

**Announcement SEL-2010-06****April 30, 2010*****Selling Guide Updates***

The *Selling Guide* is being updated to include changes to the following topics:

- ARM qualifying rate
- Interest-only eligibility requirements
- Retirement of balloon mortgage loans as a standard product
- Prior preforeclosure sale or deed-in-lieu of foreclosure
- Multiple financed properties
- Miscellaneous updates and clarifications
- Loan-Level Price Adjustment (LLPA) Matrix and Adverse Market Delivery Charge (AMDC) Information

Each of the updates is briefly described below. The affected topics (and specific paragraphs) are noted for each policy change and are linked to the updated *Selling Guide*. Lenders should review each topic to gain a full understanding of the policy changes. The updated topics are dated April 30, 2010.

**ARM Qualifying Rate**

To limit the impact of payment shock for ARM borrowers, Fannie Mae is changing the rate at which borrowers must be qualified. For ARMs with an initial fixed-rate period of five years or less, lenders must use the greater of the note rate plus 2%, or the fully indexed rate.

**Updated *Selling Guide* Topics**

[B2-1.3-03](#), Adjustable-Rate Mortgages (ARMs) (ARM Payment Shock)  
[B3-6-04](#), Borrower's Monthly Housing Expense for Qualifying Purposes

**Effective Dates**

This policy is effective for manually underwritten mortgage loans with application dates beginning July 1, 2010; and for new loan casefiles submitted to Desktop Underwriter® (DU®) Version 8.1 on or after the weekend of June 19, 2010.

All mortgage loans not meeting the new qualifying rate requirements must be purchased as whole loans on or before August 31, 2010, or delivered into MBS pools with issue dates on or before August 1, 2010.

## Interest-Only Eligibility Requirements

In the DU Version 8.1 Release Notes, Fannie Mae announced changes to the eligibility requirements for interest-only mortgage loans. With these changes, Fannie Mae has structured the interest-only option for borrowers who are in a position to choose it as a financial management tool, rather than as an affordability tool. Borrower qualification is based on the borrower's ability to sustain payments subsequent to the initial interest-only period.

This *Selling Guide* update incorporates the following interest-only eligibility changes:

- These transactions are no longer eligible for delivery to Fannie Mae with an interest-only feature
  - cash-out refinances,
  - Flexible mortgages,
  - MyCommunityMortgage<sup>®</sup> loans,
  - investment properties, and
  - two- to four-unit properties.
- The minimum representative credit score is 720.
- The borrower must have minimum reserves of 24 months.

### Updated *Selling Guide* Topics

[B3-4.1-01](#), Minimum Reserve Requirements (Determining Required Minimum Reserves)

[B3-5.1-01](#), General Requirements for Credit Scores (Minimum Credit Score Requirement and DU Credit Score Requirements)

[B5-2.1-01](#), Mortgages with an Interest-Only Feature

[B5-2.3-01](#), Flexible Mortgage Eligibility (Eligible Loan Terms)

[B5-6-02](#), MyCommunityMortgage Loan and Borrower Eligibility (Eligible Loan/Amortization Types and Temporary Buydowns)

Note: The [Eligibility Matrix](#) was updated to reflect these eligibility changes and reduced LTV ratios (that were described in the Release Notes).

### Effective Dates

These changes are effective for new loan casefiles submitted to DU Version 8.1 on or after the weekend of June 19, 2010.

All mortgage loans not meeting the new interest-only eligibility requirements must be purchased as whole loans on or before August 31, 2010, or delivered into MBS pools with issue dates on or before August 1, 2010.

## Retirement of Balloon Mortgage Loans as a Standard Product

Fannie Mae is retiring the seven-year balloon as a standard mortgage product. However, lenders may continue to deliver balloon mortgage loans previously owned or securitized by Fannie Mae after the conditional right to refinance has been executed. This *Selling Guide* update removes all references to balloons as a standard product, removes language regarding

modified balloons, and clarifies how refinanced balloon mortgage loans will be priced, eligibility for inclusion in MBS pools, and the loan data delivery requirements.

See Announcement SVC-2010-05, *Miscellaneous Servicing Policy Changes*, for additional related information about balloon mortgage loans, including changes to pricing.

## **Updated *Selling Guide* Topics**

### **Removal of balloons as standard product**

[A3-2-02](#), Responsible Lending Practices (Responsible Lending Policies)

[B2-1.3-01](#), Loan/Amortization Types Overview (Loan/Amortization Types Overview)

[B2-3-03](#), Co-op Properties (Eligible Products and Repayment Terms)

[B3-2-02](#), Risk Factors Evaluated by DU (Loan Type/Amortization Type)

[B4-2.3-04](#), Loan Eligibility for Co-op Share Loans (Acceptable Repayment Terms for Co-op Share Loans)

[B7-1-02](#), Mortgage Insurance Coverage Requirements

[B8-2-01](#), Security Instruments for Conventional Mortgages (Standard First-Lien Mortgage Security Instruments)

[B8-2-02](#), Special-Purpose Security Instruments (Balloon Loan Refinancing Instruments)

[B8-4-01](#), Riders and Addenda (Uniform Riders and Fannie Mae-Specific Riders to Security Instruments)

[C1-1-01](#), Execution Options

### **Requirements for refinanced balloon mortgages and removal of modified balloon language**

[B2-1.3-05](#), Refinanced Balloon Mortgages

[B2-1.4-01](#), General Mortgage Terms and Conditions (Modified Seasoned Mortgages)

[B7-2-04](#), Special Title Insurance Coverage Considerations (Other Mortgages)

[B8-2-02](#), Special-Purpose Security Instruments (Balloon Loan Refinancing Instruments)

[E-2-02](#), Document Submission Packages for All Mortgages

### **Effective Dates**

All newly originated balloon mortgage loans must be purchased as whole loans on or before August 31, 2010, or delivered into MBS pools with issue dates on or before August 1, 2010.

The clarifications pertaining to refinanced balloon mortgage loans are effective immediately.

### **Prior Preforeclosure Sale or Deed-in-Lieu of Foreclosure**

Announcement SEL-2010-05, *Underwriting Borrowers with a Prior Preforeclosure Sale or Deed-in-Lieu of Foreclosure* has been incorporated into the *Selling Guide*. That Announcement described changes in policies regarding the future eligibility of borrowers to obtain a new mortgage loan after a preforeclosure event. In addition, it described Fannie Mae's revised requirements for determining that borrowers have re-established their credit after a significant derogatory credit event.

## Updated *Selling Guide* Topics

[B3-5.3-07](#), Significant Derogatory Credit Events – Waiting Periods and Re-establishing Credit  
[B3-5.3-09](#), DU Credit Report Analysis (Prior Bankruptcy, Foreclosure, and Deed-in-Lieu of Foreclosure)

### Retired Topic

Requirements for a Re-established Credit History – updated content was moved into [B3-5.3-07](#) (previously in B3-5.3-09)

### Effective Date

Refer to Announcement SEL-2010-05 for effective dates.

## Multiple Financed Properties

For mortgage loans secured by second homes or investment properties, Fannie Mae limits the number of other properties on which a borrower may be obligated. This policy was previously referred to as the “multiple mortgages” policy; however, with this *Selling Guide* update, the policy has been more appropriately renamed to the “multiple financed properties” policy. In addition, the policy now covers situations where the borrower is obligated on a mortgage loan but not on title to the property.

## Updated *Selling Guide* Topics

[B2-2-03](#), Multiple Financed Properties for the Same Borrower  
[B5-5.1-06](#), DU Refi Plus™ and Refi Plus Underwriting Considerations (Multiple Financed Properties for the Same Borrower)

### Effective Date

These clarifications are effective immediately.

## Miscellaneous Updates and Clarifications

This *Selling Guide* update includes a number of other miscellaneous changes:

- Clarification that the IRS must receive IRS Forms 4506 and 4506-T within 120 days after completion (including signature) by the borrower while IRS Form 8821 must be received by the IRS within 60 days of the date it was signed and dated by the borrower
  - [B3-3.1-01](#), Requirements and Uses of IRS Form 4506-T (Completing and Submitting the IRS Authorization Form)
- The reference to a verbal verification of employment (VOE) was removed from the Verification of Employment (Form 1005) requirements (Form 1005 can not be used in lieu of a verbal VOE)
  - [B3-3.4-01](#), Documents used for DU Income Assessment
- Clarification that an employer is not considered a source of interested party contributions
  - [B3-4.1-02](#), Interested Party Contributions (IPCs) (Overview)

- A link was added to [eFannieMae.com](http://eFannieMae.com) to new information about how to request an extension of a conditional or final project approval from Fannie Mae
  - [B4-2.2-08](#), Project Eligibility Review Service (PERS) (Decision Expiration Dates)
- The phone number or address information in Part E, List of Contacts was updated for a few Fannie Mae contacts:
  - Asset Acquisitions
  - National Servicing Organization
  - Construction-to-Permanent Loan Modifications

## Effective Date

These changes are effective immediately.

### **Loan-Level Price Adjustment Matrix and Adverse Market Delivery Charge Information**

The LLPA Matrix and AMDC Information has been updated to reflect the interest-only eligibility (and LTV ratio changes), and balloon changes noted in this *Selling Guide* update, the DU Version 8.1 Release Notes, and Announcement SVC-2010-06. The Matrix is available on [eFannieMae.com](http://eFannieMae.com).

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

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