

Selling Guide Announcement (SEL-2020-02)

Apr. 1, 2020

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

- **Secured Overnight Financing Rate (SOFR) ARMs:** Provides additional details for SOFR ARM products we will begin to accept as of Aug. 3, 2020.
- **Property tax and escrow clarification:** We have revised the underwriting changes previously made on Dec. 4, 2019.
- **Miscellaneous update:** Special Feature Code 785 has been added to the Guide.

View the list of [impacted topics](#).

Secured Overnight Financing Rate (SOFR) ARMs

As a follow-up to [LL-2020-01](#) that introduced several new SOFR ARM plans, we have updated the *Selling Guide* and [Standard ARM Plan Matrix](#) to include information about the SOFR index, new ARM Plan numbers, and individual plan specifications. All our existing, conventional ARM requirements will apply to SOFR ARMs. The following table reiterates many of those existing policies and provides some additional details, including when we will begin accepting deliveries of SOFR ARM loans. We will update our Guide to remove reference to the indexes and associated ARM Plan numbers being retired in a future publication.

| SOFR ARM Requirements | |
|---|---|
| SOFR ARM Plans | ARM Plan 4926: 3/6 mos ARM Plan 4927: 5/6 mos ARM Plan 4928: 7/6 mos ARM Plan 4929: 10/6 mos |
| Borrower disclosure requirements | Lenders must provide borrowers with disclosure requirements in compliance with all applicable laws. Refer to the <i>Selling Guide</i> for existing disclosure requirements related to below-market interest rates, conversion options, and assumptions, etc. |
| Eligible loan terms – LTV, CLTV, HCLTV ratios; occupancy; loan purpose, property type, product type, etc. | All existing ARM eligibility requirements apply - refer to the Eligibility Matrix . |
| Temporary interest rate buydowns | Standard policies apply. |
| Underwriting | Lenders may begin accepting loan applications at their discretion. SOFR ARMs can be underwritten manually or with Desktop Underwriter® (DU®). Loan casefiles must be submitted to DU using the applicable generic ARM plan: <ul style="list-style-type: none"> • FM GENERIC, 3 YR • FM GENERIC, 5 YR • FM GENERIC, 7 YR • FM GENERIC, 10 YR Note: Lenders are not required to submit the SOFR index to DU. |
| Index | 30-Day Average of the SOFR index as published by the Federal Reserve Bank of New York. |



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| Maximum margin | 300 basis points (standard ARM policy) |
| Minimum interest rate | The loan interest rate may never decrease to less than the ARM's margin, regardless of any downward interest rate cap.) |
| Conversion options | The SOFR ARM plans do not have conversion options. |
| Assumability | <ul style="list-style-type: none"> ARM Plan 4926 is assumable for the life of the loan. Plans 4927, 4928, and 4929 are due on sale during the initial fixed-rate period and assumable thereafter. |
| Uniform notes and riders | <p>Refer to the <i>Standard ARM Plan Matrix</i> for the applicable SOFR uniform note and rider.</p> <p>The new documents are published on our Legal Documents webpage.</p> |
| Whole Loan and MBS Pricing and Delivery | Whole loan and MBS pricing and deliveries will begin on Aug. 3, 2020. Lenders may begin delivery of whole loans on this date and delivery of loans in MBS with issue dates beginning Aug. 1, 2020. |
| MBS Pooling Policy | All existing pooling policies will apply to SOFR ARMs in MBS. |
| Loan-level price adjustments (LLPA) | The standard ARM LLPAs apply for loans with LTVs greater than 90.00% |
| Uniform Mortgage Data Program (UMDP) | See the UMDP announcement issued Mar. 10, 2020 for a description of impacts to UMDP datasets and necessary system changes. |

Property tax and escrow clarification

On Dec. 4, 2019, we announced changes to the calculation of property taxes as a component of monthly housing expense for qualifying and escrow account purposes. In Feb. 2020, we suspended applicability of the Dec. changes due to issues raised by our lenders.

This update is to notify you that after further review, we have removed the prior policy update that would have required the use of estimated property taxes for the establishment of the escrow account, and replaced it with a requirement that lenders comply with applicable law and regulations. We have retained the prior clarifications that a reasonable estimate of property taxes based on the value of the land and all new and existing improvements must be used for purchase and construction-related transactions, including jurisdictions where a transfer of ownership typically results in a reassessment of property taxes.

Effective: Lenders may implement this change immediately but must do so for applications dated on or after Jun. 1, 2020.

Miscellaneous Update

Selling Guide [B2-1.4.02, Adjustable Rate Mortgages](#) (ARMs) has been updated to include reference to SFC 785 that was introduced in LL-2020-01 and must be delivered for all non-SOFR ARM loans that are closed on notes and riders with a revision date of Feb. 2020 or after and contain the updated fallback language.

See the *Selling Guide* for details about these updates.
Lenders who have questions about this Announcement should contact their Fannie Mae Account Team.



Impacted Topics

| Section of the Announcement | Updated <i>Selling Guide</i> Topics (Dated Apr. 1, 2020) |
|--|---|
| Secured overnight financing rate ARMs | <ul style="list-style-type: none">▪ B2-1.4-02, Adjustable-Rate Mortgages (ARMs)▪ B5-4.1-02, Texas Section 50(a)(6) Loan Eligibility▪ B5-6-02, HomeReady Mortgage Loan and Borrower Eligibility▪ E-1-02, Acronyms and Abbreviations |
| Property tax and escrow clarification | <ul style="list-style-type: none">▪ B2-1.5-04, Escrow Accounts▪ B3-6-03, Monthly Housing Expense for the Subject Property |