Fannie Mae

Selling Guide Announcement (SEL-2024-01)

Feb. 7, 2024

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

- Value acceptance + property data for condos: expanding value acceptance + property data offering to include attached and detached condos as an eligible property type and other clarifications
- Qualifying rate for 7- and 10-year ARMs: clarifying policy that lenders must qualify 7- and 10-year ARM borrowers at no less than the note rate for loans that are not high-priced mortgage loans or higher-priced covered transactions
- Manufactured housing cash-out refinance term extension: allowing loan term up to or equal to 30 years on cash-out refinance transactions for multi-width manufactured homes
- Eligible types of nontraditional credit references: adding additional examples of nontraditional credit references related to housing expenses
- Use of business income: clarifying income calculation requirements for self-employed borrowers and borrowers with less than a 25% interest in a business
- Property insurance requirements: providing various clarifications for coverage requirements
- Mortgage origination definitions: updating existing and adding new language to address the mortgage origination definitions in the Glossary
- Miscellaneous updates:
    - Unacceptable Appraisal Practices
    - National Flood Insurance Program lapse
    - Borrowers' signatures on notes

View the list of impacted topics.

Value acceptance + property data for condos

In March 2023 we announced value acceptance + property data, which was limited to certain one-unit properties, excluding condos. On Dec. 1, 2023, the jointly developed GSE Uniform Property Dataset (UPD) went active and included a data standard for condos. This new dataset will replace our proprietary data standard on April 1, 2024. Note that lenders are still required to confirm the condo project is not ineligible in Condo Project Manager (CPM).

Additionally, the following updates relevant to value acceptance + property data were made to the *Selling Guide:*

- removed references to *"C6 condition and Q6 quality"* since UPD does not require the collection of condition and quality ratings,
- added the *Individual Condominium Unit Appraisal Report (Hybrid)* (Form 1073 Hybrid), for use when the value acceptance + property data offer is lost due to changes in qualifying loan characteristics, and
- removed "*property data collection to be obtained after the initial DU offer*" to allow property data collection use in multiple transactions.

Effective: Desktop Underwriter® (DU®) will begin issuing value acceptance + property data messages on condo casefiles effective immediately.

Qualifying rate for 7- and 10-year ARMs

In June 2023, we updated the *Selling Guide* to allow 7- and 10-year ARM borrowers to be qualified using only the note rate. With this update, we are further clarifying that borrowers must be qualified using **no less than** the note rate for 7- and 10-year ARMs that are not high-priced mortgage loans or higher-priced covered transactions.

> **NOTE:** *For ARMs with an initial fixed rate period greater than five years, if the lender wants to use an interest rate higher than the note rate to qualify the borrower, the higher rate must be entered in the ARM Qualifying Rate field in DU and the Lender ARM Plan must be used.*

Effective: These clarifications are effective immediately.

Manufactured housing cash-out refinance term extension

We updated the *Eligibility Matrix* and *Manufactured Housing Product Matrix* to allow the maximum loan term on a cash-out refinance for a multi-width manufactured home to be 30 years (increased from 20 years). Single-width manufactured homes remain ineligible for cash-out refinances.

Effective: Lenders may take advantage of this policy change immediately.

Eligible types of nontraditional credit references

We expanded our list of nontraditional credit references to account for various examples of housing payments. The following are examples of acceptable housing payments:

- Rent: fees paid to a landlord or property management company;
- Privately held mortgage loan: housing payments not reported to the credit bureaus, such as contract for deed payments and other similar arrangements, provided the payments are related to the borrower's residence; and
- Real estate taxes: payments made on a principal residence, regardless of payment frequency (for homes owned free and clear).

These changes provide clarity for the additional types of credit references that can be used to develop a borrower's nontraditional credit history.

Effective: These clarifications are effective immediately.

Use of business income

We clarified several income calculation and documentation requirements for borrowers using business income to qualify. These updates apply to self-employed borrowers and borrowers with less than a 25% interest in a business.

- A lender may use a method other than the Quick Ratio or Current Ratio described in our Guide to confirm business liquidity, as applicable. When an alternative method is used, documented rationale must be provided.
- The Schedule K-1 alone cannot be used to support business liquidity in the absence of distributions as it does not provide sufficient information for this purpose.

We clarified additional policies applicable only to borrowers with less than a 25% interest in a business.

- If business tax returns are provided, the lender is not required to analyze the viability of the business. The lender may focus solely on the borrower's proportionate share of business income as reflected on the Schedule K-1.
- Income reported on Schedule K-1 can only be considered for qualifying if the lender verifies that the income was actually distributed to the borrower consistent with the level of business income being used to qualify, or the business has adequate liquidity to support the withdrawal of earnings.

Effective: These clarifications are effective immediately.

Property insurance requirements

At the direction of FHFA and in alignment with Freddie Mac, we have clarified property insurance requirements and related lender and servicer responsibilities throughout Chapter B7-3, Property and Flood Insurance, to promote sustainable homeownership and ensure all properties are sufficiently insured.

The following clarifications apply to property insurance policies for one- to four-unit properties and master property insurance policies for project developments:

- In addition to actual cash value coverage being unacceptable, policies that limit, depreciate, reduce or otherwise settle losses at anything other than a replacement cost basis are also not acceptable.
- The lender and servicer are responsible for verifying that the coverage amount meets Fannie Mae's requirements as of the current insurance policy effective date.

The following additional clarifications apply only to requirements for master property insurance coverage on project developments:

- The minimum required perils that a policy must cover are those found in a commercial "Broad" coverage form.
- Outdated references to guaranteed replacement cost, extended replacement cost, and replacement cost coverage have been removed to improve clarity.
- Coinsurance requirements have been removed to streamline the property insurance review process and to ensure that all project developments are reviewed for sufficient coverage.

As a reminder, these updates supersede any prior verbal or written guidance we may have provided.

The *Servicing Guide* will be updated on Feb. 14, 2024 with additional clarifications specific to servicers.

Effective: Lenders must comply with these clarified policies as soon as possible but are required to do so for all loans with application dates on or after June 1, 2024. Servicers must comply with these clarified policies as soon as possible but are required to do so for all loans with insurance policies that are renewed or obtained on or after June 1, 2024.

Mortgage origination definitions

We updated the definition of retail origination in the *Selling Guide* to remove the references to joint ventures and voting shares. Additionally, we added new language to the retail, third-party origination, broker and correspondent definitions to clarify that an affiliate, subsidiary, or parent company relationship with the mortgage seller are considered the same as the seller for the purposes of the definition of the origination type.

Miscellaneous Update(s)

B4-1.1-04, Unacceptable Appraisal Practices: Added “crime rate or related data” and “crime (and its variants)” as examples to the list of unacceptable appraisal practices.

B7-3-06, Flood Insurance Requirements: Incorporated previously issued temporary policies related to selling loans requiring flood insurance in the event of a lapse of the National Flood Insurance Program (NFIP).

B8-3-03, Signature Requirements for Notes: Added clarification that an individual who is not a loan applicant but whose credit is used in qualifying for the loan pursuant to a requirement of applicable law, is not required to sign the note. If they have an ownership interest in the property, they must be named in and sign the security instrument.

Lenders may contact their Fannie Mae Account Team if they have questions about this Announcement.
Have guide questions? Get answers to all your policy questions, straight from the source. Ask Poli.

Impacted Topics

Section of the Announcement	Updated *Selling Guide* Topics (Dated Feb. 07, 2024)
Value acceptance + property data for condos	▪ B4-1.2-01, Appraisal Report Forms and Exhibits ▪ B4-1.2-03, Hybrid Appraisals ▪ B4-1.4-11, Value Acceptance + Property Data
Qualifying rate for 7- and 10-year ARMs	▪ B3-6-04, Qualifying Payment Requirements
Eligible types of nontraditional credit references	▪ B3-5.4-01, Eligibility Requirements for Loans with Nontraditional Credit ▪ B3-5.4-02, Number and Types of Nontraditional Credit References ▪ B3-5.4-03, Documentation and Assessment of a Nontraditional Credit History
Use of business income	▪ B3-3.1-09, Other Sources of Income ▪ B3-3.3-07, Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1 ▪ B3-3.4-01, Analyzing Partnership Returns for a Partnership or LLC ▪ B3-3.4-02, Analyzing Returns for an S Corporation
Property insurance requirements	▪ B7-3-02, Property Insurance Requirements for One- to Four-Unit Properties ▪ B7-3-03, Master Property Insurance Requirements for Project Developments
Mortgage origination definitions	▪ A3-3-01, Outsourcing of Mortgage Processing and Third-Party Originations ▪ E-3-01, Acronyms and Glossary of Defined Terms: A ▪ E-3-02, Acronyms and Glossary of Defined Terms: B ▪ E-3-03, Acronyms and Glossary of Defined Terms: C ▪ E-3-16, Acronyms and Glossary of Defined Terms: P ▪ E-3-18, Acronyms and Glossary of Defined Terms: R ▪ E-3-19, Acronyms and Glossary of Defined Terms: S ▪ E-3-20, Acronyms and Glossary of Defined Terms: T