

## Selling Guide Announcement SEL-2012-01

January 31, 2012  
(\*With correction on Page 2)

### *Selling Guide Updates*

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

- Construction-to-Permanent Financing
- Part D, Ensuring Quality Control
- 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 January 31, 2012.

### **Construction-to-Permanent Financing**

The *Selling Guide* requirements for conversion of construction-to-permanent mortgage loan financing have been revised to eliminate the complexity associated with the current policies and to better align these transactions with the standard requirements for other refinance transactions. Note that Fannie Mae is now using the terminology “single-closing” instead of “one-time close” and “two-closing” instead of “two-time close”. The following is a summary of the key changes:

- The length of time the borrower has owned the lot is no longer a factor in calculating the LTV ratios. These calculations are now more closely aligned with the standard refinance and purchase LTV ratio calculation requirements. For construction-to-permanent transactions that are processed as refinances, this change means the lender may now use the as-completed appraised value instead of the lesser of cost or appraised value to calculate the LTV ratios.
- The topics have been reorganized into new topics to clearly differentiate the requirements for single-closing and two-closing transactions. The requirements have been clarified to reflect that single-closing transactions can only be processed as a purchase or limited cash-out refinance (cash-out refinances are no longer permitted), and two-time closing transactions can only be processed as a limited cash-out or cash-out refinance.
- For single-closing transactions, when the credit and appraisal documents are over four months old but less than eighteen months old at the time of conversion to permanent financing, Fannie Mae has implemented a minimum representative credit score of 700. This requirement is in addition to the existing requirements that include limitation of the LTV ratios to 70% and the requirement for a DU Approve/Eligible recommendation.
- The standard limited cash-out refinance requirements have been updated to include the criteria that pertain to single-closing transactions that are processed as a limited cash-out refinance. (This type of transaction is not a “true” limited cash-out refinance because the borrower is not refinancing a loan that was used to purchase a completed property.)

The *Eligibility Matrix* has been updated to reflect that construction-to-permanent transactions (both single-closing and two-closing transactions) are subject to the eligibility requirements of each chart based on the

applicable loan purpose. For example, if a two-unit, principal residence property is being manually processed as a single-closing “purchase” transaction, the maximum LTV, CLTV, and HCLTV ratios are 80%.

### Updated *Selling Guide* Topics

- [B2-1.2-02](#), Limited Cash-Out Refinance Transactions (Eligibility Requirements, Acceptable Uses)
- [B5-3.1-01](#), Conversion of Construction-to-Permanent Financing: Overview
- [B5-3.1-02](#), Conversion of Construction-to-Permanent Financing: Single-Closing Transactions
- [B5-3.1-03](#), Conversion of Construction-to-Permanent Financing: Two-Closing Transactions

### Retired *Selling Guide* Topic

- B3-4.3-12, Credit for Value of Lot

## DU Implementation of Updated Guidelines

DU will be updated in a future release to reflect the updated guidelines. Until such time, lenders must apply the following to DU loan casefiles:

- Lenders may disregard the DU message stating what values should be entered for the appraised value when the lot was acquired within 12 months. (**\*Deleted the word “not” before the word “acquired.”**)
- Lenders must manually apply the cash-out refinance restriction to their single-closing transactions. (In other words, DU may return an Eligible recommendation for a cash-out refinance; however, this transaction is not eligible for delivery to Fannie Mae.)
- Lenders must manually apply the 700 minimum credit score requirement to their single-closing transactions when they are utilizing the age of credit and appraisal document flexibility.
- For one-unit, principal residence, fully amortizing DU loan casefiles underwritten using a loan purpose of “Construction,” DU will issue an Ineligible recommendation when the LTV, CLTV, or HCLTV ratio is above 95%. These transactions are eligible for delivery to Fannie Mae provided the actual LTV, CLTV and HCLTV ratios do not exceed 97%, and the only reason for the Ineligible recommendation is the LTV ratio exceeding 95%.
- For MyCommunityMortgage<sup>®</sup> and two- to four-unit DU loan casefiles underwritten using a loan purpose of “Construction,” DU will issue an Out of Scope recommendation. These types of loans will need to be manually underwritten until DU is updated.

### **Effective Date**

These policy changes will be effective for all loan applications dated on or after April 1, 2012.

## Part D, Ensuring Quality Control

Part D of the *Selling Guide* contains requirements for the lender to have an effective quality control (QC) plan. The requirements include identifying defects in loans or origination processes, and implementing controls to remediate the identified issues. In March 2010, Fannie Mae significantly updated its QC policies, and since then has received valuable feedback from lenders, and identified areas that required clarifications or changes to better enable lenders to comply with the intent of Fannie Mae’s policies.

As a result, the *Selling Guide* has been updated to clarify a number of requirements for the lender’s post-closing QC process. Each update is briefly described in the Attachment to this Announcement. None of the updates represent new policies or procedures.

Additionally, the [Special Feature Codes](#) document has also been updated to reflect changes to the description of SFC 162, SSN Positively Validated through Social Security Administration, which align with the requirements for using this code as outlined in Part D.

### **Updated Selling Guide Topics**

See the Attachment to the Announcement.

### **Effective Date**

These changes are effective immediately.

## **Miscellaneous Selling Guide Updates**

The following additional updates have been made in the *Selling Guide*:

- As a follow-up to SVC-2011-23, *Condo Insurance Requirements*, and Announcement SEL-2011-13, *Selling Guide Updates*, Fannie Mae is clarifying the concept of affiliated versus unaffiliated condo projects. A definition is being added in both, [B7-3-04](#), Hazard Coverage for Units in Project Developments, and the [Glossary of Terms](#).
- As communicated in the DU Version 8.3 March Update release notes, the project eligibility requirements for DU Refi Plus™ loan casefiles are being updated to reflect that in addition to the current representation and warranty that the property is not in a condo or co-op hotel or motel, the lender must also represent and warrant that the property is not in a houseboat project or a timeshare or segmented ownership project. As a result, the following topics have been updated in the *Selling Guide*: [B5-5.1-05](#), DU Refi Plus and Refi Plus (Representations and Warranties) and [B5-5.1-07](#), DU Refi Plus and Refi Plus Property Valuation and Projects (Condo, Co-op, and PUD Project Review Requirements).
- [B2-1.2-03](#), Cash-Out Refinance Transactions: The Delayed Financing Exception section of this topic has been updated to allow for the use of a recorded trustee's deed in lieu of a HUD-1 Settlement Statement.
- [B3-4.4-01](#), Asset Verification: This topic has been updated to clarify the use of joint assets for non-occupant co-borrowers on DU loan casefiles.
- The *Selling Guide* has been updated to add "purchase" to the term "long-term standby purchase commitment." The following topics have been updated: [C1-1-01](#), Execution Options, and the [Glossary of Terms](#).

### **Effective Date**

With the exception of the DU project eligibility change noted above, these clarifications are effective immediately. The DU change will be effective with the implementation of the DU Version 8.3 March release the weekend of March 17, 2012. (Refer to the Release Notes for additional information.)

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

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## Attachment

### Summary of Updates to Part D: Ensuring Quality Control (QC)

Topic Number and Title	Description of Update
<a href="#">B2-2-01</a> , General Borrower Eligibility Requirements	Clarified when lenders may use Special Feature Code 162.
<a href="#">B5-2.2-01</a> , Expanded Approval	Updated the reference concerning the requirements for the lender's quality control program to Part D instead of B5-2.2-03.
B5-2.2-03, Expanded Approval Quality Control	Retired this topic because its contents were duplicative of requirements in Part D.
<a href="#">D1-1-01</a> , General Information on Lender QC Process	Removed the definitions of terms because the definitions are not policies.
<a href="#">D1-1-02</a> , Lender QC Process	Revised the lender's QC process requirements so that the focus is on loan quality as determined by compliance with eligibility, credit, and insurer or guarantor requirements, prudent underwriting, and property value requirements.
<a href="#">D1-3-02</a> , Lender Mortgage Selection Process for Post-Closing QC Mortgage Reviews	The mortgage loans selected for QC reviews must be selected in the month following closing instead of within 30 days of closing.  Provided additional guidance for discretionary samples and clarified the discretionary sampling criteria.
<a href="#">D1-3-03</a> , Lender Post-Closing QC Review of Underwriting Decisions and Documentation	Clarified that the documentation supporting reverifications performed by an outsource vendor must be accessible to the lender for at least three years from the date of the review and must be provided to Fannie Mae for review upon request.  Clarified the Social Security number verification requirements.  Changed the topic title.
<a href="#">D1-3-04</a> , Lender Post-Closing QC Review of Data Integrity	Provided flexibility for a manual underwriting review when lenders are unable to resubmit data through DU.
D1-3-06, Lender Post-Closing QC Review of Underwriting Decisions	Topic retired. Text was relocated and edited as follows: <ul style="list-style-type: none"> <li>▪ Removed the list of DU underwriting validation and confirmation requirements based on the recommendation and instead added links to the applicable DU <i>Selling Guide</i> topics.</li> <li>▪ Moved the remaining text regarding reviewing underwriting decisions and DU recommendations to <a href="#">D1-3-03</a>.</li> </ul>
<a href="#">D1-3-06</a> , Lender Post-Closing QC Review of Closing Documents	Added guidance for instances when the actual recorded documents are not available for post-closing QC review.  Note: This topic was previously numbered D1-3-07 but changed due to the retirement of the former D1-3-06.
<a href="#">D1-3-07</a> , Lender Post-QC Review Reporting, Record Retention, and Audit	Clarified reporting requirements for when a lender confirms that a loan was ineligible for sale to Fannie Mae.
<a href="#">E-3-04</a> , Glossary of Fannie Mae Terms: D	Added the definition for "defect rate," which was previously in Part D.