



Selling Guide Announcement (SEL-2023-02)

March 1, 2023

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

- [Valuation modernization](#): transitioning to a range of options to establish a property’s market value, with the option matching the risk of the collateral and loan transaction
- [Sweat equity](#): providing additional guidance on the use of sweat equity and nonprofit program providers
- [Lender quality control updates](#): revising timelines and expectations for both prefunding and post-closing quality control reviews
- [Required use of Condo Project Manager™](#): requiring the use of CPM™ for projects where a Full Review is required
- [Miscellaneous updates](#):
 - [Maintaining seller/servicer eligibility](#)
 - [HomeStyle® Renovation indicator](#)
 - [Government loan guaranty or insurance](#)

View the list of [impacted topics](#).

Valuation modernization

Valuation modernization involves leveraging technologies, data, and analytics to enhance the management of collateral risk, making the process more efficient for lenders, borrowers, appraisers, and secondary-market investors. Valuation modernization helps lenders, appraisers, and risk investors manage collateral risk more effectively, while also benefiting consumers via greater appraisal accuracy, lower costs, and increased speed of loan decisioning.

We are on a journey of continuous improvement to make the home valuation process more efficient and accurate. As such, we are transitioning to a range of options to establish a property’s market value, with the option matching the risk of the collateral and the loan transaction. The spectrum balances traditional appraisals with appraisal alternatives. With this update, we are introducing the following:

- **Value acceptance** is being used in conjunction with the term “appraisal waiver” to better reflect the actual process of using data and technology to accept the lender-provided value. We are moving away from implying that an appraisal is a default requirement. (Note that we are using “value acceptance (appraisal waiver)” for a period of time and will eventually move to “value acceptance” after the market absorbs this change.)
- **Value acceptance + property data** is a new option that utilizes property data collection by a third party who conducts interior and exterior data collection on the subject property. To ensure consumer protections, the lender must verify and be able to demonstrate that data collectors are
 - vetted through an annual background check,
 - professionally trained, and
 - they possess the essential knowledge to competently perform the property data collection.

The property data collection is used by the lender to confirm property eligibility, and an appraisal is not required. This option also requires submission of the data to Fannie Mae’s Property Data API based on a new data standard and delivery of Special Feature Code 774. See Fannie Mae’s [website](#) for additional information.

- **Hybrid appraisals** are based on interior and exterior property data collection by a vetted and trained third-party that is provided to an appraiser to inform the appraisal. They are permitted for certain one-unit transactions where value



acceptance + property data was initially started, but changes in loan characteristics results in the transaction not being eligible for that option.

- A new policy allows alternative methods to the *Appraisal Update and/or Completion Report* (Form 1004D). These include a borrower/builder attestation letter to verify completion of construction, and a borrower attestation letter to confirm completion of repairs for existing construction in lieu of Form 1004D. The policy further describes required exhibits and controls. These **completion alternatives** are necessary for lenders to confirm completion of repairs or alterations with the value acceptance + property data option because Form 1004D cannot be used when there is no appraisal. This change also allows appraisers to use virtual inspection technology to supplement the 1004D process with certain constraints.

We also clarified the long-standing policy related to property condition and quality of construction of the improvements. Properties with a condition rating of C6 are not eligible for sale to us. Any deficiencies impacting the safety, soundness, or structural integrity of the property must be repaired with a resulting minimum condition rating of C5 prior to sale of the loan to Fannie Mae.

Effective: Lenders may take advantage of completion alternatives immediately. Desktop Underwriter® (DU®) will be updated the weekend of April 15, 2023, to support these updates.

Sweat equity

We allow sweat equity as an acceptable source of down payment for a HomeReady® loan meeting certain eligibility criteria. With this update, we expand the circumstances and limit to which sweat equity may be used, further define program provider requirements, and define how to calculate the contributory value of sweat equity labor. Specifically, we removed the following limitations from HomeReady sweat equity transactions:

- The borrower is no longer required to contribute at least 3% of their own funds when sweat equity is used towards the down payment on a one-unit property.
- There is no longer a cap of 2% sweat equity that may be used as part of the minimum down payment of 5% for a one-unit property.

In addition, we clarified our expectations for sweat equity program providers, which must be recognized by the IRS as a 501(c)(3) organization. We also added new guidance to determine the dollar value for sweat equity to be based on an hourly rate established by the nonprofit.

We believe these changes will allow more borrowers to use sweat equity as a source of down payment while providing lenders with additional resources to ensure nonprofit partners meet our eligibility guidelines.

Effective: Lenders may take advantage of these updates immediately. The DU messages specific to sweat equity will be updated the weekend of April 15, 2023.

Lender quality control updates

In an effort to improve overall loan quality and reduce the number of loans requiring remediation by lenders, we have enhanced both our prefunding and post-closing quality control policies.

Lenders must complete a minimum number of prefunding reviews monthly. The total number of loans to be reviewed must equal either:

- 10% of the prior month's total number of closings, or
- 750 loans.



We have provided supplementary guidance and more examples for the key differences between full-file and component reviews to maximize lender efficiencies in meeting these numbers. We also enhanced reporting requirements to ensure lenders are delivering us the proper data and information derived from their quality control results.

Lastly, we revised the timeframe for the post-closing quality control cycle from 120 days to 90 days and eliminated the individual component timeframes. This will allow lenders to complete each part of the quality control cycle as they see fit.

Effective: Lenders are encouraged to implement these changes immediately but must do so by Sept. 1, 2023. If implemented starting Sept. 1, 2023, the following would apply:

- Prefunding: The 10% prefunding loan population in the Sept. 1 – Sept. 30 cycle will be based on the total number of loans closed in August.
- Post-Closing: The cycle that begins on Sept. 1 must be complete by Nov. 30.

Required use of Condo Project Manager

We are requiring lenders to use Condo Project Manager (CPM) for all condo projects being reviewed under the Full Review Process. All Fannie Mae seller/servicers have access to CPM. Correspondent originators who are not approved seller/servicers will have access by May 1, 2023. These third-party originators will receive separate communication on how to access CPM through Technology Manager. As a reminder, certain projects will remain exempt from the required use of CPM including projects that qualify for a waiver of the project review per the policies in the *Selling Guide*, projects where the Limited Review process is used, manufactured home condo projects, and co-op projects. Lenders are required to deliver the CPM ID number at delivery for projects where CPM was used, including projects with a Fannie Mae Approval.

Effective: Lenders must use CPM for Full Reviews for loan applications dated on and after July 1, 2023.

Miscellaneous Update

Maintaining seller/servicer eligibility: We updated the *Selling Guide* to incorporate the minimum financial requirements for sellers/servicers described in [Lender Letter LL-2022-04, Maintaining Seller/Servicer Eligibility](#). The updated requirements are incorporated in the *Selling Guide* as an exhibit since all the effective dates are in the future. We also added a reference to the exhibit from the topic that contains the current seller/servicer financial requirements.

Additionally, we clarified that sellers/servicers that are required to submit a capital and liquidity plan to Fannie Mae must contact their Fannie Mae customer account team for further instruction on submitting the plan.

Effective: As described in the LL-2022-04, sellers/servicers are encouraged to comply with the updated requirements immediately but must comply by Sept. 30, 2023, with the exception of the following requirements:

- applicable non-depository sellers/servicers must comply with the Origination Liquidity requirements by Dec. 31, 2023.
- large non-depository sellers/servicers must comply with the
 - Third-Party Servicer Rating requirements by Dec. 31, 2023, and
 - Capital and Liquidity Plan requirements by March 31, 2024.

Note: After all future effective dates have passed, we will remove the exhibit and update the applicable topics accordingly.

HomeStyle Renovation indicator: [B5-3.2-01, HomeStyle Renovation Mortgages](#) was updated to reflect the use of both the renovation loan indicator in the Property and Loan Information portion of Form 1003 and line B of Qualifying the Borrower to identify HomeStyle Renovation loans. This aligns with changes made in DU Version 11.1.



Government loan guaranty or insurance: [B6-1-01, General Government Mortgage Loan Requirements](#) was updated to include a reference to Government Mortgage Loan Guaranty or Insurance. We deleted what was formerly topic B6-1-06 as a result of the reference added.

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 <i>Selling Guide</i> Topics (Dated March 01, 2022)
Appraisal modernization	<ul style="list-style-type: none"> ▪ A2-2-06, Representations and Warranties on Property Value ▪ B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing ▪ B2-3-05, Properties Affected by a Disaster ▪ B4-1.1-02, Lender Responsibilities ▪ B4-1.2-01, Appraisal Report Forms and Exhibits ▪ B4-1.2-03, Hybrid Appraisals (New Topic) ▪ B4-1.2-04, Appraisal Age and use Requirements ▪ B4-1.2-05, Requirements for Verifying Completion and Postponed Improvements ▪ B4-1.3-06, Property Condition and Quality of Construction of the Improvements ▪ B4-1.4-08, Environmental Hazards Appraisal Requirements ▪ B4-1.4-10, Value Acceptance (Appraisal Waivers) ▪ B4-1.4-11 Value Acceptance +Property Data (New Topic) ▪ B5-3.1-01, Conversion of Construction-to-Permanent Financing: Overview ▪ B5-4.1-03, Texas Section 50(a)(6) Loan Underwriting, Collateral, and Closing Considerations ▪ B5-7-02, High LTV Refinance Underwriting, Documentation, and Collateral Requirements for the New Loan ▪ B5-7-04, High LTV Refinance Representations and Warranties ▪ D1-3-04, Lender Post-Closing Quality Control Review of Appraisers and Appraisals ▪ E-3-01, Acronyms and Glossary of Defined Terms: A ▪ E-3-04, Acronyms and Glossary of Defined Terms: D ▪ E-3-08, Acronyms and Glossary of Defined Terms: H ▪ E-3-20, Acronyms and Glossary of Defined Terms: T ▪ E-3-22, Acronyms and Glossary of Defined Terms: V
Sweat equity	<ul style="list-style-type: none"> ▪ B5-6-02, HomeReady Mortgage Underwriting Methods and Requirements
Lender quality control updates	<ul style="list-style-type: none"> ▪ D1-2-01, Lender Prefunding Quality Control Review Process ▪ D1-3-01, Lender Post-Closing Quality Control Review Process
Required use of Condo Project Manager	<ul style="list-style-type: none"> ▪ B4-2.1-01, General Information on Project Standards ▪ B4-2.2-02, Full Review Process ▪ B4-2.2-04, Geographic-Specific Condo Project Considerations