

Selling Guide Announcement (SEL-2023-09)

Oct. 04, 2023

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

- [Rental income](#): updating documentation requirements for rental income used towards qualifying
- [Self-employed borrowers](#): allowing less than 24-month history of self-employment and one year of personal and business tax returns
- [Manufactured housing data plate](#): requiring either the HUD Data Plate or the HUD Certification Label information be provided in the appraisal report
- [Value acceptance + property data](#): clarifying policy that property data collection must be obtained and submitted to the Property Data API prior to the note date
- [Miscellaneous updates](#):
 - Changes to prefunding quality control sampling requirements
 - Thresholds for post-purchase adjustment of loan-level price adjustments

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

Rental income

We updated our policies for rental income to address various questions received from lenders. These changes provide additional details for documenting rental income used for qualifying and reconciles differences in the way income earned from subject and non-subject properties is determined.

We aligned the use of rental income that can be considered for qualifying purposes for non-subject rental properties that have become rental properties within the last 12 months (investment properties or two- to four-unit primary residences), with that of rental income earned from the subject property. This update will require the borrower to have a primary housing expense and at least a one-year history of property management experience to use the full amount of rental income towards qualifying, otherwise the amount may be limited.

Next, we clarified the treatment of rental income when multiple rental properties are owned to ensure our Guide aligns with Desktop Underwriter® (DU®) functionality. This means that when rental income is considered from multiple rental properties, the income or loss is calculated on a per property basis but then aggregated for non-subject properties so the total amount of either income or loss across all rental properties is considered in the calculation of the borrower's total debt-to-income ratio.

Additionally, we amended documentation requirements for lease agreements. [Form 1007](#) or [Form 1025](#) must support the income reflected on the lease agreement or the lease agreement must provide evidence that the terms of the lease have gone into effect with proof of receipt for at least two-month's rental payments.

Finally, we provided supplemental scenarios for documenting partial rental income when the rental property was not in service the previous tax year or was only in service for a portion of the previous tax year. This information should assist lenders with their analysis of using alternative rental income calculations or determining when the use of lease agreements is more appropriate.

Effective: Lenders are encouraged to implement these changes immediately but must do so for all loans with application dates on or after Jan. 1, 2024.



Self-employed borrowers

Length of self-employment

Current underwriting requirements emphasize the continuity of a borrower's stable income to demonstrate the likelihood that a consistent level of income will continue to be received for borrowers. For borrowers using self-employment income to qualify, we require lenders to obtain a two-year history of the borrower's prior earnings as a means of demonstrating the likelihood that the income will continue to be received, but allows a shorter history in certain circumstances.

We updated the *Selling Guide* to clarify the requirements for use of self-employment income when the borrower has less than a two-year history of self-employment. These clarifications include a requirement for the signed personal and business federal income tax returns to reflect a minimum of 12 months of self-employment income from the current business.

Effective: Lenders are encouraged to implement these changes immediately but must do so for DU loan casefiles created on or after Jan. 1, 2024, and manually underwritten loans with application dates on or after Jan. 1, 2024.

Tax return requirements for self-employed borrowers

The *Selling Guide* currently requires that self-employment income be documented with the most recent two years of personal and business tax returns. When a loan is underwritten through DU, DU may determine that only one year of tax returns is required to document self-employed income.

To provide more transparency for this documentation policy, we updated the policy to allow one year of personal and business tax returns when

- all self-employed businesses have been in existence for five years, and
- the borrower has had a 25% or greater ownership interest for the last five consecutive years.

This policy applies to both DU and manually underwritten loans.

Effective: For manually underwritten loans, lenders may implement these changes immediately. DU will apply the updated policy for DU loan casefiles created on or after Jan. 1, 2024.

Manufactured housing data plate

Currently, our policy on manufactured housing requires both the HUD Data Plate and HUD Certification Label information be provided in the appraisal report along with photo exhibits, if available. With this policy update, only one of the two will be required. Specifically,

- If only one of these is available to the appraiser, that will satisfy compliance with the *Selling Guide*. (Note that this applies to each section of the home.)
- If neither are available, the lender must obtain either a Label Verification Letter with the HUD Certification Label(s) information or duplicate HUD Data Plate/Compliance Certificate from the Institute for Building Technology and Safety. The lender may also contact the In-Plant Primary Inspection Agency or the manufacturer for the HUD Data Plate information.

Note: This update does not apply to newly constructed manufactured homes because these items must be present on all new units.

Effective: Lenders may take advantage of this policy update immediately.



Value acceptance + property data clarification

Value acceptance + property data is the option that utilizes property data collection by a third party who conducts interior and exterior data collection on the subject property. The current policy requires lenders to obtain and submit property data collection to the Property Data API to verify property eligibility. Lenders must also perform a prefunding and post-closing review of the property data collection to assess the work performed by the data collector.

To provide additional guidance on when to order and deliver the property data collection, we are clarifying our policy to specifically state that property data collection must be obtained and submitted to Property Data API prior to the note date.

Miscellaneous updates

Changes to prefunding QC sampling requirements: We amended [D1-2-01, Lender Prefunding Quality Control Review Process](#), to allow lenders to exclude certain government loans that have the required government guaranty or government insurance (such as FHA, VA) acquired from a delegated correspondent from their prefunding quality control sample.

Thresholds for post-purchase adjustment of loan-level price adjustments: To improve process efficiencies and align treatment of whole loans and MBS loans, we have established an 18-month lookback period (from the date of acquisition) for all post-purchase adjustments of loan-level price adjustments. Note: Post-purchase adjustments for data corrections do not have a lookback period or threshold.

Additionally, we are implementing a \$100 minimum (credit or debit) per loan requirement. The 18-month lookback period does not apply to the drafting or collection of repurchase alternative fees. We updated [C-1-2-02, Loan Data and Documentation Delivery Requirements](#) and [C2-2-05, Whole Loan Purchasing Process accordingly](#).

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 Oct. 04, 2023)
Rental income	<ul style="list-style-type: none"><li data-bbox="602 348 930 378">▪ B3-3.1-08, Rental Income
Self-employed borrowers	<ul style="list-style-type: none"><li data-bbox="602 417 1455 478">▪ B3-3.2-01, Underwriting Factors and Documentation for a Self-Employed Borrower<li data-bbox="602 499 1304 529">▪ B3-3.5-01, Income and Employment Documentation for DU
Manufactured housing data plate	<ul style="list-style-type: none"><li data-bbox="602 558 1520 619">▪ B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing<li data-bbox="602 640 1214 669">▪ B2-3-04, Special Property Eligibility Considerations<li data-bbox="602 690 1276 720">▪ B4-1.4-01, Factory-Built Housing: Manufactured Housing<li data-bbox="602 741 1003 770">▪ B5-2-01, Manufactured Housing
Value acceptance + property data	<ul style="list-style-type: none"><li data-bbox="602 800 1143 829">▪ B4-1.4-11, Value Acceptance + Property Data