market Data" contents from B4-1.4-16, Appraisal Report Review: Sales Comparison Approach, into this topic, and moved and reorganized the remaining contents from B4-1.4-16 into a new topic B4-1.3-08, titled Comparable Sales.
B4-1.3-08 , Comparable Sales	<ul style="list-style-type: none"> Provided clarification to ensure that comparables that are significantly different from the subject property may be acceptable as long as the appraiser documents and provides an explanation justifying the use of the sales.
B4-1.3-09 , Adjustments to Comparable Sales	<ul style="list-style-type: none"> Provided additional information with respect to net/gross adjustment guidelines. Incorporated guidance with respect to the importance of time adjustments. Provided clarification of current requirements with respect to adjustments and the appraiser's reconciliation of the appraised value.

B4-1.3-10 , Cost and Income Approach to Value	<ul style="list-style-type: none"> Provided clarification of current requirements to reinforce that if the appraiser believes that either the cost approach or the income approach is necessary for credible assignment results, then it must be completed.
B4-1.3-11 , Valuation Analysis and Reconciliation	<ul style="list-style-type: none"> Moved partial topic contents from B4-1.4-21, Appraisal Report Review: Valuation Analysis and Final Reconciliation, into this topic and moved contents related to “Changes to Appraised Values” and “Guidance on Addressing Appraisal Deficiencies” into B4-1.3-12, Quality Assurance.
B4-1.3-12 , Quality Assurance	<ul style="list-style-type: none"> See B4-1.3-11 for contents added to this topic. Also, clarified current requirements related to “Lender Responsibilities” and moved content into this topic; moved “Fannie Mae’s Use of Field Reviews” and “Refusal to Accept Appraisals from Specific Appraisers” into this topic.
B4-1.4-01 , Factory-Built Housing: Manufactured Housing	<ul style="list-style-type: none"> Moved and reorganized contents formerly located in B5-2-04, Manufactured Housing Appraisal Requirements, and clarified current requirements, except for “Sources of Manufactured Housing Data”.
B4-1.4-02 , Factory-Built Housing: Modular, Prefabricated, Panelized, or Sectional Housing	<ul style="list-style-type: none"> Moved and reorganized contents formerly located in B4-1.3-03, Special Appraisal Considerations for Modular, Prefabricated, Panelized, or Sectional Housing, and clarified current requirements.
B4-1.4-03 , Condo Appraisal Requirements	<ul style="list-style-type: none"> Provided an overview to introduce the requirements for units in a condo project.
B4-1.4-04 , Co-op Appraisal Requirements	<ul style="list-style-type: none"> Moved and reorganized contents formerly located in B4-1.3-07, Special Appraisal Consideration for Units in Co-op Projects, and clarified current requirements.
B4-1.4-05 , Leasehold Interests Appraisal Requirements	<ul style="list-style-type: none"> Moved and reorganized contents formerly located in B4-1.3-06, Special Appraisal Considerations for Properties Subject to Leasehold Interests, and clarified current requirements.
B4-1.4-06 , Community Land Trust Appraisal Requirements	<ul style="list-style-type: none"> Moved collateral considerations and the addendum to the appraisal report contents from B5-5.1-04, Community Land Trusts, into this topic and clarified current requirements. Provided new instructions with respect to the completion of the appraisal report and how the value should be reported.
B4-1.4-07 , Mixed-Use Property Appraisal Requirements	<ul style="list-style-type: none"> Moved and reorganized contents formerly located in B4-1.3-04, Special Appraisal Considerations for Mixed-Use Properties, and clarified current requirements.
B4-1.4-08 , Environmental Hazards Appraisal Requirements	<ul style="list-style-type: none"> Moved and reorganized contents formerly located in B4-1.3-01, Special Appraisal Considerations for Properties Affected by Environmental Hazards, and clarified current requirements.
B4-1.4-09 , Special Assessment or Community Facilities Districts Appraisal Requirements	<ul style="list-style-type: none"> Moved and reorganized contents formerly located in B4-1.3-05, Special Appraisal Considerations for Properties in Special Assessment Districts, and clarified current requirements.
B4-2.3-05 , Other Requirements for Co-op Share Loans	<ul style="list-style-type: none"> Entire topic contents, with no policy changes, were moved from B2-3-03, Co-op Properties, into this topic.
Part E, Quick Reference Materials	
E-1-01 , References to Fannie Mae’s Website	<ul style="list-style-type: none"> The <i>Guidance for Lenders and Appraisers</i> document has been retired and removed from the <i>Selling Guide</i> and Fannie Mae’s website.