

Selling Guide Announcement SEL-2016-02

February 23, 2016

Selling Guide Updates

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

- Continuity of Obligation
- Lender Self-Report Obligations
- Indemnification for Losses
- HomeStyle® Renovation Mortgage Recourse Obligations
- Definition of Relocation Loan
- Miscellaneous *Selling Guide* Updates

Each of the updates is described below. The affected topics (and specific paragraphs) are noted for each policy change. Lenders should review each topic to gain a full understanding of the policy changes. The updated topics are dated February 23, 2016.

In addition, the following items are also described:

- Revisions to the Pennsylvania security instrument and new notes,
- Updates to the *Special Feature Codes* list, and
- Publication of Fillable Rental Income worksheets.

Continuity of Obligation

The continuity of obligation policy is being eliminated in its entirety. This policy was introduced during the financial crisis, to ensure borrowers who recently acquired ownership of a new property in the absence of a recorded sale of the previous property were properly qualified and it applied to all limited cash-out and cash-out refinance transactions. Since this policy was introduced, Fannie Mae has implemented a number of policy updates to improve the reliability of borrower qualification, broadened the collection of appraisal data, and developed Collateral Underwriter®, an appraisal assessment tool. These actions collectively provide adequate controls to ensure borrower eligibility requirements and maximum LTV ratio limits are met. As a result, the continuity of obligation policy is no longer required. The elimination of this policy will simplify refinance transactions.

The Desktop Underwriter® (DU®) messaging referencing continuity of obligation will be updated in a future release and may be disregarded until that time. Also, the reference to continuity of obligation on the *Eligibility Matrix* has been removed. The updated Matrix is available on [Fannie Mae's website](#).

Updated Selling Guide Topics

- [B2-1.1-01](#), Loan-to-Value (LTV) Ratios (Calculation of the LTV Ratio)
- [B2-1.1-02](#), Combined Loan-to-Value (CLTV) Ratios

- [B2-1.1-03](#), Home Equity Combined Loan-to-Value (HCLTV) Ratios
- [B2-1.2-02](#), Limited Cash-out Refinance Transactions (Eligibility Requirements)
- [B2-1.2-03](#), Cash-Out Refinance Transactions (Eligibility Requirements, Delayed Financing Exception)
- B2-1.2-04, Continuity of Obligation (topic deleted)

Effective Date

This policy change is effective immediately.

Lender Self-Report Obligations

The *Selling Guide* requires that a lender provide notice to Fannie Mae immediately if it determines that a breach of a selling warranty may have occurred. This requirement is being updated to clarify lender obligations for reporting a breach of a selling representation or warranty related to the lender's compliance with applicable laws.

If a lender identifies a potential breach of a selling representation or warranty related to compliance with laws, the lender's reporting obligations will depend on how many loans were impacted, whether the identified defects were or can be remedied within 60 days of identification, and whether repurchase is a possible remedy under the Guide requirements.

In addition, to further simplify the self-reporting requirements, Fannie Mae has consolidated multiple lender reporting mailboxes into a single self-reporting mailbox.

Updated Selling Guide Topics

- [A2-2-01](#), Contractual Representations and Warranties (Lender Reporting Requirements)
- [A3-2-01](#), Compliance With Laws (Lender Reporting Requirements)
- [A3-4-03](#), Preventing, Detecting, and Reporting Mortgage Fraud (Lender Reporting Requirements)
- [D1-3-01](#), Lender Post-Closing Quality Control Review Process (Timing of QC Review Process)
- [D1-3-06](#), Lender Post-Closing Quality Control Reporting, Record Retention, and Audit (Lender's Responsibilities for Self-Reporting to Fannie Mae)

Effective Date

Lenders may implement these changes immediately, but must do so on or before June 1, 2016.

Indemnification for Losses

The *Selling Guide* is being updated to use clear, consistent language regarding the types of losses for which lenders must indemnify Fannie Mae. "Fannie Mae losses" and "losses incurred by Fannie Mae" will now be defined in A2-1-03, Indemnification for Losses, and the defined terms will be used consistently throughout the *Selling Guide*. The *Servicing Guide* will be updated to use the same language in a future update.

Updated Selling Guide Topics

- [A2-1-03](#), Indemnification for Losses (General, Payments, Application After Enforcement Relief)
- [E-3-06](#), Glossary of Fannie Mae Terms: F
- [E-3-12](#), Glossary of Fannie Mae Terms: L

NOTE: In addition to the topics listed above, references to “Fannie Mae losses” and “losses incurred by Fannie Mae” have been updated in numerous other topics throughout the Guide (which are not listed here).

Effective Date

This clarification is effective immediately.

HomeStyle Renovation Mortgage Recourse Obligations

Fannie Mae is clarifying that lenders are only required to deliver HomeStyle Renovation mortgage loans with recourse when the loan is delivered to Fannie Mae prior to the completion of the renovations. The special feature code (SFC) requirements for HomeStyle Renovation loans are also being updated. These loans must continue to be delivered with SFC 215. However, SFC 001 is no longer required at delivery for incomplete properties because SFC 215 has been updated to reflect the recourse requirement. HomeStyle Renovation loans delivered to Fannie Mae after all renovation has been completed must be delivered with SFC 279.

DU will be updated in a future release to reference the requirement for SFC 215 or 279 on HomeStyle Renovation loan casefiles. Lenders must ensure the applicable SFC is delivered on HomeStyle Renovation loans underwritten through DU.

Updated Selling Guide Topic

- [B5-3.2-01](#), HomeStyle Renovation Mortgages

Effective Date

Lenders can implement these changes immediately, but must do so for whole loans purchased, and mortgage loans delivered into MBS, with pool issue dates on or after June 1, 2016.

Definition of Relocation Loan

Fannie Mae has adopted a straightforward definition of relocation loans. In the past, lenders have questioned which specific loan characteristics determined whether a loan fell into the “restricted relocation” category. The new definition – “relocation loan” - eliminates the word “restricted” and is less complicated. This will reduce confusion in coding these loans and in meeting pooling parameters when they are delivered into an MBS. Lenders will continue to use SFC 013 to identify relocation loans.

Under the new definition, a relocation loan is a loan made under a relocation lending agreement between the lender and the employer (or its agent). A loan that involves an employee relocation that is not subject to a relocation lending agreement between the lender and the employer (or its agent) is not considered a relocation loan for TBA pooling purposes and will not require delivery of SFC 013.

Updated Selling Guide Topics

- [B3-4.3-10](#), Anticipated Sales Proceeds (Employee Relocation)
- [B4-1.1-02](#), Lender Responsibilities (Confirmation and Documentation of the Current Owner)
- [C3-2-01](#), Determining Eligibility for Loans pooled into MBS (General Eligibility Requirements for Loans pooled into MBS, Nonstandard Loans, and Identifying Nonstandard Loans at Delivery)
- [C3-4-02](#), Commingling Fixed-Rate Mortgages in MBS (Fixed-Rate Loan Types that May Be Commingled in the Same Pool)
- [C3-6-01](#), Parameters for Pooling Loans Into Fannie Majors (Making Multiple Submissions)
- [E-3-03](#), Glossary of Fannie Mae Terms: C

- [E-3-16](#), Glossary of Fannie Mae Terms: P
- [E-3-18](#), Glossary of Fannie Mae Terms: R

Effective Date

Lenders can implement these changes immediately, but must do so for whole loans purchased, and mortgage loans delivered into MBS, with pool issue dates on or after June 1, 2016.

Miscellaneous *Selling Guide* Updates

- [A2-3.2-01](#), **Loan Repurchases and Make Whole Payments Requested by Fannie Mae (Overview)**. A minor change in text has been made to align the *Selling Guide* with the *Servicing Guide* which recently incorporated policy updates related to defects and remedies.
- [B2-3-04](#), **Special Property Eligibility Considerations**. The policy has been clarified to allow lenders to verify that the owner of the solar panels is not named as a loss payee on the property owner's property insurance policy in lieu of requiring a similar statement in the lease or power purchase agreement.
- [B4-2.3-04](#), **Loan Eligibility for Co-op Share Loans (Whole Loan and MBS Delivery Requirements)**; [C3-2-01](#), **Determining Eligibility for Loans Pooled into MBS (General Eligibility Requirements for Loans Pooled into MBS and Identifying Loans with Nonstandard Characteristics at Delivery)**; and [C3-5-08](#), **Commingling ARMs in MBS (ARM Loan Types Lenders May Commingle in the Same Pool)**. To-Be-Announced (TBA) MBS pools may not contain more than 10% of any single type of nonstandard loan or more than 15% of total nonstandard loans. Co-op share loans fall into the category of nonstandard loan products subject to these limits. Because Fannie Mae TBA pools include only fixed-rate loans, these limits apply only to fixed-rate co-op share loans. Adjustable-rate co-op share loans in non-TBA MBS ARM pools are not subject to the 10% or 15% thresholds. The *Selling Guide* has been updated to reflect this and to align with changes made to the MBS ARM Prospectus.
- [B5-1-01](#), **High-Balance Mortgage Loan Eligibility and Underwriting (Appraisal Requirements)**. Fannie Mae is clarifying that lenders must use the *Two- to Four-Unit Residential Appraisal Field Review Report (Form 2000A)* for the additional field review requirement on high-balance loans secured by two- to four-unit properties valued at \$1,000,000 or more and with an LTV, CLTV, or HCLTV ratio greater than 75%.
- [B5-5.3-02](#), **Loans with Resale Restrictions: Loan and Borrower Eligibility Loans with Resale Restrictions (Loan Eligibility and Occupancy Types)**. This topic has been updated to align with the policy change made in the December 15, 2015 *Selling Guide* update. Loans secured by co-op properties with deed restrictions are eligible for sale to Fannie Mae.
- [C2-2-05](#), **Whole Loan Purchasing Process**. Details regarding when the Purchase Advice is transmitted to the seller have been updated to align with current practice and now reflect the business day on which Fannie Mae funds the purchase proceeds.
- [E-2-06](#), **Servicing Execution Tool — Mortgage Loan Servicing Purchase and Sale Agreement**. The Agreement has been updated to reflect a number of minor clarifications, including updates to the Funding Date and Purchase Date definitions, and when the seller sells its interest in, and the servicer purchases the servicing rights to, the mortgage loan.
- **Glossary**. The term "purchase price" has been removed from the Glossary because the term is used in multiple ways in the *Selling Guide*.

Revisions to the Pennsylvania Security Instrument and New Notes

As a result of recent judicial decisions, Fannie Mae and Freddie Mac have amended the Pennsylvania security instrument and created new state-specific notes for Pennsylvania. The revised Pennsylvania mortgage form (Form 3039) is available on the Single-Family Security Instruments page of [Fannie Mae's website](#). The new Pennsylvania notes are available on the Single-Family Notes page of [Fannie Mae's website](#).

Effective Date

Lenders may begin using the updated Pennsylvania documents immediately and must use them for mortgage loans with notes dated on or after August 1, 2016.

Special Feature Codes List Update

This document has been updated to reflect the increase from six to ten for the number of SFCs that can be imported or manually entered in the new Loan Delivery application. Also, new functionality has been implemented in the Loan Delivery application to automatically derive and display specific SFCs associated with loans that can be “auto-derived” using underlying root data.

In addition, SFCs 013, 215, and 279 have been updated as described above. The updated list is available on [Fannie Mae's website](#).

Publication of Fillable Rental Income Worksheets

In 2014, Fannie Mae published three worksheets for lenders to use to calculate rental income:

- *Rental Income Worksheet--Principal Residence, 2- to 4-unit Property* ([Form 1037](#));
- *Rental Income Worksheet--Individual Rental Income from Investment Property(s)* ([Form 1038](#)); and
- *Rental Income Worksheet--Business Rental Income from Investment Property(s)* ([Form 1039](#)).

These worksheets have been recreated as Microsoft® Excel® spreadsheets to enable lenders to download the forms and complete them electronically. The forms are available on [Fannie Mae's website](#).

NOTE: *Form 1038 is available in two versions – one version supports up to four investment properties, and the other version supports up to ten investment properties.*

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

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