FannieMae

Selling Guide Announcement SEL-2012-09

September 14, 2012

Updates to Refi Plus™ and DU Refi Plus™

The positive impact of Refi Plus and DU Refi Plus continues, enabling borrowers who have demonstrated an acceptable payment history on their existing Fannie Mae mortgage loan to refinance and obtain a lower payment or move to a more stable product or shorter term. To help lenders more efficiently reach an even broader base of eligible borrowers, Fannie Mae is announcing a number of enhancements to the underwriting and documentation policies for Refi Plus (manual only) and DU Refi Plus mortgage loans including:

- Reducing representations and warranties
- Providing an alternative to income verification for Refi Plus loans with payment changes less than or equal to 20%
- Reducing documentation for income and assets
- Providing an alternative qualification method when removing a borrower
- Clarifying use of Hardest Hit Fund® programs
- Removing requirement for *Single-Family Comparable Rental Schedule* (Form 1007) for investment properties

Effective Date

Unless otherwise noted, these policy updates are effective immediately. The *Selling Guide* will be updated at a later date to incorporate these changes.

Reducing Representations and Warranties

Selling Representations and Warranties

Earlier this week, Fannie Mae announced that lenders will be relieved of their obligation to remedy Refi Plus and DU Refi Plus mortgage loans that are in breach of certain underwriting and eligibility representations and warranties if the borrower was not 30 days delinquent during the 12 months following the acquisition date of the mortgage loan. This new policy will apply to Refi Plus and DU Refi Plus mortgage loans acquired on or after January 1, 2013. Refer to Announcement SEL-2012-08, *New Lender Selling Representations and Warranties Framework* for complete details.

Property Representations and Warranties

Fannie Mae will now grant additional representation and warranty relief for Refi Plus and DU Refi Plus mortgage loans with regard to the subject property.

For Refi Plus and DU Refi Plus mortgage loans where a new appraisal is obtained, the lender is not required to make any representation or warranty as to the value, marketability, or condition of the subject property.

- Appraisal Condition and Quality Ratings: Lenders may deliver loans on properties with a condition rating of C6 and/or a quality rating of Q6 completed on an "as-is" basis. There is no requirement for the appraisal to be completed "subject to" repairs being made.
- The lender is not responsible for the following requirements in the *Selling Guide*, B4-1.1-01: General Information on Appraisal Requirements (Lender Responsibilities):
  - accuracy and completeness of the appraisal and its assessment of the marketability of the property;
  - underwriting the completed appraisal report to determine whether the subject property presents adequate collateral for the mortgage;
  - ensuring that the appraiser uses sound reasoning and provides evidence to support the methodology used for developing the value opinion, particularly in cases that are not covered by Fannie Mae guidelines; and
  - ensuring that the appraiser provides an accurate opinion, an adequately supported value, and an accurate description of the property.

Providing an Alternative to Income Verification for Refi Plus Loans with Payment Changes Less than or Equal to 20%

Currently, for Refi Plus mortgage loans with payment changes (principal and interest) less than or equal to 20%, Fannie Mae requires verification that at least one of the borrowers has a source of income (see B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations). In lieu of this verification, Fannie Mae will now allow verification of liquid financial reserves equal to at least 12 months of the new mortgage payment (PITIA) on the subject property. These reserves must be documented with at least one recent statement (monthly, quarterly, or annual) and are limited to the following types of liquid assets:

- checking or savings accounts, certificates of deposit, and money market funds;
- investments in stocks, bonds, mutual funds; and
- the amount vested in a retirement savings account.

Lenders are not required to investigate large deposits that appear on the statements. However, Fannie Mae policy requires that certain assets be "discounted" when used for reserves – this policy also applies to Refi Plus mortgage loans. Refer to the applicable asset type in the *Selling Guide* for additional information.

> NOTE: *There are no changes to the requirements related to verification of assets for closing. Lenders do not have to verify assets required to close for Refi Plus mortgage loans with payment changes less than or equal to 20%.*

Delivery of Income

Income must be reported to Fannie Mae for all Refi Plus and DU Refi Plus mortgage loans at the time of loan delivery even for those Refi Plus transactions where there is no maximum DTI ratio. For Refi Plus mortgage loans with payment changes less than or equal to 20%, the lender must report the stated income on the loan application (if any). If the borrower does not state any income and the lender uses the reserve alternative option (described above) as the income source, the lender must deliver the equivalent of the new monthly payment (PITIA) as the "Monthly Income" data element (Sort ID 291).

Reducing Documentation for Income and Assets

To provide additional flexibility and efficiency for lenders in originating Refi Plus and DU Refi Plus mortgage loans, Fannie Mae is further streamlining the minimum amount of documentation that is required for income and assets. These changes will provide consistency across income and asset types and align Refi Plus and DU Refi Plus requirements.

Effective immediately, the following policies apply to Refi Plus mortgage loans with payment increases (principal and interest) greater than 20% and to all DU Refi Plus mortgage loans:

- All income and assets sources must be eligible sources and verified per the minimum documentation requirements described in the Attachment to this Announcement.
- All income and asset documents must follow Fannie Mae's standard requirements for age of documents.
- Lenders are not required to verify or assess the borrower's history of receipt of income or the anticipated continuity of the income.
- Fannie Mae's standard requirements regarding the Request for Transcript of Tax Return (IRS Form 4506-T) are applicable, including the requirement that each borrower must complete and sign a separate IRS Form 4506-T at or before closing.
- Fannie Mae's standard requirements for verbal verifications of employment apply.
- Lenders are not required to investigate large deposits that appear on bank or other asset statements.
- Proof of liquidation of assets (e.g., sale of stock) is not required even if those assets are used by the borrower to pay closing costs.

> NOTE: *For DU Refi Plus loan casefiles, lenders can follow the documentation requirements in the Attachment and may disregard the messages shown on the DU Underwriting Findings report if they require a deeper level of documentation. See the Attachment for additional information.*

Providing an Alternative Qualification Method When Removing a Borrower

For both Refi Plus and DU Refi Plus mortgage loans, a borrower who is being removed through the refinance transaction is no longer required to be removed from the deed or title to the property and retain no ownership interest in that property. As a reminder, each person who has an ownership interest in the security property, even if the person's income is not used in qualifying for the mortgage loan, must sign the security instrument. (See B8-2-03, Signature Requirements for Security Instruments, for additional information.)

For Refi Plus mortgage loans, if a borrower is being removed from the transaction for a reason other than death, the current policy requires that the remaining borrower demonstrate that he or she has been making the mortgage payments for the prior 12 months. Fannie Mae is now offering an additional option for assessing the remaining borrower's ability to repay the mortgage loan. In lieu of obtaining documentation of payments made for the prior 12 months, the remaining borrower(s) may instead be evaluated based on the eligibility and underwriting requirements applicable to Refi Plus mortgage loans with a payment increase greater than 20%, regardless of the actual payment change. These requirements include, but are not limited to, a maximum total debt-to-income ratio of 45%, a minimum credit score of 620, and documentation of income and assets required for closing.

Clarifying Use of Hardest Hit Fund Programs

For both Refi Plus and DU Refi Plus mortgage loans, Fannie Mae permits grant-like unsecured financing provided to the borrower through a Housing Finance Agency's Hardest Hit Fund (HHF) program for the purpose of paying down the outstanding mortgage balance at the time of closing or for the payment of closing costs.

In B5-5.2-01, DU Refi Plus and Refi Plus Eligibility, Fannie Mae currently requires that the loan file be documented with a copy of the promissory note or other documentation specifying the terms and conditions of the loan and include language indicating that repayment is not expected. Inclusion of the “no repayment” language in the note or other documentation is no longer required. However, if these documents do indicate that repayment of the HHF amount is expected, the corresponding monthly payment must be included in the debt-to-income ratio unless repayment is only due upon sale or default.

Removing Requirement for Single-Family Comparable Rent Schedule (Form 1007) for Investment Properties

For Refi Plus loans and DU Refi Plus loan casefiles, it will no longer be necessary for the lender to obtain the Form 1007 if the borrower is refinancing an investment property and using rental income to qualify. Lenders may disregard the DU message that requires the Form 1007.

> NOTE: *As a reminder, lenders must report gross monthly rent in the loan delivery data for all investment properties and two-to-four unit principal residence properties, regardless of whether the borrower is using rental income to qualify for the mortgage loan. Refer to the Selling Guide, A3-4-02, Data Quality and Integrity for additional information.*

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

John Forlines
Senior Vice President
Chief Credit Officer for Single-Family

Attachment

This table describes the income and asset documentation requirements that apply to Refi Plus loans with payment increases greater than 20% and DU Refi Plus loans.

NOTE: *The messages on the DU Underwriting Findings report may not reflect the requirements below. The lender may disregard the message in DU if it differs from these requirements.*

Documentation Requirements Refi Plus Loans with Payment Increases > 20% and DU Refi Plus Loans	
Income Type	**Documentation Requirement**
All Employment Income	Verbal verification of employment See B3-3.1-07 for additional requirements.
Base Pay (salary or hourly) Bonus and Overtime Income	One paystub Applies to primary employment, secondary employment (second job and multiple jobs), and seasonal income.
Commission Income	One paystub or one year personal tax return Applies without regard to the percentage of commission earnings.
Self-Employment	One year personal tax return Applies to primary and secondary self-employment.
Alimony or Child Support	Copy of divorce decree, separation agreement, court order or equivalent documentation, and one month documentation of receipt.
Employment-Related Assets as Qualifying Income	Lender must obtain standard documentation for this type of income as described in B3-3.1-09, Other Source of Income.
Rental Income	Lease or one year personal tax return (Form 1007 is not required) Applies to rental income from subject or other properties owned by the borrower.
Retirement and Pension	One of the following: award letter, one year personal tax return, W-2 or 1099 form or one month bank statement reflecting direct deposit.
Social Security	One of the following: award letter, one year personal tax return, Form SSA-1099, or one month bank statement reflecting direct deposit.
Temporary Leave Income	Lender must receive: ▪ the borrower's written confirmation of his or her intent to return to work, and ▪ no evidence or information from the borrower's employer indicating that the borrower does not have the right to return to work after the leave period Regardless of the date of return, the amount of the "regular employment income" the borrower received prior to the temporary leave must be used to qualify.

Documentation Requirements Refi Plus Loans with Payment Increases > 20% and DU Refi Plus Loans	
All Other Income Types ▪ **Automobile Allowance** ▪ **Boarder Income** ▪ **Capital Gains Income** ▪ **Disability Income – Long-Term** ▪ **Foreign Income** ▪ **Foster-Care Income** ▪ **Interest and Dividends Income** ▪ **Mortgage Credit Certificates** ▪ **Mortgage Differential Payments Income** ▪ **Notes Receivable Income** ▪ **Public Assistance Income** ▪ **Royalty Payment Income** ▪ **Tip Income** ▪ **Trust Income** ▪ **Unemployment Benefits Related to Seasonal Employment** ▪ **VA Benefits Income**	Lender must determine appropriate documentation. Examples include (but are not limited to): an award letter or equivalent documentation or agreement, one paystub or equivalent documentation, one year personal tax return, IRS 1099 Form, or one month bank statement reflecting direct deposit.
Asset Type	**Documentation Requirement**
▪ **Checking Accounts** ▪ **Savings Accounts** ▪ **Certificates of Deposit** ▪ **Money Market Accounts** ▪ **Stocks, Bonds, Mutual Funds** ▪ **Retirement Accounts** ▪ **Trust Accounts** ▪ **Secured Borrowed Funds** ▪ **Donations from Entities (Hardest Hit Funds)** ▪ **Gifts**	One recent statement (monthly, quarterly, or annual) showing asset balance Fannie Mae's standard policy regarding "discounting" of certain assets applies if the assets are required to satisfy DU reserve requirements.