



## ***Selling Guide Announcement SEL-2019-08***

**October 2, 2019**

### ***Selling Guide Updates***

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

- Homeownership Education Requirements
- Employment Offers and Contracts
- Rental Income Policy
- Reporting Anti-Money Laundering Activity
- Miscellaneous *Selling Guide* Updates

Each of the updates is described below. The affected topics for each policy change are listed on the Attachment. The *Selling Guide* provides full details of the policy changes. The updated topics are dated October 2, 2019.

In addition, we have updated pages 7 and 8 of the [Eligibility Matrix](#) for the following:

- removed manufactured housing as an exception for construction-to-permanent transactions to align with a previous *Guide* update;
- clarified that attached condos are not permitted (detached are permitted); and
- clarified the Non-occupant borrower Note and Footnote (1) with respect to allowable LTV and CLTV ratio requirements.

### **Homeownership Education Requirements**

We believe homeownership education helps borrowers gain essential knowledge to prepare for sustainable homeownership. To that end, we are updating our homeownership education requirements. Currently, our policy requires at least one borrower to complete homebuyer education prior to closing

- if all borrowers on the loan are relying solely on nontraditional credit to qualify, or
- for all HomeReady® purchase transactions.

With this update, at least one borrower must complete homebuyer education for the following transactions:

- if all borrowers on the loan are relying solely on nontraditional credit to qualify, regardless of the loan product or whether the borrowers are first-time home buyers (no change to current requirement);
- HomeReady purchase transactions when all occupying borrowers are first-time homebuyers, regardless of the LTV ratio; or
- purchase transactions with LTV, CLTV, or HCLTV ratios greater than 95% when all borrowers are first-time homebuyers.

In support of our commitment to homebuyer education, beginning October 23, 2019, we will waive the fee for the Framework Homeownership, LLC (Framework®) course for lenders, removing the cost burden for borrowers. Additional information about this is forthcoming.

### **Effective Date**

The updated requirements will apply to new loan casefiles submitted to Desktop Underwriter® (DU®) on or after the weekend of December 7, 2019. For manually underwritten HomeReady loans, the updates are required for new loan applications dated on or after December 7, 2019.



## Employment Offers and Contracts

We currently have policies that allow the use of income for a borrower that has not yet started employment but has an employment offer or contract to start a job at some point after the application date but no later than 90 days after the note date. Based on lender feedback, we are clarifying these policies to remove unintended operational complexity related to delays in the timing of payroll documentation from the employer. These policies are now based on the documentation the lender can provide, versus the timing of the borrower's start date of employment. This change aligns with the original intent of the policy to allow an employment offer or contract to serve as confirmation of current employment. Additionally, we clarified the documentation that is required based on specific loan features.

### Effective Date

Lenders can take advantage of these changes immediately.

## Rental Income Policy

We are implementing new requirements for determining when rental income can be used for qualifying purposes. These changes are intended to support sustainable homeownership for borrowers purchasing an investment property without a prior history of managing rental properties. This new policy may also help to address certain risks, such as reverse occupancy fraud.

To determine the amount of rental income from the subject property that can be used for qualifying purposes when the borrower is purchasing a two- to four-unit principal residence or one- to four-unit investment property, the lender must consider the following:

| If the borrower...   | Then for qualifying purposes...   |
|--|---|
| <ul style="list-style-type: none"><li>currently owns a principal residence (or has a current housing expense), and</li><li>has at least a one-year history of receiving rental income or documented property management experience</li></ul> | there is no restriction on the amount of rental income that can be used.  |
| <ul style="list-style-type: none"><li>currently owns a principal residence (or has a current housing expense), and</li><li>has less than one-year history of receiving rental income or documented property management experience</li></ul>  | <ul style="list-style-type: none"><li>for a principal residence, rental income in an amount not exceeding the PITIA of the subject property can be added to the borrower's gross income, or</li><li>for an investment property, rental income can only be used to offset the PITIA of the subject property.</li></ul> |
| <ul style="list-style-type: none"><li>does not own a principal residence, and</li><li>does not have a current housing expense</li></ul>  | rental income from the subject property cannot be used.   |

**Note:** This policy does not apply to HomeReady loans with rental income from an accessory unit.

### Effective Date

The updated requirements will apply to new loan casefiles submitted to DU on or after the weekend of December 7, 2019, and for manually underwritten loans with application dates on or after December 7, 2019.



## Reporting Anti-Money Laundering Activity

All sellers/servicers, including those not subject to the anti-money laundering provisions of the Bank Secrecy Act (BSA), must now report loan-level instances of suspicious activity using the self-report functionality in Loan Quality Connect.

### Effective Date

Lenders are encouraged to implement this policy immediately but must do so by March 31, 2020.

## Miscellaneous *Selling Guide* Updates

**B2-1.3-02, Adjustable-Rate Mortgages (ARMs):** On May 17, 2019, we issued [LL-2019-05: Purchase of Certain LIBOR Adjustable-Rate Mortgage Loans](#). As a follow-up, we are clarifying that for purposes of single-closing construction-to-permanent transactions the seasoning starts with the first payment of principal and interest (P&I) after the loan has converted to permanent financing.

**B3-6-05, Monthly Debt Obligations:** Our current policy states that an alimony obligation can be a reduction to income in lieu of including it as a monthly debt in the DTI ratio. When the lender uses this option for casefiles underwritten through DU, the lender must enter the obligation as a negative amount as its own line item (rather than reducing another income type by the amount of the obligation). However, if the borrower also receives alimony or child support income, this amount should be combined with the amount of the alimony obligation and entered as a net amount.

To align with the existing requirement in [B3-6-01, General Information on Liabilities](#), that all liabilities must be documented, this topic has also been clarified to reflect that a copy of the divorce decree (or other related documentation) must be retained in the loan file.

**B8-3-04: Note Endorsement and E-2-01: Required Custodial Documents:** Note endorsements should be signed only by those persons specifically authorized to execute the document on the lender's behalf. We accept facsimile endorsement of notes with certain requirements, one of which includes a corporate resolution authorizing specific officers by name or title. These requirements were slightly different in these two topics, and as a result, we aligned the corporate resolution requirements to specify either the officer's title or name for facsimile signatures.

**E-1-03, List of Contacts:** We updated the email address for our Payments Team for the submission of Forms 360, 482, 1072, or 1055. Also note that minor updates, including this email address and related instructions, were recently made to these forms posted on our [website](#).

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

Malloy Evans  
Senior Vice President and  
Chief Credit Officer for Single-Family



## Attachment

| Section of the Announcement              | Updated <i>Selling Guide</i> Topics  |
|--|--|
| Homeownership Education Requirements     | <ul style="list-style-type: none"><li>▪ <a href="#">B2-1.2-01, Purchase Transactions</a></li><li>▪ <a href="#">B2-2-06, Homeownership Education and Housing Counseling</a></li><li>▪ <a href="#">B5-6-02, HomeReady Mortgage Loan and Borrower Eligibility</a></li></ul> |
| Employment Offers and Contracts          | <ul style="list-style-type: none"><li>▪ <a href="#">B3-3.1-09, Other Sources of Income</a></li></ul>   |
| Rental Income Policy                     | <ul style="list-style-type: none"><li>▪ <a href="#">B3-3.1-08, Rental Income</a></li><li>▪ <a href="#">B3-3.5-02, Income From Rental Property in DU</a></li></ul>  |
| Reporting Anti-Money Laundering Activity | <ul style="list-style-type: none"><li>▪ <a href="#">A3-2-01, Compliance With Laws</a></li><li>▪ <a href="#">E-1-03, List of Contacts</a></li></ul>   |