



Fannie Mae™

# Selling Guide

Fannie Mae Single Family

January 31, 2017

## **Selling Guide: Fannie Mae Single Family**

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# Preface

## Content Organization

The *Selling Guide* is organized into parts that reflect how lenders generally categorize various aspects of their business relationship with Fannie Mae:

### Part A, Doing Business with Fannie Mae

- Subpart 1: Approval Qualification
- Subpart 2: Lender Contract
- Subpart 3: Getting Started With Fannie Mae
- Subpart 4: Maintaining Seller/Servicer Eligibility

### Part B, Originating through Closing

- Subpart 1: Loan Application Package
- Subpart 2: Eligibility
- Subpart 3: Underwriting Borrowers
- Subpart 4: Underwriting Property
- Subpart 5: Unique Eligibility and Underwriting Considerations
- Subpart 6: Government Programs Eligibility and Underwriting Requirements
- Subpart 7: Insurance
- Subpart 8: Closing: Legal Documents

### Part C, Selling, Securitizing, and Delivering Loans

- Subpart 1: General Information on Execution Options and Loan Delivery
- Subpart 2: Whole Loan Transactions
- Subpart 3: Mortgage-Backed Securities (MBS)

### Part D, Ensuring Quality Control (QC)

- Subpart 1: Lender QC Process
- Subpart 2: Fannie Mae QC Process

### Part E, Quick Reference Materials

- Chapter 1: *Selling Guide* Resources

Chapter 2: Exhibits

Chapter 3: Glossary

Part A through Part D are structured hierarchically—by subpart, chapter, section, and topic—to present Fannie Mae requirements with increasing levels of detail, so that readers can quickly locate a subject of interest and find desired content. Part E includes a variety of support components—including *Selling Guide* Resources, Exhibits, and Glossary.

The Table of Contents provides additional details on the content. To learn more about the content included in a particular part and how content in that part is organized, see the Introduction provided at the beginning of the part.

### Use of the Numbering System to Identify Levels of Content

The numbering system used to identify the levels of detail of the content contained within this *Selling Guide* can help the reader to navigate the Guide more easily and to recognize where a particular topic is contained within the content hierarchy.

Consider the numbering system identifier for the topic “Requirements for Credit Reports”:

#### **B3-5.2-01 Requirements for Credit Reports**

Based on the following,

|                |                     |  |
|----------------|---------------------|--|
| <b>Part</b>    | has a corresponding | <b>Letter</b> (uppercase beginning with A)   |
| <b>Subpart</b> | has a corresponding | <b>Numeral</b> (one-digit beginning with 1)  |
| <b>Chapter</b> | has a corresponding | <b>Numeral</b> (one-digit beginning with 1)  |
| <b>Section</b> | has a corresponding | <b>Numeral</b> (one-digit beginning with 1)  |
| <b>Topic</b>   | has a corresponding | <b>Numeral</b> (two-digit beginning with 01) |

the reader can use the numbering system identifier (“B3-5.2-01”) to map the location and level of content detail of this topic within the *Selling Guide*.

For example, here is how the numbering system identifier for topic B3–5.2–01 maps to the content levels:

|         |   |
|---------|---|
| Part    | B |
| Subpart | 3 |
| Chapter | 5 |
| Section | 2 |

|       |    |
|-------|----|
| Topic | 01 |
|-------|----|

As shown above, the part and subpart are combined as **B3-**. The chapter and section are combined as **5.2-** and the topic is added as **01**.

Keep in mind that not all parts have subparts and not all chapters have sections. For example, the topic “Master Agreement Overview” has the numbering system identifier “A2-4-01” (which does not include a section):

|         |    |
|---------|----|
| Part    | A  |
| Subpart | 2  |
| Chapter | 4  |
| Topic   | 01 |

**Note:** As topics are added, updated and deleted with each publication of the *Selling Guide*, the chapters, sections and topic identifiers will change accordingly.

### Trademark Acknowledgements

ARM Flex®, As Soon As Pooled®, Collateral Underwriter®, Community Seconds®, Condo Project Manager™, CPM™, CU™, DO®, Desktop Underwriter®, DU®, DU Refi Plus™, Fannie Majors®, Flash MBS®, Funding Express®, HomePath®, HomeReady®, HomeStyle®, HomeStyle® Energy, Loan Limit Geocoder™, MBS Express®, Refi Plus™, Servicing Execution Tool™, and SET™, are trademarks of Fannie Mae. All other trademarks are the property of their respective owners.

### Terms and General Conventions

Lenders may contract to sell mortgages to Fannie Mae using either of the two following **delivery methods**. (Fannie Mae acquires title to the mortgages in both types of transactions.)

- As **whole mortgage loans** — the lender contracts to sell mortgages to Fannie Mae as whole mortgages (to be retained by Fannie Mae in its portfolio or to be included later in MBS pools formed by Fannie Mae) and receives cash proceeds in payment of the purchase price for these mortgages.
- As **MBS mortgage loans** — the lender contracts to sell mortgages that are conveyed to an MBS trust under the terms of the Fannie Mae MBS program and receives (or its designee receives) mortgage pass-through certificates representing interests in the mortgages as the purchase price for the mortgages.

The term “delivery” is used in this *Selling Guide* to refer to whole mortgage loans and to MBS pools. In cases where specific requirements apply to one type of transaction, the delivery method is specified.

Also, for the sake of brevity, the term “loan” is used to mean “mortgage loan” unless specified otherwise.

The glossary provides definitions of terms used in connection with Fannie Mae requirements in the *Selling Guide*.

### **Amendments to the Guide**

Fannie Mae may at any time alter or waive any of the requirements of this *Selling Guide*, impose other additional requirements, or rescind or amend any and all material set forth in this *Selling Guide*. The lender must make sure that its staff is thoroughly familiar with the content and requirements of this *Selling Guide*, as it now exists and as it may be changed from time to time.

### **Notification of Changes and Updates**

Fannie Mae notifies lenders of changes and updates to *Selling Guide* policies and procedures via announcements, notices, and lender letters, described below:

- **Announcements** – communicate policy changes that impact the *Selling Guide* and that are incorporated into the *Selling Guide* on a monthly cycle. On occasion, a policy change may require immediate communication with Fannie Mae lenders and so is released ‘off-cycle’ and incorporated into a future *Selling Guide* update. Announcements are numbered as: SEL-20XX-XX.
- **Lender letters** – present new or modified policies and procedures that are not documented in the Guide, such as policy changes that are temporary in nature (initiatives or pilots), reminders of existing policies, or upcoming Guide updates. Lender letters are numbered as: LL-20XX-XX.
- **Notices** – clarify or reiterate existing *Selling Guide* policies, provide advance notice of upcoming changes, provide minor updates to procedures, notify lenders of updated forms or documents posted on [Fannie Mae’s website](#), communicate extended expiration dates or other important information of interest to Fannie Mae or Fannie Mae lenders. While notices may refer to requirements in the *Selling Guide*, they do not revise or otherwise change these requirements and are not used to communicate new policies. Notices can be identified by the date published (and are not numbered).

Announcements, lender letters, and notices are incorporated into the Guide by reference, and as such, are legally binding.



Lender letters and notices are not included in the Guide but continue to be in effect and legally binding until any sunset date specified in the lender letter or notice or until amended by a subsequent lender letter, notice, or announcement.

Announcements, lender letters, and notices are released to lenders in two ways:

- By posting the documents on [Fannie Mae's website](#) and the AllRegs website.
- By email notification of these postings to lenders that subscribe to Fannie Mae's email subscription service and select the option "Selling News."

Fannie Mae does not mail printed copies of *Selling Guide* updates, announcements, notices or lender letters. Lenders that want printed copies may download and print PDF files of the documents posted on Fannie Mae's website.

### **Contents of the Selling Guide**

The *Selling Guide* contains the current policies and procedures and all announcements issued to date have been incorporated.

### **Forms, Exhibits, and Content Incorporated by Reference**

Information about the specific forms that lenders must use in fulfilling the requirements contained in the *Selling Guide* is given in context within the Guide. Lenders can access the actual forms in several ways:

- On Fannie Mae's website via the [Guide Forms](#) page, which provides a complete list of forms.
- On the AllRegs website via embedded links in the free electronic version of the Guide (and through a searchable database with a full subscription to AllRegs Online).

Some exhibits that relate to Fannie Mae requirements are only referenced in the Guide and are posted in their entirety on Fannie Mae's website. In addition, from time to time, product-specific guides or directives are issued which are incorporated into this *Selling Guide* by reference. Such product-specific information—whether it currently exists or is subsequently created—and the exhibits referenced in the Guide now or later are legally a part of this *Selling Guide* (and the *Servicing Guide*).

### **Technical Issues**

In the event of technical difficulties or system failures with Fannie Mae's website, with delivery of the "Selling News" option of Fannie Mae's email subscription service, or with the AllRegs website, users may contact the following resources:

- For Fannie Mae's website and Fannie Mae's email subscription service, use the "Contact Us" link on the website to ask questions or obtain more information.
- For the AllRegs website, submit an email support request from the website or contact AllRegs Customer Service at (800) 848-4904.

### **When Questions Arise**

This *Selling Guide* explains how to become an approved Fannie Mae lender and the procedures for normal and routine selling matters. If a lender feels that a situation is not covered or a procedure may not apply because of certain circumstances, the lender's principal contact should be its lead Fannie Mae regional office. The Guide specifically indicates situations in which a lender may need to contact other groups within Fannie Mae, such as the Capital Markets Sales Desk. For contact information on the regional offices and other key contacts, refer to [E-1-03, List of Contacts](#).

# Part A, Doing Business with Fannie Mae



## Doing Business with Fannie Mae

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### Introduction

This part describes the requirements a lender must satisfy to become a Fannie Mae-approved seller and servicer of residential home mortgage loans. This part also includes information on an approved lender's contractual obligations, procedures for obtaining technology applications, and requirements for maintaining lender eligibility.

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### [Subpart A1, Approval Qualification](#)

This subpart describes the requirements for becoming an approved Fannie Mae lender and the lender approval process.

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### [Subpart A2, Lender Contract](#)

This subpart describes some of the contractual obligations a lender takes on when it becomes an approved Fannie Mae lender. It includes information on Fannie Mae's Charter Act, representations and warranties a lender makes when delivering mortgages to Fannie Mae, the limited waiver of representations and warranties for mortgages underwritten with Desktop Underwriter (DU), and the policies and procedures associated with obtaining a Master Agreement. It articulates some of the circumstances under which the Lender Contract can be terminated and the consequences of any breach of lender obligations. It lists the types of mortgage loan reviews conducted by Fannie Mae and describes scenarios that may result in loan repurchase or make whole payment requests. It also describes the parameters within which Fannie Mae may elect its remedies such as imposing compensatory fees or formal sanctions and requiring loan repurchases or substitutions. This subpart also includes Fannie Mae's policies on the establishment, maintenance, retention, and examination of mortgage files and records, and the use of Fannie Mae's name and trademark.

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### [Subpart A3, Getting Started With Fannie Mae](#)

This subpart describes the requirements a lender must meet in order to transact business with Fannie Mae, which includes the procedures for obtaining technology applications and

completing the compliance certifications. It describes policies on concurrent servicing transfers and working with third parties such as mortgage brokers, loan correspondents, quality control firms, document custodians, and subservicers. It addresses Fannie Mae's requirements for its lender customers in the areas of data integrity, fraud prevention, and fidelity bond and errors and omissions coverage.

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### **Subpart A4, Maintaining Seller/Servicer Eligibility**

This subpart contains the reporting requirements to which lenders must adhere in order to maintain their eligibility to transact business with Fannie Mae.

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#### **In This Part**

This part contains the following subparts:

|   |     |
|---|-----|
| Subpart A1, Approval Qualification .....                  | 3   |
| Subpart A2, Lender Contract .....                         | 8   |
| Subpart A3, Getting Started With Fannie Mae .....         | 103 |
| Subpart A4, Maintaining Seller/Servicer Eligibility ..... | 170 |

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# Subpart A1, Approval Qualification



## Approval Qualification

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### Introduction

This subpart contains the requirements for becoming an approved Fannie Mae lender, an overview of the lender approval process, and a list of loan types that require special lender approval.

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### In This Subpart

This subpart contains the following chapter:

|  |   |
|--|---|
| <a href="#">A1-1, Application and Approval of Lender</a> ..... | 4 |
|--|---|

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# Chapter A1-1, Application and Approval of Lender



## Application and Approval of Seller/Servicer

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### Introduction

This chapter includes information on the eligibility and application requirements for sellers/servicers seeking Fannie Mae approval. It also describes loan types that require special seller/servicer approval.

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### In This Chapter

This chapter contains the following topics:

[A1-1-01, Application and Approval of Seller/Servicer \(01/31/2017\)](#) ..... 4

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## A1-1-01, Application and Approval of Seller/Servicer (01/31/2017)

---

### Introduction

This topic contains general information on Fannie Mae's seller/servicer approval requirements, including:

- [General Information](#)
  - [Eligibility](#)
  - [Application Requirements](#)
  - [Application Review Fee](#)
  - [Special Seller/Servicer Approval and MSSC Addendum](#)
- 

### General Information

Sellers/servicers must be approved to do business with Fannie Mae. Fannie Mae determines a seller/servicer's qualifications by reviewing the seller/servicer's financial condition, organization, staffing, servicing experience, and other relevant factors.

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Fannie Mae's standard approval is for the sale and/or servicing of single-family loans (excluding those loans delivered under a negotiated contract). Sellers/servicers must obtain special approval to sell and service certain mortgages with unique requirements, such as loans secured by co-op shares or HomeStyle renovation mortgages.

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### **Eligibility**

Approval or rejection of a seller/servicer's application is at Fannie Mae's sole discretion and is based on Fannie Mae's business judgment with respect to the totality of the seller/servicer's circumstances. At a minimum, to be considered for approval to sell and service residential first mortgages, a seller/servicer must:

- have as its principal business purpose, the origination, selling, and/or servicing of residential mortgages;
- have demonstrated the ability to originate, sell, and/or service the types of mortgages for which approval is being requested;
- have adequate facilities and staff experienced in originating, selling, and/or servicing the types of mortgages for which approval is being requested;
- be duly organized, validly existing, properly licensed (in good standing) or otherwise authorized to conduct its business in each of the jurisdictions in which it originates, sells, and services residential mortgages;
- have a net worth of at least \$2.5 million, plus a dollar amount that represents 0.25% of the unpaid principal balance (UPB) of the seller/servicer's total portfolio of one- to four-unit residential mortgage loans for which the seller/servicer is contractually obligated to service for the owner of the loan. Lender net worth, as defined and calculated by Fannie Mae, is the seller/servicer's Total Equity Capital as determined by Generally Accepted Accounting Principles (GAAP), less goodwill and other intangible assets (excluding mortgage servicing rights) and, based on Fannie Mae's assessment of associated risks, a possible deduction of "affiliate receivables" and "pledged assets net of associated liabilities" (hereinafter referred to as Lender Adjusted Net Worth). Based on specific circumstances, a seller/servicer may be required to satisfy other financial standards or additional net worth and liquidity eligibility criteria. See [A4-1-01, Maintaining Seller/Servicer Eligibility](#) for additional information on Fannie Mae's net worth requirements for approved sellers/servicers;
- have internal audit and management control systems to evaluate and monitor the overall quality of its loan production and servicing;
- have written procedures for the approval and management of vendors and other third-party service providers;

- 
- have a fidelity bond and an errors and omissions policy in effect and agree to modify them as necessary to meet Fannie Mae requirements;
  - satisfy any additional eligibility criteria Fannie Mae imposes. Such additional criteria may apply either to individual sellers/servicers, all sellers/servicers that are seeking approval to sell and/or service certain types of mortgages, all sellers/servicers that share certain characteristics, or all sellers/servicers. Fannie Mae approves or disapproves a seller/servicer based on an assessment of its total circumstances; therefore, a seller/servicer that satisfies Fannie Mae's general eligibility criteria or any special criteria does not have an absolute right to be approved and should not expect automatic approval.

Sellers/servicers are not required to purchase or own Fannie Mae stock as a condition of eligibility.

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### **Application Requirements**

Sellers/servicers applying to do business with Fannie Mae must submit the documentation described on [Fannie Mae's website](#).

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### **Application Review Fee**

The basic application review fee for new sellers/servicers is \$5,000. Application review fees are not refundable.

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### **Special Seller/Servicer Approval and MSSC Addendum**

Certain mortgage loan types require special approval. The following special approvals will be documented by an addendum to the *Mortgage Selling and Servicing Contract* (MSSC) between Fannie Mae and the seller/servicer:

- co-op share loans,
- second mortgages,
- HomeStyle Renovation mortgages, and
- electronic mortgages (eMortgages).

Sellers/servicers may request approval to deliver these loans through their lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)). Sellers/servicers may not deliver these loan types unless they obtain the applicable special approval and execute any additional agreements



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required by Fannie Mae. Sellers/servicers that apply for special approval to deliver HomeStyle Renovation mortgages must also complete a *Special Lender Approval Form* ([Form 1000A](#)).

Fannie Mae reserves the right to cease approving sellers/servicers for or accepting deliveries of any or all of the mortgage loan types listed above from any or all sellers/servicers. The decision to no longer accept deliveries may result in an amendment to, or the termination of, the special approval. Fannie Mae will provide the affected seller/servicer with reasonable notice of this decision. If the decision affects a seller/servicer's ability to fulfill any required mandatory delivery amount under its Master Agreement, Fannie Mae will consider alternatives through which the seller/servicer can fulfill its delivery obligation.

For a discussion of mortgage loan types that require special customized/negotiated terms in a Master Agreement, see [A2-4-01, Master Agreement Overview](#). For additional information on lender contracts, refer to [E-1-04, List of Lender Contracts](#).

---

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2017-01</a> | January 31, 2017   |
| <a href="#">Announcement SEL-2016-03</a> | March 29, 2016     |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013      |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012      |
| <a href="#">Announcement SEL-2011-13</a> | December 20, 2011  |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011      |
| <a href="#">Announcement SEL-2010-04</a> | March 29, 2010     |
| <a href="#">Announcement 09-32</a>       | October 30, 2009   |
| <a href="#">Announcement 08-23</a>       | September 16, 2008 |

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# Subpart A2, Lender Contract



## Lender Contract

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### Introduction

This subpart describes some of the contractual obligations a lender takes on when it becomes an approved Fannie Mae lender. It includes information on the representations and warranties a lender makes when delivering mortgages to Fannie Mae, the limited waiver of representations and warranties for mortgages underwritten with Desktop Underwriter (DU), the circumstances under which the Lender Contract can be terminated, and the consequences of any breach of lender obligations. It also describes scenarios that may result in loan repurchase or make whole payment demands. This subpart also includes Fannie Mae's policies on the establishment, maintenance, retention, and examination of mortgage files and records, and the use of Fannie Mae's name and trademarks.

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### In This Subpart

This subpart contains the following chapters:

|   |    |
|---|----|
| A2-1, Contractual Obligations for Fannie Mae–Approved Lenders . . . . . | 9  |
| A2-2, Contractual Representations and Warranties . . . . .              | 16 |
| A2-3, Lender Breach of Contract . . . . .                               | 44 |
| A2-4, Master Agreement . . . . .  | 77 |
| A2-5, Mortgage Files and Records . . . . .                              | 83 |
| A2-6, Fannie Mae Trade Name and Trademarks . . . . .                    | 99 |

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# Chapter A2-1, Contractual Obligations for Fannie Mae–Approved Lenders



## Contractual Obligations for Fannie Mae–Approved Lenders

---

### Introduction

This chapter explains the basic legal relationship between a lender and Fannie Mae.

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### In This Chapter

This chapter contains information on the following subjects:

|   |    |
|---|----|
| <a href="#">A2-1-01, Contractual Obligations for Lenders (04/09/2013)</a> ..... | 9  |
| <a href="#">A2-1-02, Nature of Mortgage Transaction (04/01/2009)</a> .....      | 12 |
| <a href="#">A2-1-03, Indemnification for Losses (08/30/2016)</a> .....          | 13 |

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## A2-1-01, Contractual Obligations for Lenders (04/09/2013)

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### Introduction

This topic describes some of the lender’s contractual arrangements, including:

- [Types of Incorporated Contracts and Agreements](#)
  - [Independent Contractors/Third Party Beneficiaries](#)
  - [Governing Law](#)
- 

### Types of Incorporated Contracts and Agreements

The MSSC establishes the basic legal relationship between a lender and Fannie Mae. Specifically, it

- establishes the lender as an approved seller of mortgages and participation interests in mortgages;

- provides the general terms and conditions of those sales, supplemented by the Guides and Master Agreement;
- establishes the lender as an approved servicer of applicable mortgages;
- provides the general terms and conditions for servicing;
- incorporates by reference the terms of the *Selling Guide*, the *Servicing Guide*, and the *Multifamily Guide(s)* and other lender announcements, letters, and Guide changes, as well as Master Agreements, technology licensing agreements, and any other agreement entered into by Fannie Mae and the lender;
- defines certain events of defaults and contract termination provisions; and
- states the types of mortgages the lender may sell and service.

Lenders may enter into additional agreements with Fannie Mae from time to time, including certain agreements that provide for additional obligations such as credit support obligations, repurchase obligations, and recourse, loss-sharing, or indemnity obligations.

All Master Agreements, cash commitments, pool purchase contracts, collateral agreements, or other applicable agreements and contractual documents in which the lender agrees to undertake special lender obligations in connection with Fannie Mae’s purchase or securitization of mortgages or participation interests in mortgages—whether they relate to a transaction that already has been entered into or one that will be entered into in the future—are incorporated into the Lender Contract (as defined below) and form a single, integrated MSSC and not a separate contract or agreement.

Notwithstanding any other provisions in the Guides, or any assignment or transfer of servicing by a lender to another entity, a lender’s benefits and obligations with respect to its contractual rights to service loans are, and were at the time of execution of the Lender Contract, fully integrated and non-divisible from the lender’s benefits and obligations with respect to its contractual rights and obligations to sell loans under the Lender Contract. Absent such integration, Fannie Mae would not have entered into, or continued to be bound by, the Lender Contract and would not have entered into, or continued to be bound by, separate agreements with a lender providing for the contractual right to sell or to service loans for Fannie Mae.

When Fannie Mae consents to a transfer of servicing by a lender, it relies on the integration and non-divisibility of the Lender Contract. Fannie Mae requires that the transferor lender remain obligated for all selling representations and warranties and recourse obligations upon the transfer of servicing, and requires that the transferee servicer, whether the original seller or a transferee servicer, undertake and assume joint and several liability for all selling representations and warranties and recourse obligations related to the loans it services unless explicitly agreed to the contrary in writing by Fannie Mae.

All of Fannie Mae’s lender communications—such as Guides, Announcements, Lender Letters, DO/DU Release Notes, and Notices (regardless of the medium through which they are issued)—are incorporated into the Guides by reference, and are instructions Fannie Mae provides to enable a lender to perform its obligations to Fannie Mae under the terms of the MSSC.

Certain information and requirements are posted on Fannie Mae's website (or successor website), and such information is incorporated by reference into the *Selling Guide* and *Servicing Guide*.

Fannie Mae transmits lender communications to lenders by posting them on or making them available through Fannie Mae’s official corporate website (or such other websites as Fannie Mae may establish in the future), or via AllRegs. Fannie Mae requires lenders to be informed of its Guide requirements and changes thereto, and lenders should select and rely on the manner of receiving notice of lender communications that best meets their business needs.

Lenders are bound by and must comply with the MSSC, the *Selling Guide* and *Servicing Guide* (including any announcements, lender letters, DO/DU release notes, notices, and information posted on Fannie Mae's website that is incorporated by reference into the *Selling Guide*), all applicable Master Agreements (including applicable MBS pool purchase contracts and variances), recourse agreements, repurchase agreements, indemnification agreements, loss-sharing agreements, strategic alliance agreements, any supplemental servicing instructions or directives provided by Fannie Mae and any other agreement(s) a lender has entered into with Fannie Mae, as they currently exist or as they may be revised. The lender’s obligations under all of these agreements are referred to in this Guide in their entirety as the “Lender Contract.”

Lenders must originate and service mortgages in a sound, businesslike manner, in accordance with applicable law and good judgment. Engaging in business practices that have the apparent intent of avoiding Fannie Mae requirements that would ordinarily apply violates the Lender Contract.

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### **Independent Contractors/Third Party Beneficiaries**

Lenders perform origination, selling, and servicing functions as independent contractors, not as agents or representatives of Fannie Mae. No borrower or other third party is intended to be a legal beneficiary of the Lender Contract or to obtain any rights or entitlements through Fannie Mae’s lender communications or contracts.

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### **Governing Law**

This Guide shall be construed, and the rights and obligations of Fannie Mae and the lender or servicer hereunder determined, in accordance with the laws of the State of New York without regard to its conflict of law rules.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcement                             | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2013–03</a> | April 9, 2013      |
| <a href="#">Announcement 09-06</a>       | March 23, 2009     |
| <a href="#">Announcement 08-23</a>       | September 16, 2008 |



## A2-1-02, Nature of Mortgage Transaction (04/01/2009)

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### Introduction

This topic contains information on mortgage transaction requirements.

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### True Sale

Every delivery of mortgages and/or participation interests, whether whole loan or for securitization, is expressly intended, by both Fannie Mae and the lender, to be the lender's true, absolute, and unconditional sale to Fannie Mae of the mortgages and/or participation interests, and not the lender's pledge thereof to secure a debt or other obligation owed to Fannie Mae.

**Note:** Notwithstanding that mutual intent, if a court or other appropriate forum holds that the mortgages and/or participation interests included in such a transaction are still the lender's property, then it is Fannie Mae and the lender's express intent that the mortgage transaction be deemed to be:

- a pledge by the lender to secure a debt or other lender obligation owed to Fannie Mae for all related mortgages and all related mortgage participation interests, and
- a grant by the lender to Fannie Mae of a first priority perfected security interest in the mortgages and participation interests.

Accordingly, for each loan delivery, the lender grants to Fannie Mae a security interest in all of the lender's right, title, and interest in and to each of the mortgages and participation interests

delivered to Fannie Mae. Such security interest secures the lender’s performance of all of its obligations to Fannie Mae pertaining to that mortgage or the contract under which it is sold to or serviced for Fannie Mae.

Nevertheless, despite Fannie Mae’s explicit intent that each delivery is a true, absolute, and unconditional sale to Fannie Mae, if a court or other appropriate forum holds that the result of a mortgage delivery is that the mortgages and/or participation interests are still the lender’s property, then such security interest secures the lender’s performance of all of its obligations to Fannie Mae that arise under that transaction and under any applicable commitments, contracts, or other agreements relating to the transaction, including the payment of principal, interest, and other sums due to Fannie Mae pursuant to the Lender Contract or under each mortgage and/or participation interest.

In the event of nonperformance of any of a lender’s contractual obligations to Fannie Mae, Fannie Mae may, without a binding election of remedies,

- utilize the remedies provided by applicable law to the holder of a security interest, and/or
  - extinguish all equitable, legal, and other right, title, or interest of the lender, including any right of redemption, in the pledged security and take such property as its absolute property pursuant to the provisions of Fannie Mae’s Charter that are available to Fannie Mae when it is a lender on the security of mortgages.
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## **A2-1-03, Indemnification for Losses (08/30/2016)**

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### **Introduction**

This topic contains information on indemnification for losses, including:

- [General](#)
  - [Payments](#)
  - [Application After Enforcement Relief](#)
- 

### **General**

Fannie Mae requires the responsible party to indemnify and hold Fannie Mae (including its successors and assigns and its employees, officers, and directors individually when they are acting in their corporate capacity) harmless against all losses, damages, penalties, settlements, liabilities, judgments, claims, counterclaims, defenses, actions, costs, expenses, attorneys’ fees,

and other legal fees (collectively, “Fannie Mae losses” or “losses incurred by Fannie Mae”), that are based on or result or arise from the events described below.

| Selling Obligations   | Servicing Obligations  |
|---|--|
| <ul style="list-style-type: none"> <li>• The breach or alleged breach of selling representations, warranties, or obligations;</li> </ul>  | <ul style="list-style-type: none"> <li>• The failure or alleged failure to satisfy the servicing duties and responsibilities for mortgage loans or MBS pools serviced for Fannie Mae.</li> </ul> |
| <ul style="list-style-type: none"> <li>• Origination, delivering, selling, or trading activities related to Fannie Mae-owned or Fannie Mae-securitized mortgage loans; and</li> </ul>   |  |
| <ul style="list-style-type: none"> <li>• The breach or alleged breach of securities disclosure or settlement requirements.</li> </ul>   |  |
| <ul style="list-style-type: none"> <li>• A breach or alleged breach of obligations owed to the borrower by the manufacturer or by any party that sells the manufactured home to the borrower, delivers it to the site, or installs it at the site.</li> </ul> |  |

“Fannie Mae losses” include losses related to the mortgage loans and the servicing of those mortgage loans prior to their delivery to Fannie Mae.

The requirements described above

- apply regardless of whether
  - Fannie Mae is a party to the lawsuit or other proceeding;
  - the claim, suit, or proceeding has merit;
- include Fannie Mae losses related to claims between Fannie Mae and the indemnifying party;
- do not include Fannie Mae losses resulting solely from the indemnifying party following the written instructions of Fannie Mae relating to a claim, suit, or proceeding;
- do not modify or otherwise affect Fannie Mae’s right to manage its defense for any claim, suit, or proceeding in accordance with its own judgment.
  - If Fannie Mae chooses its own counsel, the indemnifying party will still be obligated to the full extent of the indemnities described above, including paying the attorneys’ fees and costs of counsel selected by Fannie Mae.
  - If Fannie Mae decides that its interests and the indemnifying party’s coincide, Fannie Mae may decide to cooperate with the indemnifying party in a joint defense.



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## Payments

All payments for indemnification are due within 60 days of demand or within 15 days after an appeal is denied. Fannie Mae may offset the amount of any unpaid indemnification payment due from an indemnifying party against amounts Fannie Mae owes to the indemnifying party. See [A2-3.2-03, Remedies Framework](#), for additional information on the appeal process.

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## Application After Enforcement Relief

If the mortgage loan with the breach or alleged breach has achieved enforcement relief as provided in [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#), then the obligation to indemnify Fannie Mae is limited to losses that are based on or related to

- claims by or against third parties;
  - life-of-loan representations and warranties as described in [A2-2.1-06, Life-of-Loan Representations and Warranties](#); and
  - representations, warranties, or obligations outside of Subparts B1 through B5 of the *Selling Guide* (which are not covered by the enforcement relief), including any violation of the *Servicing Guide*.
- 

## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcement                             | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016    |
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016  |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013      |
| <a href="#">Announcement SEL-2011-10</a> | September 27, 2011 |

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# Chapter A2-2, Contractual Representations and Warranties



## Contractual Representations and Warranties

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### Introduction

This chapter includes information on the contractual and selling representations and warranties that lenders make when they deliver mortgage loans to Fannie Mae. It also describes the limited waiver of contractual warranties for mortgage loans underwritten through DU and the potential invalidation of that waiver.

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### In This Chapter

This chapter contains the following sections:

|  |    |
|--|----|
| <a href="#">A2-2-01, Contractual Representations and Warranties (10/24/2016)</a> | 16 |
| <a href="#">A2-2.1, Additional Selling Representations and Warranties</a>        | 19 |

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## A2-2-01, Contractual Representations and Warranties (10/24/2016)

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### Introduction

This topic contains information on contractual representations and warranties, including:

- [Representations and Warranties](#)
  - [Lender Reporting Requirements](#)
- 

### Representations and Warranties

In order to sell loans to Fannie Mae or deliver pools of loans to Fannie Mae for MBS, the lender makes representations and warranties as to certain facts and circumstances concerning the lender

and the mortgage loans it is selling or delivering. The MSSC contains specific representations and warranties. Additional representations and warranties are contained in this Guide and elsewhere in the Lender Contract. Violation of any representation or warranty is a breach of the Lender Contract, including the warranty that the loan complies with all applicable requirements of the Lender Contract, which provides Fannie Mae with certain rights and remedies.

All selling representations and warranties are made to Fannie Mae as of the date a lender transfers mortgage loans to Fannie Mae and continue and survive:

- the sale of mortgage loans to Fannie Mae or delivery of pools of mortgage loans for Fannie Mae MBS,
- any subsequent resale of the mortgage loans by Fannie Mae, and
- termination of the MSSC and any agreement that is part of the Lender Contract unless Fannie Mae expressly releases the lender from them in writing.

The lender makes each representation and warranty set forth in the Lender Contract separately and independently from every other warranty it makes for a specific mortgage.

Representations and warranties are not limited to matters of which the lender had knowledge, except for the warranties numbered 10, 11, and 17 of Section IV, A: Specific Warranties, of the MSSC, which are violated only if the lender had knowledge of the untruth or, acting as a prudent lender, should have known about it through the exercise of due diligence. Although warranty number 17 is limited to matters of which the lender has knowledge or, as a prudent lender, should have discovered, this limitation does not in any way limit the lender's warranty number 1 that the mortgage meets all applicable requirements in the Lender Contract, nor does it affect any other warranty. Lenders are deemed to know matters that are of public record.

Because the selling warranties are not limited to matters within a lender's knowledge, except as noted above, the action or inaction (including misrepresentation or fraud) of the borrower, or a third party, as well as the action or inaction (including misrepresentation or fraud) of the lender will constitute the lender's breach of a selling warranty.

A lender that acquires the servicing of a mortgage loan, either concurrently with or subsequent to Fannie Mae's purchase of the mortgage loan, assumes and is responsible for the same selling warranties that the party responsible for the selling representations and warranties made when the mortgage loan was sold to Fannie Mae. When a servicer transfers its contractual right to service some or all of its servicing responsibilities to another Fannie Mae-approved servicer, any variance or waiver granted to a transferor servicer does not automatically transfer to the transferee servicer. In addition, the transferor servicer and transferee servicer must ensure that all existing special servicing obligations associated with the transferred mortgage loan are disclosed.

**Note:** Fannie Mae will not exercise its rights to enforce certain remedies for breaches of certain representations and warranties for loans meeting the requirements set forth in [A2-2.1-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU](#), and [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#).

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### Lender Reporting Requirements

The lender must notify Fannie Mae within 30 days if, after conducting due diligence, it determines that a breach of a selling warranty has likely occurred. Notification must be made via the Lender Self-Report Mailbox (see [E-1-03, List of Contacts](#)). For additional information on a lender's responsibilities for self-reporting to Fannie Mae, refer to [D1-3-06, Lender Post-Closing Quality Control Reporting, Record Retention, and Audit](#). For additional information on a lender's reporting responsibilities with respect to misrepresentation or fraud, refer to [A3-4-03, Preventing, Detecting, and Reporting Mortgage Fraud](#).

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016  |
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015  |
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014     |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |

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## Section A2-2.1, Additional Selling Representations and Warranties



### **A2-2.1-01, Selling Representations and Warranties Overview (04/01/2009)**

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#### **Introduction**

This topic contains information on selling representations and warranties.

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#### **Specific Selling Representations and Warranties**

A lender is deemed to make certain selling warranties that are listed in this section. Other selling warranties are set forth elsewhere in the Lender Contract.

Some of the warranties relate to specific delivery options or mortgage products, and others to specific types of properties, mortgage documentation, or title issues.

Some of the warranties apply to every mortgage loan that is delivered to Fannie Mae, while others apply only in special circumstances.

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### **A2-2.1-02, Delivery Information and Delivery-Option Specific Representations and Warranties (08/30/2016)**

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#### **Introduction**

This topic covers delivery information and delivery-option specific representations and warranties, including:

- [Mortgage Loan Delivery](#)
- [MBS Pool Delivery Representations and Warranties](#)
- [Representation and Warranty Requirements for the Sale and Servicing of All Mortgages](#)

## Mortgage Loan Delivery

Regardless of the delivery option, the lender represents and warrants that all required mortgage loan delivery data is true, correct, and complete, even for such data elements that are not required to qualify a borrower or underwrite a loan. The lender also represents and warrants that at the time Fannie Mae releases cash or MBS in exchange for the mortgage loan, no person has any right of rescission pursuant to the Truth in Lending Act or other law which has not expired or otherwise terminated.

For purchase money loans and also for loans that have a right of rescission that has been waived, a lender may not request or receive cash or MBS until at least one business day after the lender disburses the funds to (or on behalf of) the borrower.

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## MBS Pool Delivery Representations and Warranties

The lender makes the following additional representations and warranties when it sells Fannie Mae a mortgage loan that is included as part of an MBS pool delivery:

- the mortgage loan, or participation interest, conforms to the requirements and specifications for mortgage loans that are pooled to back MBS issues and the pool formation criteria of the specific MBS pool in which the mortgage loan is included (see [Chapter C3-3, MBS Guaranty Fees and Guaranty Fee Buyups and Buydowns](#)),
- the mortgage satisfies the general mortgage loan eligibility requirements and underwriting guidelines for mortgage loans delivered to Fannie Mae (see [Chapter C3-3, MBS Guaranty Fees and Guaranty Fee Buyups and Buydowns](#)),
- the description of the mortgage loan, or participation interest, described in the applicable Schedule of Mortgages is true and correct, and
- all owners named in the *Delivery Schedule* ([Form 2014](#)) were provided the most recent prospectus, and any applicable prospectus supplement, available for the MBS program at the time they entered into their contract for the purchase of the related securities.

When the lender sells Fannie Mae an MBS pool that includes mortgage loans with special product characteristics that make them subject to delivery limitations, the lender represents and warrants that no more than 10% of the aggregate issue date principal balance of the pool is composed of mortgage loans that have one of the special product characteristics. If mortgage loans with more than one of the special characteristics are included in the same pool, the lender warrants that the total amount of mortgage loans with special product characteristics in the pool does not exceed 15% of the aggregate issue date principal balance of the pool.

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If a mortgage loan in an MBS pool has achieved enforcement relief as provided in [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#), then the obligation to indemnify Fannie Mae is limited in certain respects. See [A2-1-03, Indemnification for Losses](#), for a description of the continuing indemnification obligations.

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### **Representation and Warranty Requirements for the Sale and Servicing of All Mortgages**

By submitting any loan to Fannie Mae under any execution, including MBS, whole mortgage loan, or a participation pool mortgage to Fannie Mae as a whole loan, the lender represents and warrants that

- all right, title, and interest in the mortgage loan is sold, transferred, set over, and otherwise conveyed by the lender to Fannie Mae as of the date Fannie Mae funds the purchase proceeds;
- there is no agreement with any other party providing for servicing the mortgages that continues after such date unless there is full compliance with all the Fannie Mae Guide requirements for subservicing (see [A3-3-03, Other Servicing Arrangements](#), and the *Servicing Guide*) or any prior servicing agreement is made expressly subject to Fannie Mae's rights as owner of the mortgage loans; and
- it is aware of all matters related to the mortgage that were known to the originating lender.

The party that was servicing for the lender prior to the transfer of the loan to Fannie Mae may become a servicer for Fannie Mae, if there is full compliance with all the Fannie Mae Guide requirements that provide for either

- the assignment of servicing from the lender concurrent with conveyance of the mortgage to Fannie Mae (see [A3-3-02, Concurrent Servicing Transfers](#)), or
- post-delivery transfers of servicing (see the applicable section of the *Servicing Guide*).

When Fannie Mae consents to a transfer of servicing by a lender or servicer, it relies on the integration and non-divisibility of the Lender Contract. Fannie Mae requires that the transferor lender remain obligated for all selling and servicing representations and warranties and recourse obligations upon the transfer of servicing. Fannie Mae also requires that the transferee servicer, whether the original seller or a transferee servicer, undertake and assume joint and several liability for all selling and servicing representations and warranties and recourse obligations related to the mortgage loans it services unless explicitly agreed to the contrary in writing by Fannie Mae.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Dates       |
|--|-------------------|
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016   |
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |



## A2-2.1-03, Document Warranties (08/20/2013)

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### Introduction

This topic contains information on document warranties, including:

- [Legal Document Warranties](#)
- [Nonstandard Documents](#)

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### Legal Document Warranties

Document warranties relate to legal documents used for a mortgage, such as security instruments, notes, and assignments.

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### Nonstandard Documents

When a lender sells Fannie Mae mortgage loans that are closed on legal documents other than the current Fannie Mae/Freddie Mac uniform instruments, or current Fannie Mae instruments that are applicable to the transaction, the lender warrants that the mortgage loans otherwise comply with the Lender Contract. The use of nonstandard instruments will not preclude it or any subsequent servicer from performing all servicing and accounting functions required by Fannie Mae's Guides. By delivering loans not closed on current Fannie Mae instruments, the lender represents and warrants as follows:

- **Applicable laws and regulations, enforceability, negotiability** — No term of the instruments violates applicable laws and regulations, each and every term of the instruments is fully enforceable under applicable laws and regulations, and the mortgage note constitutes a negotiable instrument under the Uniform Commercial Code (UCC) of the applicable jurisdiction(s).



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- **Definition of security property** — The definition of security property conforms to the definition used in the Fannie Mae/Freddie Mac uniform instruments, and must include all improvements erected on the property (at the time the document is executed and in the future), easements, appurtenances, fixtures that are part of the property (at the time the document is executed and in the future), and replacements and additions to such improvements, appurtenances, and fixtures.
  - **Personal property/principal residence** — A one-unit property that is the borrower’s principal residence may not include personal property or other items (such as appliances, furniture, or equipment) that might be considered as additional security.
  - **Mortgage loans secured by a two- to four-unit principal residence or an investment property** — If personal property is pledged, it may be to the same extent as it is pledged by the *1-4 Family Rider* ([Form 3170](#)).
  - **Due on Sale** — The instruments for fixed-rate conventional mortgage loans include a fully enforceable due-on-sale or due-on-transfer clause, except as limited by federal law.
  - **“Default” rate of interest** — The instruments do not include a “default” rate of interest provision.
  - **Rights similar to those in Fannie Mae/Freddie Mac Uniform Instrument** — The instruments do not grant more favorable rights to the borrower on default and foreclosure, or less favorable rights to the note holder with respect to property insurance (including both required insurance and insurance the borrower elects to obtain), leasehold interests, other liens on the property, condemnation proceedings, or other proceedings that result in a full or partial taking of the property, or any other compensation, settlement, or award of damages that is the result of damage to, or destruction of, the property than those granted in the Fannie Mae/Freddie Mac uniform instruments for the applicable jurisdiction(s).
  - **Waivers of Rights of Redemption** — The instruments include a specific waiver by the borrower, and, if applicable, the borrower’s spouse, of:
    - any legally waivable statutory right of redemption after foreclosure,

**Note:** Statutory rights of redemption that are not waivable under applicable law are acceptable only to the extent the instruments do not grant more favorable rights to the borrower on default and foreclosure than those granted in the Fannie Mae/Freddie Mac uniform instruments for the applicable jurisdiction.

- any right of homestead, dower, or similar marital right, and

- rights of presentment and notice of dishonor, if a waiver of rights is necessary to protect the note holder’s interest.
- **Right to advance** — The instruments expressly allow the note holder to advance at any time sums for unpaid insurance premiums, property taxes, or any other payments necessary to protect the value of the property or the note holder’s rights in the property and permit the note holder to collect such amounts from the borrower on a deferred basis.
- **Note holder actions to protect the property** — The instruments permit the note holder to undertake certain actions to protect the property, including securing and repairing the property if it has been abandoned, and to add the costs of these actions to the amount of the debt.
- **Actions note holder is not obligated to take** — The instruments do not obligate the note holder to
  - advance additional principal sums,
  - forgive or suspend fully or partially scheduled installments or any portion of them for the borrower’s benefit, or
  - apply any prior principal prepayment to reduce or cure the borrower’s delinquency.
- **Fixed interest rate and level principal and interest payments** — The instruments provide for fixed interest rates and level principal and interest payments, unless the mortgage loan is an adjustable-rate mortgage.
- **Maturity date** — The instruments specify a maturity date. If the instruments do not specify a maturity date, the lender warrants that:
  - the mortgage loan will be fully amortized during a specified original term with no subsequent adjustments to the amount payable;
  - the entire indebtedness, including any amount previously added to the mortgage loan balance and the principal and interest payments, will be secured by the mortgage loan and take priority over intervening liens;
  - the lien of the mortgage loan is a valid first lien (or second lien in the case of a second mortgage loan delivery); and
  - the priority of the mortgage lien at the time of delivery will not be diminished over the term of the mortgage loan and, during that time, all sums, including any sums previously added to the mortgage loan balance, will be repaid in monthly installments.

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- **Notice of grievance** — The instruments require the lender and the borrower to give the other party a notice of any grievance arising under the security instrument and to allow the notified party a reasonable period after receipt of the notification to cure the grievance before the party providing the notice commences, joins, or is joined to a judicial action, as either an individual litigant or as a member of a litigant class that seeks redress or recovery in connection with the grievance.
  - **Maintenance of property** — The instruments obligate the borrower to maintain the property in a way that prevents deterioration and to repair promptly any damage to the property, whether or not such damage is covered by insurance.
  - **Mortgage Insurance** — The instruments provide that the lender, any purchaser of the mortgage note, a mortgage insurer other than the insurer of the mortgage, any reinsurer, or any other entity (including an affiliate of any of the foregoing) may receive (directly or indirectly) amounts that derive from (or might be characterized as) a portion of the borrower’s payments for the mortgage insurance in exchange for sharing or modifying the mortgage insurer’s risk or otherwise reducing losses.
  - **Borrower’s failure to take a future action** — The instrument (or any other agreement that the borrower signed) does not provide that the borrower’s failure to take a future action requested by the lender (such as providing and paying for additional documentation for the transaction after the date of loan closing) constitutes a default. Alternatively, if the instrument does include such a provision, the lender will not enforce it.
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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013    |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013      |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011      |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011      |
| <a href="#">Announcement 09-29</a>       | September 22, 2009 |

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## **A2-2.1-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU (12/06/2016)**

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### **Introduction**

This topic contains information on the following:

- [Limited Waiver of Representations and Warranties for Mortgages Submitted to DU](#)
  - [Enforcement Relief of Representations and Warranties for Mortgages with Data Validated by the DU Validation Service](#)
  - [Enforcement Relief of Representations and Warranties on Property Value for Mortgages Submitted to DU](#)
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### **Limited Waiver of Representations and Warranties for Mortgages Submitted to DU**

Fannie Mae grants a limited waiver of certain underwriting representations and warranties to a lender that sells an eligible mortgage that is underwritten with DU.

If DU returns an Approve/Eligible recommendation on the final submission of the loan casefile to DU, then Fannie Mae will not require the lender to represent and warrant that the mortgage loan complies with the requirements of this Guide with regard to the mortgage loan's eligibility for delivery to Fannie Mae and the borrower's creditworthiness, provided that:

- All data pertaining to the mortgage loan is complete, accurate, and not fraudulent, and all data on which the underwriting recommendation was based reflects the final terms of the closed mortgage loan, and otherwise comply with the requirements relating to submissions and resubmissions as stated in this Guide and any relevant supplemental materials.
- All data on which DU's recommendation is based complies with Fannie Mae's verification requirements and the mortgage loan file is documented accordingly.
- The lender uses the appropriate special feature codes, as specified in the delivery reporting requirements of this Guide or elsewhere in the Lender Contract. SFC 127 is required for all loans underwritten through DU.
- All Verification Messages/Approval Conditions that appear in the DU Underwriting Findings report with respect to the related mortgage loan application must be satisfactorily resolved, and the mortgage loan file documented accordingly.

- All other requirements, instructions, and restrictions set forth in this Guide and any release notes are complied with by the lender (or DU licensee).
- The lender reports the proper DU-assigned unique loan casefile ID at the time of delivery on the appropriate loan schedule or schedule of mortgages. (A DU loan casefile ID is unique to an individual mortgage loan. The same casefile ID may not be used to underwrite more than one mortgage loan to DU.)
- The lender pays all applicable loan-level price adjustments.

The foregoing waiver of underwriting representations and warranties does not apply to:

- loans that receive an Out of Scope recommendation, even if the underwriter believes that the mortgage should be approved;
- loans that receive an Approve/Ineligible or Refer with Caution recommendation; and
- the product eligibility representations and warranties in the Ability to Repay Loan Eligibility Requirements (see [B2-1.4-02, Mortgage Loan Eligibility](#));
- the eligibility and underwriting representations and warranties that apply to the property, including, but not limited to, condition, value, or marketability of the property;
- appraisal or alternative property inspection as set forth in this Guide;
- government loans that are underwritten with DU; and
- seasoned loans, as defined in this Guide.

**Note:** All seasoned loans that are delivered to Fannie Mae, including those that received an Approve/Eligible recommendation from DU, must meet Fannie Mae's seasoned mortgage requirements as set forth in [B2-1.4-02, Mortgage Loan Eligibility](#).

All other representations and warranties that are part of the Lender Contract shall apply. The use of DU does not relieve the lender of any obligation set forth in the Lender Contract, except as expressly set forth:

- in this section with respect to Fannie Mae's limited waiver of representations and warranties; and
- in any DU recommendation or findings relating to documentation requirements, property valuation requirements, and any other similar requirements provided by DU, unless such requirements are modified by [Chapter B3-2, Desktop Underwriter \(DU\)](#), of this Guide or the lender's applicable DU license agreements.

### **Enforcement Relief of Representations and Warranties for Mortgages with Data Validated by the DU Validation Service**

In addition to the limited waiver of representations and warranties described above, Approve/Eligible loans for which DU validated a loan component may also benefit from representation and warranty enforcement relief. The table below describes the validated component, the related enforcement relief, and other details.

| <b>Component Validated by DU</b> | <b>Fannie Mae will not enforce representations and warranties on</b>   | <b>Details</b>   |
|----------------------------------|--|--|
| <b>Income</b>                    | <ul style="list-style-type: none"> <li>the accuracy of the lender’s income calculations related to the validated income, and</li> <li>the integrity of the data provided on the vendor report.</li> </ul>                              | <p>The DU message must indicate that the amount of income entered into DU was validated and that the vendor report is acceptable documentation.</p> <p>Applies on a per-borrower, per-income-type basis.</p> |
| <b>Employment</b>                | <ul style="list-style-type: none"> <li>the borrower’s employment, through the time of closing, with the employer attested to on the loan application, and</li> <li>the integrity of the data provided on the vendor report.</li> </ul> | <p>The DU message must indicate that the employment entered into DU was validated.</p> <p>Applies on a per-borrower, per-employer basis.</p>   |
| <b>Assets</b>                    | <ul style="list-style-type: none"> <li>the sufficiency of the borrower’s assets to satisfy Total Funds to be Verified as required by DU, and</li> <li>the integrity of the data provided on the vendor report.</li> </ul>              | <p>The DU message must indicate that assets were validated.</p> <p>Applies on a loan-level basis.</p>  |

The lender must comply with the following additional requirements in order for the representation and warranty enforcement relief to apply:

- All of the requirements that pertain to the DU validation service must be met.

- All Verification Messages and Approval Conditions that appear in the DU Underwriting Findings report, including any related to the DU validation service, must be satisfactorily resolved and documented accordingly.

If there is information that is conflicting with or contradictory to the data that was submitted to DU, the lender must perform due diligence to investigate and ensure that accurate data is entered into DU. Enforcement relief will not apply, regardless of DU's issuance of validation messages, if the lender's investigation of conflicting or contradictory information contained in the loan file or within the vendor report would have impacted the information entered by the lender in DU.

For more information on the DU validation service, see [B3-2-02, DU Validation Service](#).

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### **Enforcement Relief of Representations and Warranties on Property Value for Mortgages Submitted to DU**

In addition to the limited waiver of representations and warranties described above, loans may also benefit from enforcement relief of certain representations and warranties related to the appraisal and value of the subject property. To be eligible for relief, a loan must meet the following criteria:

- be secured by a one-unit detached, attached, or condo property (manufactured homes are not eligible);
- received a DU Approve/Eligible recommendation; and
- the appraisal receives a Collateral Underwriter risk score of 2.5 or below.

When this criteria is met, the lender is not responsible for the following requirements described in this Guide:

- underwriting the appraisal report to determine whether the subject property presents adequate collateral for the mortgage;
- ensuring the appraisal accurately reflects the market value of the property;
- ensuring the appraiser used sound reasoning and provided evidence to support the methodology chosen to develop the opinion of value; and
- analyzing the comparable sales used in the appraisal report, including the description, selection, adjustments, and reconciliation of the comparables.

The lender does remain responsible for the description of the property, and the accuracy and completeness of all data on the appraisal that pertains to the property and project (if applicable).

This includes the property's condition and quality ratings. The lender is also responsible for ensuring the property meets the property eligibility requirements in this Guide. Lastly, the lender remains responsible for all other representations and warranties on the loan, including any life-of-loan representations and warranties that may apply to the property or the appraisal.

## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| Announcements and Release Notes          | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 06, 2016  |
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016   |
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015   |
| <a href="#">Announcement SEL-2014-06</a> | May 27, 2014       |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013    |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013      |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">DU Version 9.0</a>           | July 24, 2012      |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011      |
| <a href="#">Announcement SEL-2011-04</a> | May 24, 2011       |



## **A2-2.1-05, Invalidation of Limited Waiver of Representations and Warranties (01/27/2015)**

### Introduction

This topic contains information on invalidation of the limited waiver of representations and warranties for mortgage loans underwritten through DU, including:

- [Overview](#)
- [Lenders That Sell or Assign Loans Underwritten Through DU](#)
- [Lenders That Acquire Loans Underwritten with DU](#)



## Overview

For loans submitted to DU for evaluation, the lender must review the entire underwriting file to determine whether it includes any data or other information that was either not submitted to DU, or is inconsistent with any data or information that was in fact submitted to DU. If any such information (especially of a derogatory or contradictory nature) is found, the lender must take appropriate action, such as further investigating the information, to see if it would change the DU recommendation, or setting aside the DU recommendation if there are grounds for the lender to arrive at an underwriting decision other than the one it reached on the basis of the original DU recommendation. In such cases, the limited waiver of representations and warranties will no longer be valid for a mortgage that had received an Approve/Eligible recommendation.

Fannie Mae generally places no restrictions on the sale or transfer of loans underwritten through DU to third parties either before or after the mortgage is closed, other than a requirement that the sale or transfer must be in compliance with all applicable laws. When the limited waiver of representations and warranties is transferable, the selling or transferring lender must fully disclose (1) the fact that the mortgage was submitted to DU for evaluation, and (2) the nature of the DU recommendation. The selling or transferring lender also must include in the mortgage file that it transfers to the new lender the DU Underwriting Findings report and the corresponding DU Underwriting Analysis report (as well as any other pertinent DU reports).

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## Lenders That Sell or Assign Loans Underwritten Through DU

A lender that sells or assigns loans underwritten through DU must modify its assignment letters or loan sale agreements to set out instances in which a mortgage that was eligible for a limited waiver of representations and warranties may no longer be considered eligible. Situations that affect the continued eligibility of a mortgage for a limited waiver of representations and warranties include, but are not limited to, the following:

- a significant change that makes the information on which the DU recommendation was based no longer true, complete, or accurate.
- the elapse of 12 months since the mortgage was originated makes the mortgage subject to Fannie Mae's standard eligibility requirements for seasoned mortgages.
- a determination that the terms of the closed mortgage are substantially different from those on which the DU recommendation was based or that the DU recommendation was based on incorrect information.

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### **Lenders That Acquire Loans Underwritten with DU**

A lender that acquires loans underwritten with DU must include in its QC processes appropriate procedures to:

- verify that any conditions specified in the DU Underwriting Findings report have been satisfied, and
- confirm that the data from the closed mortgage agrees with the documents and all DU reports that are in the loan casefile.

If there are inconsistencies between the data from the closed mortgage and the data on which DU's recommendation was based, the limited waiver of representations and warranties will not apply—unless the lender either:

- submits corrected information for the closed mortgage to DU for evaluation (if it is a licensee) and receives an Approve/Eligible recommendation ; or
- requests the licensee that originally submitted the mortgage to DU to re-enter the correct information for the mortgage into DU (if permitted by applicable law) for the production of new reports and analyses to confirm that the recommendation is still Approve/Eligible for the limited waiver. The lender should request that both the results of the resubmission and all new reports be sent to it.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015  |



## **A2-2.1-06, Life-of-Loan Representations and Warranties (11/03/2015)**

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### **Introduction**

This topic contains information about the life-of-loan representations and warranties that lenders are responsible for, including:

- [Overview](#)
- [Life-of-Loan Representations and Warranties](#)
- [Life-of-Loan Exclusions: Fannie Mae Charter Act Matters](#)
- [Life-of-Loan Exclusions: Misstatements, Misrepresentations, and Omissions](#)
- [Life-of-Loan Exclusions: Data Inaccuracies](#)
- [Life-of-Loan Exclusions: Clear Title/First-Lien Enforceability](#)
- [Life-of-Loan Exclusions: Compliance with Laws and Responsible Lending Practices](#)
- [Life-of-Loan Exclusions: Unacceptable Mortgage Products](#)

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### **Overview**

In order to sell loans to Fannie Mae or deliver pools of loans to Fannie Mae for MBS, the lender makes representations and warranties as to certain facts and circumstances concerning the lender and the mortgage loans it is selling or delivering. Fannie Mae provides lenders with relief from enforcement for breaches of certain underwriting and eligibility representations and warranties for loans meeting the requirements set forth in [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#) (“enforcement relief”). No enforcement relief is available for certain “life-of-loan” representations and warranties.

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### **Life-of-Loan Representations and Warranties**

A lender is not relieved from the enforcement of breaches of its representations and warranties on any mortgage loan, including eligible mortgage loans, with respect to the following matters even if those matters are addressed in Subparts B1 through B5 of the *Selling Guide* (the subparts that pertain to underwriting and eligibility). With respect to each mortgage loan, a lender remains responsible throughout the life of that loan for representations and warranties related to the following, as more fully described below:

- Fannie Mae Charter Act Matters;
- Misstatements, Misrepresentations, and Omissions;

- Data Inaccuracies;
  - Clear Title/First-Lien Enforceability;
  - Compliance with Laws and Responsible Lending Practices; and
  - Unacceptable Mortgage Products.
- 

### **Life-of-Loan Exclusions: Fannie Mae Charter Act Matters**

The lender is responsible for representations and warranties for the life of the loan for compliance with Fannie Mae's Charter Act. In accordance with its Charter Act requirements, a mortgage loan (or any participation interest therein) must meet all of the following requirements to be eligible for sale to Fannie Mae:

- be secured by property that is residential in nature. Properties that are not residential include, but are not limited to, vacant land, property primarily used for agricultural or commercial purposes, or units located in condo or co-op hotels;
- be secured by a property located within the 50 states of the United States of America, the District of Columbia, or any territory or possession of the United States;
- be secured by a property with four or fewer units, unless sold through Fannie Mae's multifamily mortgage business;
- have an original principal balance not greater than the applicable maximum loan limit in effect at the time of Fannie Mae's acquisition; and
- have a loan-to-value (LTV) ratio of 80% or less of the security property's value at the time Fannie Mae acquires the loan or, if the mortgage has an LTV ratio in excess of 80%, the mortgage
  - has mortgage insurance on the portion of the mortgage in excess of 80% of the property's value (or for DU Refi Plus and Refi Plus mortgage loans, otherwise meets Fannie Mae's requirements), provided by a mortgage insurer approved under Fannie Mae's Qualified Mortgage Insurer Approval Requirements;
  - was sold with recourse for such period and under such circumstances as Fannie Mae may require; or
  - was sold on a participation basis when the lender retains a minimum 10% interest.

### **Example**

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An example of a breach of Charter Act requirements is a mortgage loan secured by a property that consists of a principal residence and a dairy farm, resulting in the property having significant nonresidential use.

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### **Life-of-Loan Exclusions: Misstatements, Misrepresentations, and Omissions**

Even if a mortgage loan has met the requirements for enforcement relief set forth in [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#), the lender remains responsible throughout the life of the loan for representations and warranties related to misstatements, misrepresentations, and omissions as set forth below.

In connection with a mortgage loan that has qualified for relief under the framework, “misrepresentations” means any misstatements, misrepresentations, or omissions by any party to the loan transaction made with or without the lender’s knowledge that pertain to the borrower, the property, or the project as set forth in Subparts B1 through B5 of the *Selling Guide*. Parties to the loan transaction include, but are not limited to, borrowers, property sellers, builders, real estate agents, lenders including the selling lender, mortgage brokers, loan officers, originators, appraisers, appraisal companies, closing agents, title companies, or other third-party vendors performing origination services. Fannie Mae will only assert a remedy for a misrepresentation involving a loan that has qualified for relief under the framework if all of the following criteria have been met. The misrepresentation must

- involve three or more mortgage loans delivered to Fannie Mae by the same lender;
- be made pursuant to a common pattern of activity in connection with loan origination or sale, based on information in the loan file or other facts or circumstances that existed at the time of delivery of the loan to Fannie Mae, which involves at least one party common to all the loans;
  - if the selling lender is the common party, involves the same individual; or,
  - if a third party is the common party, involves the same individual or entity; and
- be “significant,” as defined below.

**Note:** In identifying three or more loans to constitute the pattern, Fannie Mae may count loans that have obtained relief under the framework and loans that have not obtained such relief. Each loan in the pattern must meet all the requirements above in order for Fannie Mae to enforce a remedy pursuant to this life-of-loan exclusion.

A misrepresentation (as defined above) is “significant” if Fannie Mae, using true and accurate information, determines

- 
- that the loan would not have been eligible for sale to Fannie Mae under the terms of the lender’s contract with Fannie Mae in effect at the time of delivery of the loan, or
  - that the loan would have been eligible for purchase, but under different terms.

In making this determination of significance, Fannie Mae will rely upon a DU simulator. The DU simulator will use the true and accurate loan information to approximate the DU recommendation as of the time of delivery and compare it to the DU recommendation the lender obtained in the final DU loan submission before delivery. If the loan originally did not have a DU recommendation, the DU simulator will compare the new DU recommendation to the DU recommendation the loan would have received using the data provided at delivery, had the lender used DU.

A misrepresentation will be considered “significant” for purposes of the life-of-loan test, and the lender will be required to repurchase the loan only if the loan receives a worse DU recommendation from the simulator than it received (or would have received) at the time of delivery to Fannie Mae, except that Fannie Mae will also take into account any applicable variance and the impact of any undisclosed concessions, concealed transaction terms, or other violations of the lender’s contract (including *Selling Guide* requirements) that are involved in the misrepresentation, but are not evaluated by the DU simulator, when determining significance. Fannie Mae will notify the lender of any such undisclosed matters or violations that are considered in connection with determining such significance. Fannie Mae will provide the lender with documentation supporting the significance determination.

If Fannie Mae determines that the loan would have been eligible for purchase under different terms than those under which the loan was sold, Fannie Mae will not seek repurchase, but instead will re-price the loan, consistent with the lender’s contract at the time of loan delivery, to reflect the true risk profile of the loan.

**Fraud.** A mortgage loan involving fraud will be subject to repurchase, regardless of whether the standards described above (that is, the number of affected loans, a common pattern of activity, and a significance determination) have been met. For purposes of this life-of-loan exclusion only, fraud is established either by

- an adjudicated claim affirming fraud by or against the lender or other party to the loan transaction; or
- Fannie Mae finding clear and convincing evidence that the lender or other party to the loan transaction knowingly executed or participated in a scheme or artifice in connection with the underwriting, origination, or sale of a loan in order to
  - defraud Fannie Mae or any other party to the loan transaction; or

- obtain any moneys, funds, credits, assets, securities, or other properties from Fannie Mae or any other party to the loan transaction by means of fraudulent pretenses, representations, or promises.

**Note:** Lenders continue, at all times, to be responsible for any misstatement, misrepresentation, or omission in connection with any matter not relieved under the framework (that is, not addressed in Subparts B1 through B5 of the *Selling Guide*). Mortgage loans are subject at all times to Fannie Mae’s standard requirements related to fraud, misstatements, misrepresentations, or omissions as described in the *Selling Guide*, [A3-4-03, Preventing, Detecting, and Reporting Mortgage Fraud](#). The lender is required to report suspected mortgage fraud whenever a reasonable basis exists to conclude that it may have occurred, regardless of whether the loan has obtained relief or Fannie Mae may require the lender to repurchase the loan.

## Examples

The following examples illustrate some instances of application of this life-of-loan exclusion:

- An example of a misstatement in which the lender may be required to repurchase mortgage loans even if the loans have obtained relief:

In order to qualify borrowers in four separate home purchase transactions, the same loan officer employed by a lender understates the liabilities of the borrowers in each DU submission, affecting the debt-to-income ratio in each instance. The lender sells all four loans to Fannie Mae. The pattern of understatements comes to light after the loans have obtained relief under the framework. Fannie Mae utilizes the DU simulator, applying the DU rules that were in place at the time of delivery of each loan and the correct amount of total borrower liabilities. The DU simulator provides an “ineligible” recommendation for each of the four loans. In this instance, the lender must repurchase the four loans, if requested, despite the fact that the loans obtained relief.

- An example of an omission in which the lender may be required to repurchase the mortgage loans even if the loans have obtained relief:

In order to sell newly-built homes more quickly, a real estate agent and a property developer provide each borrower in three separate transactions with a \$15,000 rebate outside of closing that is not disclosed in the sales contracts or in the settlement statements. All three loans are sold to Fannie Mae by the same lender. This practice is in violation of Fannie Mae's undisclosed interested party contributions policy. Had these rebates been taken into account, each of the loans would have failed to qualify for purchase by Fannie Mae. Though this policy is not evaluated by, or able to affect the results of, the DU simulator, noncompliance makes



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the loans ineligible for delivery. In this instance, the lender must repurchase the three loans, if requested, even if the loans have obtained relief.

- An example of fraud in which the lender may be required to repurchase a single mortgage loan because of clear and convincing evidence of a scheme or artifice to defraud:

A borrower borrows \$10,000 from his friend as part of a down payment on a home. He has secretly promised to pay his friend back with interest. The borrower provides a falsified gift letter to the lender documenting a \$10,000 gift from an uncle. The lender would be required, if requested, to repurchase the loan if Fannie Mae subsequently can demonstrate that part of the down payment was borrowed—even if the loan had obtained relief. Because the borrower’s misstatement to the lender involved the knowingly executed scheme or artifice to obtain a loan by use of fraudulently fabricated evidence that supports an incorrect factual representation made by the borrower, the loan is subject to repurchase, despite not involving a pattern of activity affecting three or more loans or meeting the “significance” test.

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### **Life-of-Loan Exclusions: Data Inaccuracies**

Lenders are responsible for supplying Fannie Mae with high-quality, accurate, and complete data through a variety of systems, including but not limited to, Fannie Mae’s whole loan committing application, DU, and Loan Delivery. (See [A3-4-02, Data Quality and Integrity](#), for additional information.)

Even if a mortgage loan has met the requirements for enforcement relief set forth in [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#), the lender remains responsible throughout the life of the loan for representations and warranties related to data accuracy as set forth below. In connection with mortgage loans delivered to Fannie Mae, there must not be delivery data (Uniform Loan Delivery Dataset) inaccuracies pertaining to the borrower, the property, or the project, if and to the extent

- the data inaccuracies affect five or more loans and involve the same delivery data element(s);
- such delivery data differ from the information documented in the lender's mortgage loan files; and
- the data inaccuracies are “significant,” in that, using the information of the loan file to qualify the borrower, property, and project,
  - the loan would not have been eligible for delivery under the terms of the lender’s contracts with Fannie Mae in effect at the time of delivery of the loan; or
  - the loan would have been eligible for sale to Fannie Mae, but under different terms.



**Note:** In identifying five or more loans involving the same data element inaccuracy, Fannie Mae may count loans that have obtained relief under the framework and loans that have not obtained such relief. Each loan in the pattern must meet all the requirements above in order for Fannie Mae to enforce a remedy.

In determining whether the data inaccuracies are “significant” for purposes of the life-of-loan test, Fannie Mae will rely upon the DU simulator. The DU simulator will use the true and accurate loan information to approximate the DU recommendation as of the time of delivery and compare it to the DU recommendation the lender obtained in the final DU loan submission before delivery. If the loan originally did not have a DU recommendation, the DU simulator will compare the new DU recommendation to the DU recommendation the loan would have received using the data provided at delivery, had the lender used DU.

A data inaccuracy will be considered significant and the lender will be required to repurchase the loan only if the loan receives a worse DU risk assessment from the simulator than it received (or would have received) at the time of delivery to Fannie Mae. Fannie Mae will also take into account any applicable variance entered into with the lender when determining such significance. Fannie Mae will provide the lender with documentation supporting the significance determination.

If Fannie Mae determines that the loan would have been eligible for purchase using the accurate information from the loan file but under different terms than those under which the loan was sold, Fannie Mae will not seek repurchase, but will instead re-price the loan, consistent with the lender’s contract at the time of loan delivery, to reflect the true risk profile of the loan.

### **Examples**

The following examples illustrate instances of application of this life-of-loan exclusion:

- In connection with a system upgrade, a coding error is introduced into a lender’s system such that the representative credit score is incorrectly calculated. The lender reports inaccurate representative credit scores at loan delivery for five or more loans. After the loans obtain relief, a review of the credit reports in the lender’s origination files shows that for these mortgages, the actual representative credit scores were lower than those reflected in the data provided at delivery. The DU simulator, using the actual representative credit scores, produces an “ineligible” recommendation for each loan. The lender must repurchase the affected loans, if requested, despite the fact that the loans have obtained relief.
- For unknown reasons over a period of time, the lender’s origination system indicated that TILA-exempt investment property loans were principal residences. This error was reflected both in the DU submission and in the ULDD data at delivery for 30 loans. After the loans obtained relief, a review of the documentation in the lender’s loan files uncovers

the error. The DU simulator, using the correct, revised data, produces an “Approve/Eligible” recommendation on 20 of the loans and a “Refer with Caution/Ineligible” recommendation on the other 10 loans. Fannie Mae will not require the lender to repurchase the 20 loans, but may assess increased loan-level price adjustments to reflect their actual risk. However, if requested, the lender must repurchase the 10 loans that received a “Refer with Caution/Ineligible” recommendation.

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### **Life-of-Loan Exclusions: Clear Title/First-Lien Enforceability**

The lender is responsible for representations and warranties for the life of the loan that pertain to clear title and first-lien enforceability. A mortgage loan must

- be sold by a lender that was the sole owner and holder of the mortgage loan and had the full right and authority to sell and assign it, or a participation interest therein, to Fannie Mae. The lender’s right to sell or assign the mortgage loan cannot be subject to any other party’s interest or to an agreement with any other party;
- be a valid and subsisting first lien enforceable in accordance with its terms (with no pending condemnation or other legal proceedings) and that otherwise meets Fannie Mae’s requirements for loan documents;
- have a mortgagee policy of title insurance meeting Fannie Mae’s requirements, or other title evidence acceptable to Fannie Mae. Lenders continue to be responsible for all warranties related to title, marketability, and lien position, regardless of whether included or excluded by coverage under a mortgagee policy of title insurance. Any defect shown on the title policy would not be considered to be an acceptable minor impediment if there was additional cost or delay involved in curing such defect;
- permit foreclosure or other enforcement of the note holder’s rights under the loan documents and acquisition of good and marketable title to the underlying security property without incurring any expenses or delays as a result of any matters affecting title to the property, including legal or land use restrictions or other defects relating to the land or location of the improvements.

### **Examples**

Examples of a breach of these clear title/first-lien enforceability requirements include, but are not limited to, the following:

- Another party, such as a warehouse lender, asserts a claim to or interest in the loan.
- Fannie Mae is unable to obtain clear title to the property because it is not in first-lien position.

- The lender fails to properly endorse the note or to adhere to requirements for the use of powers of attorney.
  - A mortgage loan is delivered to Fannie Mae with a Property Assessed Clean Energy (PACE) loan secured by the same property and the mortgage loan does not meet Fannie Mae's eligibility requirements for mortgages delivered with PACE loans.
  - Improvements that were included in the appraised value of the property do not fall totally within the property's boundaries or building restriction lines and were not otherwise permitted encroachments under the terms of the *Selling Guide*.
  - A mortgage loan is delivered to Fannie Mae that is secured by a property encumbered by private transfer fee covenants that do not meet Fannie Mae's requirements.
- 

### **Life-of-Loan Exclusions: Compliance with Laws and Responsible Lending Practices**

The lender is responsible for representations and warranties for the life of the loan that pertain to compliance with laws and responsible lending practices. A mortgage loan must be originated in compliance with

- applicable laws and regulations as set forth in [A3-2-01, Compliance With Laws](#);
- Fannie Mae's responsible lending policies as set forth in [A3-2-02, Responsible Lending Practices](#); and
- policies adopted by Fannie Mae to implement or comply with directives or regulations issued by FHFA, including the following:
  - *Appraiser Independence Requirements*,
  - private transfer fee requirements, and
  - Ability to Repay Loan Eligibility Requirements as set forth in [B2-1.4-02, Mortgage Loan Eligibility](#).

### **Examples**

Examples of breach of compliance with laws, responsible lending practices requirements, and FHFA directives include, but are not limited to, the following:

- The appraisal for a mortgage loan does not conform to the *Appraiser Independence Requirements*. (FHFA directive)

- A mortgage loan is secured by a unit in a condo project that was not created in compliance with applicable state law. (Compliance with Laws)
- A mortgage loan has a borrower that is an *inter vivos* revocable trust that was not formed in accordance with applicable law. (Compliance with Laws)
- A Texas Section 50(a)(6) mortgage loan was not originated in accordance with Texas law. (Compliance with Laws)
- A lender charged total points and fees for an ATR Covered loan in excess of the applicable limit on such points and fees in Regulation Z, 12 CFR § 1026.43(e)(3). (Compliance with Laws)
- A HOEPA loan. (Responsible Lending Practices)

**Note:** Whether any loan is subject to repurchase for noncompliance with laws will depend on whether the conditions for repurchase in [A3-2-01, Compliance With Laws](#), are satisfied. Loans that are not subject to repurchase under A3-2-01 may be subject to other remedies. Loans that violate Fannie Mae's Responsible Lending Practices or an FHFA directive are subject to repurchase.

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### **Life-of-Loan Exclusions: Unacceptable Mortgage Products**

Certain mortgage loan products are not purchased by Fannie Mae. As such, these products are not eligible for the enforcement relief described in [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#). Note that the list below is not intended to be exhaustive; it should be used as a reference tool in conjunction with the requirements of the *Selling Guide*.

Examples of mortgage loan products that Fannie Mae does not purchase are

- mortgages with an interest-only feature;
- graduated-payment mortgages, including growing-equity mortgages;
- mortgages originated with stated or no income and/or asset documentation (Refi Plus and DU Refi Plus loans are not covered by this provision);
- mortgages subject to negative amortization;
- construction mortgages (other than construction-to-permanent);

- daily simple interest mortgages;
  - mortgages with prepayment penalties;
  - reverse mortgages;
  - mortgages with balloon payments (with or without a reset option); and
  - second (or other junior) mortgages.
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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b> |
|---|-------------------|
| <a href="#"><u>Announcement SEL-2015-12</u></a> | November 3, 2015  |
| <a href="#"><u>Announcement SEL-2014-16</u></a> | December 16, 2014 |
| <a href="#"><u>Announcement SEL-2014-07</u></a> | June 24, 2014     |
| <a href="#"><u>Announcement SEL-2013-06</u></a> | August 20, 2013   |
| <a href="#"><u>Announcement SEL-2013-03</u></a> | April 9, 2013     |

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# Chapter A2-3, Lender Breach of Contract



## Lender Breach of Contract

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### Introduction

This chapter addresses the remedies available to Fannie Mae when a lender breaches the Lender Contract.

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### In This Chapter

This chapter contains the following sections:

|  |    |
|--|----|
| A2-3.1, Lender Breach of Contract .....  | 45 |
| A2-3.2, Loan Repurchases and Make Whole Payments Requested by Fannie Mae ..... | 51 |
| A2-3.3, Compensatory Fees .....  | 74 |

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## Section A2-3.1, Lender Breach of Contract



### A2-3.1-01, Lender Breach of Contract (02/23/2016)

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#### Introduction

This topic contains information on the lender's breach of its Lender Contract, including:

- [Lender Breach of Contract](#)
  - [Alternatives to Contract Termination](#)
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#### Lender Breach of Contract

Fannie Mae may terminate the Lender Contract (in its entirety or its individual selling arrangement or servicing arrangement) *with cause* at any time and immediately, if the lender breaches any provisions of its Lender Contract, including (among other things) a failure to follow the requirements of Fannie Mae's Guides, to meet Fannie Mae's net worth and other financial requirements, or to meet any of the other eligibility requirements specified in the Lender Contract. A lender also breaches the Lender Contract in the event of a change in the lender's financial or business condition, or in its operations, which in Fannie Mae's sole judgment, is material and adverse. It is within Fannie Mae's discretion to determine whether a particular occurrence—or the aggregate effect of multiple occurrences—warrants termination of the entire Lender Contract or a specific arrangement.

Fannie Mae's decision to terminate a lender's selling arrangement, servicing arrangement, or the entire Lender Contract does not entitle the lender to recover any exemplary, punitive, or consequential damages. Fannie Mae will not pay a termination fee in such cases and it may make the termination effective immediately. Fannie Mae may offset any obligations that it may owe the lender against any obligations the lender may owe Fannie Mae under any existing agreement, whether or not Fannie Mae has made any demand under such agreement and even though such obligations may not yet be immediately due. If Fannie Mae's decision to terminate is based on the lender's breach of the Lender Contract related to its selling arrangement, Fannie Mae may declare the lender's outstanding cash commitments and MBS pool purchase contracts to be void—and Fannie Mae has the right to terminate the entire Lender Contract (including the lender's servicing arrangement) for cause.

When Fannie Mae terminates a lender's servicing arrangement for cause based on the lender's breach of its Lender Contract related to its servicing arrangement or in connection with the

termination of the entire Lender Contract, the lender will have no further rights in the servicing of the mortgages it had been servicing for Fannie Mae.

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### **Alternatives to Contract Termination**

The Lender Contract provides remedies to Fannie Mae for the lender's nonperformance. Any remedies that are applied will, in Fannie Mae's sole judgment, be commensurate with the associated level of risk.

Generally, Fannie Mae pursues these remedies when it believes that the lender should have an opportunity to correct the breach of the Lender Contract.

Instead of terminating all or a part of the Lender Contract (or the lender's selling arrangement or servicing arrangement) when it has cause to do so, Fannie Mae may elect to pursue a variety of other remedies and/or may impose additional requirements as a condition for not terminating all or a part of the Lender Contract (or the lender's selling arrangement or servicing arrangement). The following list provides some possible requirements that Fannie Mae may impose as a condition for not undertaking remedies to which it is entitled by virtue of a lender's breach:

- requiring the lender to indemnify Fannie Mae for actual and prospective Fannie Mae losses;
- requiring the lender to repurchase a mortgage loan or an acquired property or remit a make whole payment;
- imposing a compensatory fee;
- imposing a suspension or some other formal sanction against the lender;
- requiring additional and more frequent financial and operational reporting;
- accelerating the processing and rebuttal time periods and payment of outstanding repurchases and repurchase/indemnification obligations;
- requiring the lender to take steps to sell and transfer all of its Fannie Mae servicing, or portions thereof as designated by Fannie Mae, to an unrelated entity upon 90 days' written notice from Fannie Mae;
- limiting the lender from acquiring additional Fannie Mae servicing (over and above its existing servicing) in either its servicing or its subservicing portfolio;
- modifying or suspending any contract or agreement with a lender, such as a Master Agreement, including termination, suspension, or rescission of any variance approved under the terms thereof;



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- requiring the lender to post collateral in the form of cash or cash equivalents reasonably acceptable to Fannie Mae in an amount determined by Fannie Mae based on the particular circumstances;
  - imposing limitations on early funding products or recourse transactions;
  - imposing limits on trading desk transactions; or
  - requiring advance payment of fees for technology services.

Fannie Mae is willing to work with lenders and consider other solutions that can correct or adequately address the concerns of Fannie Mae.

Fannie Mae has no obligation to pursue any of these alternatives, and its decision to pursue one or more of the alternatives does not waive, limit, or affect Fannie Mae's right to terminate the Lender Contract (or one or more individual arrangements) at any time that Fannie Mae deems it appropriate to do so under the provisions of the Lender Contract. Fannie Mae's decision not to take action against a lender at any point in time does not mean that Fannie Mae condones any action or inaction by the lender, or that Fannie Mae is waiving its right to take action in the future. Also see the *Servicing Guide* for information related to termination for cause.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016  |
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015   |
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2015-02</a> | February 24, 2015  |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013      |
| <a href="#">Announcement 08-23</a>       | September 16, 2008 |



## **A2-3.1-02, Sanctions, Suspensions, and Terminations (02/23/2016)**

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### **Introduction**

This topic contains information on the following subjects:

- [Imposition of Sanctions](#)
  - [Suspension of Selling Arrangement](#)
  - [Termination](#)
  - [Termination Without Cause](#)
  - [Termination With Cause](#)
- 

### **Imposition of Sanctions**

When Fannie Mae determines that a lender's performance of its selling and/or servicing obligations does not meet the standards in its Lender Contract, Fannie Mae may impose a formal sanction to give the lender official notice of its shortcomings and an opportunity to correct its deficiencies. Prior to imposing any sanction, Fannie Mae will generally give the lender notice of the contemplated action so the lender can submit a written response or request a meeting with its lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)). The lender's written response must include a description and explanation of any mitigating circumstances or specific proposals to satisfy Fannie Mae's objections to the lender's performance of its obligations under the Lender Contract. Fannie Mae reserves the right to omit these steps and take immediate action to terminate or suspend the Lender Contract at any time in accordance with the provisions thereof.

If any act, omission, or failure of performance by a lender constitutes a breach of the Lender Contract, Fannie Mae is not obligated to impose a sanction prior to exercising its contractual right to terminate or suspend the lender's selling arrangement, servicing arrangement, or all of its Lender Contract. If Fannie Mae initially chooses to place a lender under a formal sanction, Fannie Mae can subsequently decide that termination or suspension is the more appropriate action and take immediate steps to effect the termination even if the terms of the sanction have not yet expired.

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### **Suspension of Selling Arrangement**

Fannie Mae may suspend a Lender Contract for a specified period of time or it may state that the suspension is for an "indefinite period." Fannie Mae usually specifies an "indefinite period" when Fannie Mae wants the lender to satisfy certain conditions—such as the hiring of additional staff—before Fannie Mae removes the suspension. Fannie Mae may apply the suspension

of a selling arrangement to all products or to specific products, depending on the type and seriousness of the lender's failure to perform. Even when Fannie Mae suspends a lender's selling arrangement, it will honor any outstanding whole loan commitments and MBS pool purchase contracts. However, if Fannie Mae decides to terminate the lender's selling arrangement (or the entire Lender Contract) for cause either at or before the end of the suspension period, it may declare any outstanding pricing or purchase commitments or pool purchase contracts to be void.

Fannie Mae may suspend the Lender Contract whenever a breach has been identified. Fannie Mae may suspend a lender's right to add new mortgage loans to its Fannie Mae servicing portfolio—whether those mortgage loans represent new mortgage loans Fannie Mae would purchase or securitize or existing Fannie Mae-owned or Fannie Mae-securitized mortgage loans that would be transferred from another servicer. The suspension of new servicing may apply to all types of mortgage loans or to specific products, depending on the nature of the lender's performance deficiencies.

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## **Termination**

Fannie Mae may terminate the Lender Contract, including selling and servicing, with or without cause, in accordance with Section IX of the MSSC.

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## **Termination Without Cause**

Fannie Mae may terminate a lender's selling arrangement at any time without cause—effective immediately—by providing the lender with written notice of Fannie Mae's intent to do so.

A lender may terminate its selling arrangement at any time—and effective immediately—by giving Fannie Mae written notice of its intent to do so. Any responsibilities or liabilities related to specific mortgages or MBS pools that the lender had before the termination will continue to exist after the termination unless Fannie Mae expressly agrees in writing to release the lender from those responsibilities and liabilities. The lender shall be responsible for all reasonable and customary costs and expenses related to the transfer of servicing in connection with a lender's voluntary termination of its servicing rights.

Termination of the lender's selling arrangement does not affect any obligations in connection with any pricing or purchase commitments or pool purchase contracts that the lender has outstanding with Fannie Mae at the time of the termination; provided however that Fannie Mae may declare any outstanding pricing or purchase commitments or pool purchase contracts to be void.

Termination also does not release the lender from its responsibilities or liabilities related to mortgage loans and MBS pools that Fannie Mae purchased, securitized, or contracted to

purchase or securitize before the termination, including the obligation to repurchase a mortgage loan in connection with the breach of a selling warranty, even if the breach is not discovered until after the termination, the breach did not result in any Fannie Mae losses, or the selling warranty was assumed in connection with an earlier transfer of servicing to another lender.

Additional provisions related to termination of servicing are described in the *Servicing Guide*.

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### **Termination With Cause**

If Fannie Mae terminates the lender's selling arrangement with cause, it will be effective immediately and Fannie Mae may declare any outstanding pricing or purchase commitments or pool purchase contracts to be void. Additional provisions related to termination of servicing are set forth in the *Servicing Guide*.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |

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## Section A2-3.2, Loan Repurchases and Make Whole Payments Requested by Fannie Mae



### A2-3.2-01, Loan Repurchases and Make Whole Payments Requested by Fannie Mae (08/30/2016)

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#### Introduction

This topic contains information on loan repurchases and make whole payments requested by Fannie Mae, including:

- [Overview](#)
  - [Responsibility for Repurchase or Make Whole Payment Demands](#)
  - [Violation of Contractual Warranty](#)
  - [Conditions Requiring Repurchase](#)
  - [Lender Response to a Demand](#)
  - [Repurchase Resolution](#)
  - [Payment of Repurchase Proceeds](#)
  - [Redelivery of Repurchased Loans](#)
  - [Repurchase Price](#)
- 

#### Overview

As part of its quality control (QC) system, Fannie Mae reviews mortgage loans that it has purchased or securitized. Fannie Mae may conduct several different types of reviews, including post-purchase reviews, early payment default reviews, servicing reviews, and post-foreclosure reviews. During the QC reviews, Fannie Mae may identify a “defect”—a loan-level deficiency that breaches a term contained in the Lender Contract in effect at the time of loan delivery. These reviews may result in loan repurchase demands, make whole payment demands, or other alternative remedies.

Fannie Mae requires some repurchases because the terms under which the mortgages were purchased or securitized call for a repurchase under certain conditions or circumstances. Repurchases that fall into this category generally include, but are not limited to, Charter violations, an adjustable-rate mortgage in an MBS pool that has converted to a fixed-rate mortgage per the borrower’s exercise of its option in the mortgage documents, or an MBS mortgage that has 24 payments past due.

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Certain mortgage loans may be eligible for relief from enforcement for breaches of certain representations and warranties once the mortgage loan has satisfied the requirements described in [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#). Eligible mortgage loans include those loans acquired by Fannie Mae on or after January 1, 2013.

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### **Responsibility for Repurchase or Make Whole Payment Demands**

The term “lender” is generally used throughout this *Selling Guide* in the context of the entity responsible for all aspects of the origination and delivery of mortgage loans to Fannie Mae. In some specific instances, the term “servicer” is also used in this Guide. Regardless of which term is used, responsibility for repurchase, indemnification, and make whole payments lies with the “responsible party”—the seller, servicer, or other entity that is responsible for the selling representations and warranties and/or for the servicing responsibilities or liabilities on a mortgage loan.

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### **Violation of Contractual Warranty**

If Fannie Mae's loan review determines (or Fannie Mae otherwise learns) that a mortgage loan did not meet Fannie Mae requirements due to violation of the Lender Contract or, if the “remedies framework” applies and a “significant defect” is identified, Fannie Mae may require the lender to immediately repurchase the mortgage loan or acquired property (or Fannie Mae's participation interest in the mortgage loan) or to remit a make whole payment if the property has been liquidated.

Fannie Mae may also require repurchase or a make whole payment if any warranty the selling lender made is untrue and, if the remedies framework applies, qualifies as a significant defect, whether or not the lender had actual knowledge of the untruth. No such repurchase (or make whole payment) request will be made if the warranty specifically states that a violation does not exist unless the lender had actual knowledge of the untruth and the lender has no such knowledge.

A quality control loan file review or payment of loan-level price adjustments in no way limits Fannie Mae's right to require a repurchase or a make whole payment if a warranty breach is later discovered, unless the mortgage loan has qualified for relief under the enforcement relief framework and the subsequent breach is not a breach of a life-of-loan warranty or any other warranty outside of Subparts B1 to B5 of the *Selling Guide*.

**Note:** For additional information, including definitions, see [D2-1-03, Outcomes of Fannie Mae QC Reviews](#), and [D2-1-04, Identifying and Remediating Origination Defects Under the Remedies Framework](#).

## Conditions Requiring Repurchase

Fannie Mae has the right to require a lender to repurchase a mortgage loan or an acquired property, or remit a make whole payment, as a result of a breach of the Lender Contract. For loans subject to the remedies framework, if a breach of a selling representation and warranty is identified, such breach must result in a significant defect. In addition to repurchase for breach of warranty, lenders may be required to repurchase some loans because the terms under which the mortgage loans were purchased or securitized call for a repurchase. Unless a loan has qualified for relief from enforcement for breaches of certain selling representations and warranties in accordance with [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#), a decision not to require repurchase at a particular time does not waive Fannie Mae's right to demand repurchase at a later time, or to institute other remedies for breach of the Lender Contract.

Fannie Mae may conduct several different types of reviews with respect to a mortgage loan, including a post-purchase review, an early payment default review, a servicing review, or a post-foreclosure review. During the course of a review, Fannie Mae may identify

- significant underwriting deficiencies,
- significant defects,
- a breach of a selling representation or warranty, or
- a breach of the terms of any applicable contract provision.

If any of the foregoing are identified, Fannie Mae may require the immediate repurchase of a mortgage loan or an acquired property or the remittance of a make whole payment (all of which fall under the definition of a “demand”) unless and until such mortgage loan is eligible for relief from enforcement for breaches of certain underwriting and eligibility representations and warranties in accordance with [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#).

In some instances in which the lender has breached its representations or warranties, Fannie Mae may allow the lender to correct the warranty violation. During the appeal and impasse processes, the lender has the right to correct a significant defect for mortgage loans subject to the remedies framework in the time frame and manner required by the Lender Contract. If no time frame or manner for correction is identified in the Lender Contract, the correction of the significant defect shall be as determined by Fannie Mae. See Subpart D2, Fannie Mae QC Process, for additional information about the quality control selection and review process and timelines related to the remedies framework.

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In some instances, Fannie Mae may enter into other repurchase alternatives. See [A2-3.2-03, Remedies Framework](#), and the *Servicing Guide*.

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### **Lender Response to a Demand**

When Fannie Mae requires a repurchase or a make whole payment because of a breach, the lender should work with the Fannie Mae individual or department noted on the demand to resolve any issues. Fannie Mae has an established appeal, impasse, management escalation, and Independent Dispute Resolution process (see [A2-3.2-03, Remedies Framework](#)).

Despite the best efforts of both parties, Fannie Mae and the lender may not always be able to reach a mutual agreement. In such cases, the lender must repurchase the mortgage loan, the acquired property, or Fannie Mae's participation interest in the mortgage loan or the acquired property or exercise its rights under the appeal, impasse, and management escalation process, or the Independent Dispute Resolution process.

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### **Repurchase Resolution**

When Fannie Mae identifies a defective mortgage, it may, in its sole discretion, impose a condition to retaining the loan, such as requiring the lender to agree to an alternative remedy to repurchase. In some cases, as permitted in the Lender Contract, Fannie Mae will issue a repurchase or make whole payment demand to the lender. The selling defects that give rise to a repurchase or make whole payment demand for loans covered by the remedies framework consist of errors or failures that Fannie Mae identifies as significant defects, as described in [D2-1-03, Outcomes of Fannie Mae QC Reviews](#).

This Guide contains timelines by which lenders must pay Fannie Mae the funds that are due in connection with a repurchase or make whole payment demand or other alternative remedy. If a lender delays in this or has a pattern of unresponsiveness, Fannie Mae may consider this a breach of contract and consider other actions against the lender, up to and including termination.

For performing mortgage loans with significant defects covered by the remedies framework, Fannie Mae may elect not to require immediate repurchase, but may instead offer a repurchase alternative. The nature and severity of the findings, financial and operational strength of the lender, the quality of the mortgages sold, servicing performance, the acceptability of the investment, and the loan payment history are some of the criteria that may be used by Fannie Mae in deciding whether to use this option. Fannie Mae may consider a lender's counterparty status in determining whether a loan is retainable and to the extent that there are future obligations required as part of the repurchase alternative.



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### Payment of Repurchase Proceeds

For mortgage loans acquired by Fannie Mae prior to January 1, 2013, the lender must pay Fannie Mae the funds that are due in connection with a repurchase or make whole payment demand within 30 days (or with its next scheduled remittance following the completion of the 30-day period).

For mortgage loans with acquisition dates on or after January 1, 2013, the lender must pay Fannie Mae the funds that are due in connection with a demand for repurchase, indemnification, or make whole payment within 60 days after receipt of the demand or within such other time frame as specified by Fannie Mae unless an appeal is made. (For repurchase demands made on a loan that has not been foreclosed upon or liquidated, the payment of the repurchase price may be made by the lender (or servicer) with its next scheduled remittance following the completion of the 60-day period.) If a lender delays in this, or has a pattern of unresponsiveness, Fannie Mae may consider this a breach of contract and consider other actions against the lender, up to and including termination.

Should Fannie Mae have to take legal action to enforce its right to require repurchase of a mortgage (or property), the lender will also be liable for Fannie Mae's attorney's fees, costs, and related expenses, as well as for any applicable consequential damages.

**Note:** Lender or servicer responsibilities described herein may actually be those of the "responsible party," as applicable.

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### Redelivery of Repurchased Loans

If a mortgage loan was repurchased by a lender, and the repurchased loan is subsequently made compliant with Fannie Mae's current standards, the loan may be redelivered to Fannie Mae, at its sole and absolute discretion, on a negotiated basis.

The lender represents and warrants that the mortgage being delivered is not a mortgage that was required to be repurchased by a secondary market investor, government-sponsored enterprise, or private institutional investor other than Fannie Mae for any documentation, underwriting, property valuation, deficiencies and/or issues with the property (including project eligibility if the property is in a condo, co-op, or PUD project), borrower credit, or other deficiencies or for any other reason. These types of mortgages are not eligible for delivery even if the identified defect has been corrected by the lender.

**Note:** A mortgage loan that a lender repurchased from another investor or GSE that was delivered in error to that investor or GSE is eligible for delivery to Fannie Mae as long as it meets all requirements of the *Selling Guide*.

In the event that a mortgage loan is deemed ineligible for redelivery to Fannie Mae or rejected by Fannie Mae upon redelivery, any future losses incurred after repurchase are the responsibility of the lender and not Fannie Mae.

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### **Repurchase Price**

Whenever Fannie Mae requires repurchase of a mortgage loan without redelivery to Fannie Mae's portfolio and, at the time of the repurchase, title to the security property has passed to Fannie Mae (or is held for Fannie Mae, but in the name of the servicer pursuant to its duties as Fannie Mae's servicer), Fannie Mae will require repurchase of Fannie Mae's interest in the property, or for the lender to remit a make whole payment if the property has been liquidated.

The repurchase price for a mortgage loan and the purchase price for an acquired property will be the same as if the lender were repurchasing the mortgage loan with accrued interest and other adjustments, including Fannie Mae's property-related expenses such as maintenance and marketing expenses, through the date of repurchase. Loan-level price adjustments (LLPAs) will not be included in the repurchase price or make whole payment calculation; however, lenders may be eligible for a partial LLPA refund on certain loans that have been repurchased. See [C1-1-01, Execution Options](#), for additional information.

The purchase price is not based on the market value of the property at the time of the purchase but on all amounts due Fannie Mae on the subject mortgage loan and property. When the servicer purchases the property or remits a make whole payment, Fannie Mae also will convey all rights as owner of the loan (e.g., deficiency rights), if any, that Fannie Mae may still have pursuant to applicable state law, but Fannie Mae has no obligation to the servicer or responsible party to have preserved such rights. If the property has been liquidated, Fannie Mae will issue a demand for a make whole payment to compensate it for the losses it suffered in purchasing a defective mortgage.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016   |
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015  |
| <a href="#">Announcement SEL-2015-06</a> | May 26, 2015      |
| <a href="#">Announcement SEL-2014-07</a> | June 24, 2014     |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |



## A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility (12/06/2016)

### Introduction

This topic describes the framework that provides lenders with relief from Fannie Mae's enforcement for breaches of certain underwriting and eligibility representations and warranties for certain mortgage loans acquired on or after January 1, 2013, that meet specific payment history and other eligibility requirements. This topic contains information on the following subjects:

- [Overview of the Enforcement Relief Framework](#)
- [Scope of Enforcement Relief of Underwriting and Eligibility Representations and Warranties](#)
- [Mortgage Loans Eligible for Enforcement Relief](#)
- [Additional Eligibility Criteria for Versions 1 and 2](#)
- [Notification of Relief](#)
- [Life-of-Loan Representation and Warranty Exclusions](#)
- [Comparison of Version 1 and Version 2 of the Framework](#)

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### Overview of the Enforcement Relief Framework

Representations and warranties required by Fannie Mae are described in the *Mortgage Selling and Servicing Contract*, the *Selling and Servicing Guides*, and other Lender Contracts. Violation

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of any representation and warranty is a breach of the Lender Contract, entitling Fannie Mae to pursue certain remedies, including a loan repurchase or make whole payment demand as more fully described in [A2-3.2-01, Loan Repurchases and Make Whole Payments Requested by Fannie Mae](#). However, for conventional loans that are acquired by Fannie Mae on a flow basis on or after January 1, 2013, the lender will be relieved of its obligation to remedy breaches of certain underwriting and eligibility representations and warranties if the loan meets certain eligibility criteria described under Mortgage Loans Eligible for Enforcement Relief below. This framework does not change the underlying representations and warranties the lender makes to Fannie Mae when selling loans; it changes whether and how Fannie Mae will enforce breaches of those representations after a loan has achieved relief under the framework. No relief will be available for breaches of certain “life-of-loan” representations and warranties as described in Life-of-Loan Representation and Warranty Exclusions below, regardless of whether a loan otherwise qualifies for relief. The availability of the enforcement relief framework does not discharge lenders from the responsibility for underwriting and delivering quality loans in accordance with Fannie Mae's requirements.

**Note:** Certain components of the loan may qualify for individual enforcement relief outside of this framework. For example, a loan may qualify for enforcement relief on the borrower’s income at the time the loan is sold to Fannie Mae, and later obtain enforcement relief based on payment history. Life-of-loan exclusions will apply at all times. See [A2-2.1-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU](#), for additional information.

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### **Scope of Enforcement Relief of Underwriting and Eligibility Representations and Warranties**

With respect to an eligible mortgage loan (as defined below), a lender will be relieved of the requirement to remedy a mortgage loan (such as repurchase, a make whole payment, or other repurchase alternative as more fully described in [A2-3.2-03, Remedies Framework](#)) if that mortgage loan violates Fannie Mae's single-family underwriting and eligibility requirements described in the applicable parts of the *Selling Guide* and other Lender Contracts relating to:

- underwriting the borrower, which includes the lender's assessment of the borrower's loan terms, credit history, employment and income, assets, and other financial information used for qualifying the borrower for the loan;
- underwriting the subject property, which includes the lender's analysis of the description and valuation of the property to determine its adequacy as collateral for the mortgage transaction; and
- underwriting the project in which the property is located, which includes the lender's analysis of the condo, co-op, or PUD project in accordance with Fannie Mae's requirements.

The following subparts of the *Selling Guide* are covered by the relief:

- Subpart B1, Loan Application Package;
- Subpart B2, Eligibility;
- Subpart B3, Underwriting Borrowers;
- Subpart B4, Underwriting Property; and
- Subpart B5, Unique Eligibility and Underwriting Considerations.

**Note:** If a mortgage loan with a breach or alleged breach has achieved enforcement relief as provided in this topic, then the obligation to indemnify Fannie Mae is limited in certain respects. See [A2-1-03, Indemnification for Losses](#), for a description of the continuing indemnification obligations.

### Mortgage Loans Eligible for Enforcement Relief

To be eligible for the representation and warranty enforcement relief, a mortgage loan must meet the requirements described below. There are two versions of the framework, based on the acquisition date of the mortgage loan. Each version then has specific additional requirements, including:

| Version 1                              | Version 2  |
|--|--|
| Version 1 based on acquisition date    | Version 2 based on acquisition date  |
| Version 1 payment history requirements | Version 2 payment history requirements or Version 2 QC review requirements |
| Additional eligibility criteria        | Additional eligibility criteria  |

### Version 1 and Version 2 Acquisition Date Requirements

| Version of the Framework | Acquisition Date   |
|--------------------------|--|
| Version 1                | Mortgage loans that were acquired by Fannie Mae as follows: <ul style="list-style-type: none"> <li>• whole loans purchased on or after January 1, 2013, but before July 1, 2014; or</li> </ul> |

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| <b>Version of the Framework</b> | <b>Acquisition Date</b>  |
|---------------------------------|--|
|                                 | <ul style="list-style-type: none"><li>• mortgage loans delivered into MBS with pool issue dates on or after January 1, 2013, but before July 1, 2014.</li></ul>  |
| Version 2                       | Mortgage loans that were acquired by Fannie Mae as follows: <ul style="list-style-type: none"><li>• whole loans purchased on or after July 1, 2014; or</li><li>• mortgage loans delivered into MBS with pool issue dates on or after July 1, 2014.</li></ul> |

### **Version 1 Payment History Requirements**

To be eligible for enforcement relief under Version 1 of the framework, the mortgage loan must meet one of the following payment history requirements:

- The borrower was not 30 days delinquent during the 36 months following the acquisition date, or for Fannie Mae Refi Plus and DU Refi Plus mortgage loans, the borrower was not 30 days delinquent during the 12 months following the acquisition date; or
- The borrower
  - had no more than two 30–day delinquencies and no 60–day or greater delinquencies, during the 36 months following the acquisition date; and
  - was current as of the 60th month following the acquisition date.

### **Version 2 Payment History Requirements**

To be eligible for relief under Version 2 of the framework, for mortgage loans other than Fannie Mae Refi Plus and DU Refi Plus loans, if the relief is based on the borrower’s acceptable payment history, the relief will occur

- upon payment by the borrower of the first 36 monthly payments due following the mortgage loan acquisition date, provided that the borrower
  - had no more than two 30-day delinquencies,
  - had no 60-day or greater delinquencies, and
  - is not 30 or more days delinquent with respect to the 36th monthly payment.

For Fannie Mae Refi Plus and DU Refi Plus mortgage loans, relief is based on the earlier of:

- 
- payment by the borrower of the first 12 monthly payments due following the mortgage loan acquisition date, provided the borrower had no 30–day or greater delinquencies; or
  - payment by the borrower of the first 36 monthly payments due following the mortgage loan acquisition date, provided the borrower
    - had no more than two 30-day delinquencies,
    - had no 60-day or greater delinquencies, and
    - is not 30 or more days delinquent with respect to the 36th monthly payment.

### **Version 2 Fannie Mae Quality Control Review**

Under Version 2 of the framework, there is an alternative path through which mortgages may qualify for relief of the selling representations and warranties based on the satisfactory conclusion of a quality control review. This enforcement relief will occur when one of the following takes place:

- Fannie Mae completes a full-file quality control review of the loan file, which includes a review of the credit underwriting and eligibility of the borrower, the property (including its value), and the project in which the property is located, if applicable, and determines that the mortgage is acceptable (that is, it is not subject to a repurchase demand).
- Fannie Mae completes the full-file quality control loan file review and determines the mortgage is not acceptable because of a selling deficiency that the *Selling or Servicing Guide* specifically identifies may be corrected. If the lender corrects such deficiency in the time frame and manner specified in the Lender Contract, relief will be effective upon the satisfactory correction of the deficiency as determined by Fannie Mae through a reassessment of the mortgage loan.
  - For example, if the mortgage file delivered to Fannie Mae did not contain the required verification of income, the mortgage defect would be deemed to be corrected if the lender provided the missing documentation requested by Fannie Mae within the time frame specified. Another example of an action taken to correct a deficiency is rectifying a prior mortgage lien by producing evidence of a recorded satisfaction or release of such prior mortgage lien within the time frame specified.
- Fannie Mae completes the full-file quality control loan file review and determines the mortgage is not acceptable but may be eligible for a repurchase alternative which expires or terminates by its terms. In this case, relief will be effective upon the satisfactory expiration or termination of the alternative to repurchase.



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- For example, if Fannie Mae determined a mortgage was not acceptable and, as an alternative to repurchase, Fannie Mae and the lender agreed that the mortgage would be subject to credit enhancement for 5 years, the mortgage would be relieved of the selling representations and warranties at the end of the 5-year period. Other possible alternatives to repurchase include recourse, make-whole arrangements, and certain split loss agreements; in each case, the repurchase alternative must satisfactorily expire or terminate by its terms in order for the affected mortgage to be eligible for relief from the selling representations and warranties under Version 2 of the framework.

**Note:** The requirements for obtaining relief based on a full-file QC review apply both to performing loans and non-performing loans. As a result, lenders may obtain relief through the quality control path regardless of whether the mortgage loan had an acceptable payment history.

**Post-Relief Loan File and Appraisal Reviews.** Fannie Mae may perform loan file reviews for quality assurance and audit purposes both before and after a loan obtains enforcement relief under the framework. However, Fannie Mae cannot issue a repurchase demand or seek an alternative remedy with respect to a deficiency in the underwriting of the borrower, the property, or the project that is relieved under the framework (such as a deficiency related to the LTV ratio or debt-to-income ratio) when that deficiency is discovered after the loan has obtained enforcement relief unless the deficiency qualifies as breach of a “life-of-loan” representation and warranty. A repurchase demand or alternative remedy may be issued only when the deficiency involves one of the life-of-loan exclusions or another provision of the *Selling Guide* that is not relieved under the framework.

**Note:** If, after a loan has obtained relief under the framework, Fannie Mae reviews an appraisal and determines that the property value used to calculate the LTV ratio was incorrect at the time of delivery, Fannie Mae will not issue a repurchase demand based solely on the fact that the newly calculated LTV ratio is over 80% and the loan did not have credit enhancement in place when it was delivered to Fannie Mae.

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### **Additional Eligibility Criteria for Versions 1 and 2**

In addition to the acquisition date, payment history, and QC requirements described above, the following criteria must also be met for mortgage loans to qualify for relief:

- The mortgage loan must be a conventional mortgage loan sold to Fannie Mae on a flow basis.
- Government-guaranteed or -insured loans are not eligible for enforcement relief.



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- Non-flow seasoned or bulk mortgages may be eligible for enforcement relief only on a negotiated basis. (Seasoned loans that are sold to Fannie Mae on a flow basis in accordance with the *Selling Guide* are eligible for enforcement relief.)
  - The determination of whether the loan has an acceptable payment history begins on the date of the first monthly mortgage payment due after the Fannie Mae acquisition date.
  - With the exception of mortgage loans with temporary buydowns, neither the lender nor a third party with a financial interest in the performance of the loan (such as a mortgage broker, correspondent lender, or mortgage insurer) can escrow or advance funds on behalf of the borrower to be used for payment of any principal or interest payable under the terms of the mortgage loan for the purpose of satisfying the payment history requirement.
  - The mortgage loan cannot have been sold to Fannie Mae with any credit enhancement other than traditional primary mortgage insurance (i.e., lender- or borrower-paid mortgage insurance).
  - Mortgage loans with credit enhancement other than traditional primary mortgage insurance may be eligible for enforcement relief only on a negotiated basis.
  - Loans that become subject to a forbearance agreement, repayment plan, or otherwise modified from the original terms after acquisition by Fannie Mae are not eligible for relief based on the borrower’s payment history, but may be eligible on the basis of a quality control review of the loan file if the loan otherwise meets the Version 2 requirements.
  - With the exception of certain loans purchased under the terms of a long-term standby purchase commitment (LTSC), the loans cannot have had any delinquencies between the origination date and the Fannie Mae acquisition date.
    - For loans classified as “Class 1 Mortgage Loans” or “Class 4 Mortgage Loans” that are purchased under an LTSC, the payment history requirement will be measured from the date the loan was committed under the LTSC structure (the 12-, 36-, or 60-month time frame will begin on the date the loan was committed into the LTSC).
  - The mortgage loan must not be subject to an outstanding request for repurchase, repurchase alternative, or make whole payment. (See [A2-3.2-03, Remedies Framework](#), for additional information.)

**Note:** Unless otherwise agreed to by Fannie Mae and the lender, once a mortgage loan has qualified for the representation and warranty enforcement relief by compliance with the requirements above, eligibility for the enforcement relief is final and irrevocable subject to the life-of-loan representation and warranty exclusions.

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## Notification of Relief

Fannie Mae will provide lenders with reports listing those mortgage loans that met the eligibility requirements for relief.

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## Life-of-Loan Representation and Warranty Exclusions

A lender is not relieved from the enforcement of breaches of its representations and warranties on any mortgage loan, including eligible mortgage loans, with respect to the following matters even if those matters are addressed in Subparts B1 through B5 of the *Selling Guide*. With respect to each mortgage loan, a lender remains responsible for the life-of-loan representations and warranties related to the following, as more fully described in [A2-2.1-06, Life-of-Loan Representations and Warranties](#):

- Fannie Mae Charter Act Matters;
  - Misstatements, Misrepresentations, and Omissions;
  - Data Inaccuracies;
  - Clear Title/First-Lien Enforceability;
  - Compliance with Laws and Responsible Lending Practices; and
  - Acceptable Mortgage Products.
- 

## Comparison of Version 1 and Version 2 of the Framework

The following chart compares Version 1 and Version 2 of the framework for mortgages other than Refi Plus and DU Refi Plus mortgages.

| <b>Representations and Warranties Framework—</b>                      |   |   |
|---|---|---|
| <b>Mortgage Loans other than Refi Plus and DU Refi Plus Mortgages</b> |   |   |
| <b>Relief Criteria</b>  | <b>Version 1</b>  | <b>Version 2</b>                                      |
| Effective Dates   | Effective for loans acquired on or after January 1, 2013, but before July 1, 2014 | Effective for loans acquired on or after July 1, 2014 |
| Number of required consecutive monthly payments                       | 36  | 36  |

| <b>Representations and Warranties Framework—</b>  |   |   |
|---|---|---|
| <b>Mortgage Loans other than Refi Plus and DU Refi Plus Mortgages</b>   |   |   |
| <b>Relief Criteria</b>  | <b>Version 1</b>  | <b>Version 2</b>                                  |
| Number of delinquencies permitted during first 36 monthly payments after Fannie Mae acquisition in order to be eligible for relief after the 36th monthly payment | 0 x 30  | 2 x 30 and 36th monthly payment is not delinquent |
| Opportunity to re-establish acceptable payment history if there were delinquencies in the first 36 monthly payments after Fannie Mae acquisition?                 | Yes, as of the 60th monthly payment, provided no more than 2 x 30 delinquencies in first 36 monthly payments and 60th monthly payment is not delinquent | Not applicable                                    |
| Eligible for relief after satisfactory conclusion of quality control review?  | No  | Yes   |
| Additional Eligibility Criteria (described above)   | No differences between Versions 1 and 2 other than loans may be eligible for QC relief under Version 2  |   |
| Notification of Relief  | No differences between Versions 1 and 2   |   |
| Life-of-Loan Exclusions   | No differences between Versions 1 and 2   |   |

The following chart compares Version 1 and Version 2 of the framework for Refi Plus and DU Refi Plus mortgages.

| <b>Representations and Warranties Framework—</b>  |   |   |
|---|---|---|
| <b>Refi Plus and DU Refi Plus Mortgages</b>       |   |   |
| <b>Relief Criteria</b>                            | <b>Version 1</b>  | <b>Version 2</b>                                      |
| Effective Dates                                   | Effective for loans acquired on or after January 1, 2013, but before July 1, 2014 | Effective for loans acquired on or after July 1, 2014 |
| Number of required consecutive monthly payments   | 12  | 12  |
| Number of delinquencies permitted during first 12 | 0 x 30  | 0 x 30  |

| <b>Representations and Warranties Framework—</b>  |   |   |
|---|---|---|
| <b>Refi Plus and DU Refi Plus Mortgages</b>   |   |   |
| <b>Relief Criteria</b>  | <b>Version 1</b>  | <b>Version 2</b>  |
| monthly payments after Fannie Mae acquisition in order to be eligible for relief after the 12th monthly payment                                   |   |   |
| Opportunity to re-establish acceptable payment history if there were delinquencies in the first 12 monthly payments after Fannie Mae acquisition? | Yes, as of the 60th monthly payment, provided no more than 2 x 30 delinquencies in first 36 monthly payments and 60th monthly payment is not delinquent | Yes, as of the 36th monthly payment, provided no more than 2 x 30 delinquencies in first 36 monthly payments and 36th monthly payment is not delinquent |
| Eligible for relief after satisfactory conclusion of quality control review?  | No  | Yes   |
| Additional Eligibility Criteria (described above)   | No differences between Versions 1 and 2 other than loans may be eligible for QC relief under Version 2  |   |
| Notification of Relief  | No differences between Versions 1 and 2   |   |
| Life-of-Loan Exclusions   | No differences between Versions 1 and 2   |   |

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 6, 2016  |
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016   |
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015  |
| <a href="#">Announcement SEL-2014-16</a> | December 16, 2014 |
| <a href="#">Announcement SEL-2014-07</a> | June 24, 2014     |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |



## **A2-3.2-03, Remedies Framework (08/30/2016)**

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### **Introduction**

This topic contains additional information pertaining to the remedies framework, including:

- [The Remedies Framework](#)
  - [Alternatives to Mortgage Loan Repurchases](#)
  - [Conditions to Mortgage Loan Repurchase Alternatives](#)
  - [Appeal Process](#)
  - [Impasse and Management Escalation Processes](#)
  - [Independent Dispute Resolution \(IDR\) Process](#)
- 

### **The Remedies Framework**

The origination defect and remedies framework (“the remedies framework”) expands upon certain provisions related to the representation and warranties framework. The remedies framework relates specifically to the categorization of defects, lender corrections of those defects, and available remedies when defects are identified, including alternatives to repurchase.

The remedies framework applies to whole loans purchased, and mortgage loans delivered into MBS with pool issue dates on or after January 1, 2016. See [D2-1-03, Outcomes of Fannie Mae QC Reviews](#), and [D2-1-04, Identifying and Remediating Origination Defects Under the Remedies Framework](#), for additional information about the remedies framework.

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### **Alternatives to Mortgage Loan Repurchases**

In certain circumstances, Fannie Mae may provide the lender with an alternative to the immediate repurchase of a mortgage loan that does not meet Fannie Mae's requirements.

For loans subject to the remedies framework, Fannie Mae may consider a loan with a significant defect for a repurchase alternative depending on Fannie Mae’s commercially reasonable determination that the loan is retainable. Fannie Mae will determine whether the loan is retainable based on the lender’s counterparty status and whether the loan was an acceptable investment at the time of purchase. In this context, the lender’s counterparty status is Fannie Mae’s assessment of the lender’s financial capacity, which could determine which remedy Fannie Mae will offer to the lender.

For any loan offered a repurchase alternative, Fannie Mae will notify the lender in writing of the type and terms of the repurchase alternative. The alternatives may include, but are not limited to, any one or more of the following, as determined by Fannie Mae in its discretion.

| <b>Repurchase Alternatives for Performing Loans</b>   | <b>Repurchase Alternatives for Non-performing Loans</b>   |
|---|---|
| <ul style="list-style-type: none"> <li>• Pricing adjustment—the assessment by Fannie Mae and payment by the lender of a guaranty fee adjustment, risk fee, or additional loan-level price adjustment with respect to the mortgage.</li> <li>• Recourse—an agreement by the lender to provide recourse for the life of the loan or for some other specified period of time.</li> <li>• Collateralized recourse—recourse as described above, with respect to which the lender's obligation is secured by a specified collateral account.</li> <li>• Indemnification—an agreement by the lender to indemnify, defend, and hold Fannie Mae harmless from any losses incurred by Fannie Mae relating to the mortgage.</li> <li>• Collateralized indemnification—indemnification as described above, with respect to which the lender's obligation is secured by a specified collateral account.</li> <li>• Collateralized or uncollateralized mortgage insurance stand-in agreement—for certain loans acquired by Fannie Mae on or after July 1, 2014, the payment by the lender to Fannie Mae for the full mortgage insurance benefit amount that would have been payable under the original rescinded mortgage insurance policy if the loan liquidates.</li> </ul> | <ul style="list-style-type: none"> <li>• Make-whole payment—the amount that a party responsible for a breach of a selling representation or warranty or a servicing breach must pay Fannie Mae so that Fannie Mae does not incur a loss on the mortgage or the property.</li> <li>• Split loss or loss share—an agreement between Fannie Mae and the lender to each pay a specified proportion of the losses that have arisen or may arise in the future relating to the mortgage.</li> <li>• Loss reimbursement—an agreement by the lender to reimburse Fannie Mae for specified losses relating to the mortgage.</li> </ul> |

**Note:** If Fannie Mae offers a repurchase alternative after a demand has been issued, the lender has the option to immediately repurchase the loan instead of accepting the repurchase alternative.

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### **Conditions to Mortgage Loan Repurchase Alternatives**

Certain repurchase alternatives may be available only to a lender that is in good standing with Fannie Mae, is in a strong financial condition acceptable to Fannie Mae, and otherwise satisfies Fannie Mae's eligibility criteria. (If the servicing of a mortgage has been transferred to a lender other than the one that sold the mortgage loan to Fannie Mae, eligibility for this benefit will be based on an evaluation of the servicer.)

For loans subject to the remedies framework, Fannie Mae may offer or decline to offer certain repurchase alternatives based on the lender's counterparty status, to the extent there are future obligations required as part of the repurchase alternative.

Other factors to be considered by Fannie Mae may include, but are not limited to, the failure to maintain a quality loan origination process and the lender's ability and willingness to comply with other provisions of the Lender Contract. In determining a lender's (or servicer's) eligibility for this repurchase alternative, Fannie Mae will evaluate the following:

- the quality of the mortgages the lender sells to (or services for) Fannie Mae, as measured by comparing the delinquency rates for comparable portfolios;
- the quality of the servicing performance, as measured by the lender's loss mitigation activities; and
- the overall financial strength of the lender, as reflected in the lender's annual financial statements and any other periodic financial reports the lender submits to Fannie Mae.

Fannie Mae also will periodically assess the lender's ongoing underwriting performance and contingent repurchase exposure (the lender's repurchase risk exposure in relation to its financial ability). When appropriate, Fannie Mae may change the lender's eligibility status for a repurchase alternative.

**Note:** The MI stand-in repurchase alternative may be available, provided the lender and the mortgage loan meet certain eligibility criteria. Fannie Mae will provide lenders with information on how to initiate a discussion about this repurchase alternative upon notification that mortgage insurance has been rescinded and is the only defect identified.

## Appeal Process

A lender may submit a written appeal of a “demand,” which is defined as any request issued by Fannie Mae to a responsible party to provide a specific remedy as provided in the Lender Contract. (See [A2-3.2-01, Loan Repurchases and Make Whole Payments Requested by Fannie Mae](#), for additional information on loan repurchase and make whole payment demands.)

The “appeal process” includes both the first and second appeals available to the responsible party under the conditions described in the following table. The responsible party’s ability to participate in the appeal, impasse, management escalation and Independent Dispute Resolution processes cannot be assigned to another party, such as an insurance company. Note that the responsible party may provide a correction of an alleged significant defect at any time during the appeal process.

Detailed information about the requirements for each step in the appeal process may be found in [Appeal and Independent Dispute Resolution Processes](#) posted on Fannie Mae’s website, which is incorporated by reference.

| Appeal Process   | Lender Action  | Fannie Mae Action  |
|--|--|--|
| <p><b>First Appeal:</b></p> <p>A lender may submit a written appeal of a demand.</p>   | <p>The lender must submit an appeal in writing within 60 days of receiving a demand.</p> <p><b>Note:</b> Fannie Mae, in its discretion, may identify a shorter or longer appeal period in the demand based on circumstances at the time.</p> | <p>Fannie Mae must respond in writing to the lender’s appeal within 60 days of its receipt.</p>        |
| <p><b>Second Appeal:</b></p> <p>If the first appeal is denied and the lender has additional material information, the lender may choose to submit a second appeal.</p> | <p>The lender must submit a second appeal in writing within 15 days of receiving a denial of the first appeal.</p>   | <p>Fannie Mae must respond in writing to the lender’s second appeal within 60 days of its receipt.</p> |



### Impasse and Management Escalation Processes

At the conclusion of the first or second appeal, if the lender wishes to challenge the existence of the defect identified in the demand, the lender may initiate the impasse process. If Fannie Mae reaffirms the demand during the impasse process, the lender may continue the challenge as provided by the management escalation process.

The steps in the impasse and management escalation processes are described in the following table. Detailed information about the requirements for each step may be found in [Appeal and Independent Dispute Resolution Processes](#) posted on Fannie Mae’s website, which is incorporated by reference.

| <b>Impasse and Management Escalation Processes</b>   | <b>Lender Action</b>  | <b>Fannie Mae Action</b>  |
|--|---|---|
| <p><b>Impasse:</b></p> <p>If, at the conclusion of the first or second appeal, the lender wishes to challenge the existence of the defect, it must initiate the impasse process.</p>   | <p>The lender must initiate the impasse process in writing within 15 days of receiving Fannie Mae’s denial of the first or second appeal.</p>   | <p>Fannie Mae and the lender will have 30 days in which to attempt to resolve the dispute, unless both parties agree to a longer time period.</p>   |
| <p><b>Management Escalation:</b></p> <p>At the end of the impasse process, if Fannie Mae reaffirmed the demand and the lender wishes to continue to dispute the existence of the defect, the lender must initiate the management escalation process.</p> | <p>The lender must initiate the management escalation process in writing within 15 days of conclusion of the impasse process by notifying its Fannie Mae officer contact of its intention to initiate management escalation.</p> <p>If, at the end of the management escalation process, Fannie Mae reaffirmed the demand, the lender may initiate the Independent Dispute Resolution Process</p> | <p>Within 30 days of receipt of the lender’s initiation of the management escalation process, Fannie Mae must involve an officer outside of the quality control group in a review of the dispute.</p> <p>Fannie Mae and the lender will have 30 days in which to attempt to resolve the dispute, unless both parties agree to a longer time period.</p> |

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## Independent Dispute Resolution (IDR) Process

The IDR process is available for disputes that are not resolved through the appeal, impasse, or management escalation processes. The IDR process is available provided the preconditions to each step have been followed and the parties have not filed litigation to attempt to address the dispute. IDR is available to lenders that have not been suspended, disqualified, or terminated by Fannie Mae, and that have complied with any prior IDR award or demand made by Fannie Mae (as applicable). The IDR process shall be governed by the Federal Arbitration Act, 9 U.S.C. §§ 1 et. Seq.

The IDR process addresses loan-level demands and whether alleged breach(es) by the responsible party of its representations and warranties, or duties or responsibilities as provided under the Lender Contract exist at the time IDR commences. The IDR process may be used for

- demands relating to a breach of a selling representation, warranty, duty or responsibility, involving whole loans purchased, and mortgage loans delivered into MBS with pool issue dates on and after January 1, 2016; and
- demands relating to servicing remedies issued on and after December 1, 2016.

The IDR process cannot be used to resolve the suspension, disqualification, or termination of a lender. Nor may the IDR process be used if a lender receives a formal notice of default from Fannie Mae.

A neutral third party, selected by the IDR program administrator, will determine whether the alleged breach(es) existed at the time IDR commenced based on case file packages and subject matter expert reports submitted in writing by both parties. The neutral party's decision will be final and binding upon the lender and Fannie Mae.

**Lender Initiation of IDR.** If Fannie Mae reaffirms the demand at the end of the management escalation process, the lender will have 15 days to initiate the IDR by completing and submitting an executed [Retainer Agreement](#) located on Fannie Mae's website to the Fannie Mae officer involved in the management escalation process and to the program administrator, as described in the *Appeal and Independent Dispute Resolution Processes*.

If Fannie Mae has not received the lender's fully completed and executed Retainer Agreement within 15 days of the end of the management escalation period, the lender will have no further right to appeal the existence of the defect in the demand, including the commencement of IDR, and will be obligated to comply with the terms of the demand.

If the lender has not initiated the IDR process by the 15-day deadline or complied with the demand, Fannie Mae shall have the option of either initiating the IDR process within 6 months of the end of the management escalation period or pursuing other remedies.

For additional information about the details of the IDR process, see [Appeal and Independent Dispute Resolution Processes](#) posted on Fannie Mae's website.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016   |
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015  |
| <a href="#">Announcement SEL-2014-07</a> | June 24, 2014     |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |

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## Section A2-3.3, Compensatory Fees



### A2-3.3-01, Compensatory Fees (07/30/2013)

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#### Introduction

This topic contains information on the following subjects:

- [Imposition of Compensatory Fees](#)
  - [Compensatory Fees for the Late Payment of Commitment, Pair-Off, or Extension Fees](#)
  - [Compensatory Fees for Failure to Comply with Commitment Provisions](#)
  - [Compensatory Fees for Failure to Identify Mortgage Loans Subject to Loan-Level Price Adjustments](#)
- 

#### Imposition of Compensatory Fees

If a lender fails to comply with a specific requirement for origination, delivery, or servicing of loans, or if Fannie Mae determines that the lender's overall performance is unsatisfactory, Fannie Mae may impose a fee to compensate Fannie Mae for damages and to emphasize the importance Fannie Mae places on a particular aspect of a lender's performance. The compensatory fee may relate to the action the lender took, or failed to take, for a specific mortgage, or the impact that the lender's deficiencies may have on Fannie Mae. Charging a compensatory fee does not limit Fannie Mae's right to exercise any other remedy.

See the *Servicing Guide* for additional information about compensatory fees.

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#### Compensatory Fees for the Late Payment of Commitment, Pair-Off, or Extension Fees

Fannie Mae may impose a compensatory fee for late payment of commitment, pair-off, or extension fees. Such fee may be charged when a draft is returned unpaid by Fannie Mae's ACH agent, or when Fannie Mae receives wire-transferred funds more than five business days after the date of the commitment or request for the pair-off or extension.

The compensatory fee is the greater of \$50 or a daily interest charge equal to the prime rate plus 3% of the fee that is due. The prime rate will be as published in The Wall Street Journal's prime rate index (or an equivalent source) in effect on the date the commitment was issued, or the pair-off or extension took place. Fannie Mae will draft the appropriate compensatory fee—along with

the past due commitment, pair-off, or extension fee—directly from the lender’s designated bank account. (See [C2-1.1-02, Pricing, Fees, and Pricing Adjustments](#).)

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### **Compensatory Fees for Failure to Comply with Commitment Provisions**

Fannie Mae’s whole loan commitment terms are flexible so that lenders can comply with them under normal circumstances without difficulty. For example, to make good delivery on a mandatory commitment, lenders must deliver loans for which the total unpaid principal balance falls within specific tolerance parameters (for details, see [C2-2-01, General Requirements for Good Delivery of Whole Loans](#)).

These flexibilities are provided to account for unusual circumstances beyond the lender’s control that prevent the lender from honoring its contractual obligations. However, Fannie Mae may impose compensatory fees when it has reason to believe that the lender had control over the situation or failed to comply with Fannie Mae requirements in an effort to take advantage of changing market conditions.

Many factors are considered before imposing these compensatory fees; therefore, the exact fee to be charged depends on

- the lender’s overall performance,
  - the lender’s explanation for its noncompliance,
  - whether the lender has a history of noncompliance, and
  - the amount of any previous compensatory fee that Fannie Mae imposed.
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### **Compensatory Fees for Failure to Identify Mortgage Loans Subject to Loan-Level Price Adjustments**

If a lender consistently fails to identify or incorrectly identifies mortgage loans that are subject to loan-level price adjustments, Fannie Mae may impose a compensatory fee.

Fannie Mae will take the following factors into consideration:

- the lender’s overall performance,
- the lender’s explanation for its noncompliance,
- previous instances of noncompliance, and

- the amount of any previous compensatory fee that Fannie Mae imposed.
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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b> |
|---|-------------------|
| <a href="#"><u>Announcement SEL-2013-05</u></a> | July 30, 2013     |
| <a href="#"><u>Announcement SEL-2013-03</u></a> | April 9, 2013     |

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# Chapter A2-4, Master Agreement



## Master Agreement

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### Introduction

This chapter describes Master Agreements between a lender and Fannie Mae. Master Agreements are required for any loans to be delivered to Fannie Mae under certain negotiated terms.

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### In This Chapter

This chapter provides information on the following subjects:

|  |    |
|--|----|
| <a href="#">A2-4-01, Master Agreement Overview (12/06/2016)</a>        | 77 |
| <a href="#">A2-4-02, Terms of a Master Agreement (04/01/2009)</a>      | 79 |
| <a href="#">A2-4-03, Variances and Special Provisions (12/06/2016)</a> | 80 |
| <a href="#">A2-4-04, Breaches of a Master Agreement (04/09/2013)</a>   | 81 |

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## A2-4-01, Master Agreement Overview (12/06/2016)

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### Introduction

This topic contains information on Master Agreements, including:

- [About Master Agreements](#)
  - [Lenders Required to Obtain a Master Agreement](#)
  - [Mortgage Loan Types That Require a Master Agreement](#)
- 

### About Master Agreements

A Master Agreement is an “umbrella” document that supplements the general guidelines and requirements of the Fannie Mae *Selling Guide* and *Servicing Guide* and sets forth the additional

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terms under which Fannie Mae does business with lenders—whether the business relates to MBS pools or whole loan deliveries.

Subject to Fannie Mae's approval of the lender for a Master Agreement, Fannie Mae issues two types of Master Agreements—conversion and nonconversion. Fannie Mae determines the type of Master Agreement that is offered to specific lenders. A lender can obtain multiple Master Agreements to segregate various segments of its business. A Master Agreement may be for any amount.

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### **Lenders Required to Obtain a Master Agreement**

Although a lender is not required to obtain a Master Agreement if it only sells standard whole loans to Fannie Mae, it may do so at Fannie Mae's discretion. A lender must have a Master Agreement for deliveries under certain negotiated terms, some of which are described below.

The lender should contact its lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)) to determine whether it is eligible for a Master Agreement.

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### **Mortgage Loan Types That Require a Master Agreement**

Mortgage loans that currently require customized/negotiated terms in a Master Agreement (whether whole loans or MBS pool deliveries) include, but are not limited to, the following:

- second mortgage loans,
- certain adjustable-rate mortgage loans,
- FHA-insured and VA-guaranteed mortgage loans,
- mortgages secured by properties in Guam,
- certain special housing initiative mortgages (rural housing initiative loans and Native American housing initiative loans),
- mortgage loans underwritten through an automated underwriting system other than Desktop Underwriter, and
- any other mortgages that contain variances.

**Note:** As indicated above, FHA—insured and VA—guaranteed mortgage loans require a Master Agreement; however, HUD-guaranteed Section 184 mortgages, and RD-



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guaranteed Section 502 mortgages can be delivered per the *Selling Guide* without a Master Agreement.

Fannie Mae may identify other loan types that require negotiated terms and a variance to the lender's Master Agreement. See [A2-4-03, Variances and Special Provisions](#), for additional requirements that apply to variances.

Fannie Mae and the lender may either execute a separate, stand-alone Master Agreement covering delivery of the specific mortgage loans or incorporate the delivery terms for the mortgage loans by amending an existing Master Agreement.

Fannie Mae reserves the right to cease approving lenders for or accepting deliveries of any or all of the mortgage loan types listed above from any or all lenders. The decision to no longer accept deliveries may result in an amendment to, or the termination of the related delivery terms in the Master Agreement. Fannie Mae will provide the affected lender(s) with reasonable notice of this decision. If the decision affects a lender's ability to fulfill any required mandatory delivery amount under its Master Agreement, Fannie Mae will consider alternatives through which the lender can fulfill its delivery obligation.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 06, 2016  |
| <a href="#">Announcement SEL-2015-09</a> | August 25, 2015    |
| <a href="#">Announcement SEL-2014-12</a> | September 30, 2014 |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013      |
| <a href="#">Announcement SEL-2013-01</a> | January 17, 2013   |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011      |



## A2-4-02, Terms of a Master Agreement (04/01/2009)

### Introduction

This topic contains information on the terms of a Master Agreement.

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## Terms of a Master Agreement

Fannie Mae negotiates the terms of a Master Agreement specifically with each lender. The Master Agreement defines any specific terms and conditions that mortgage loans delivered to fulfill a Master Agreement must meet, such as special eligibility criteria, underwriting requirements, or required credit enhancements.

The terms of a lender's specific Master Agreement may not necessarily apply to any other transaction between the lender and Fannie Mae.

The Master Agreement specifies the aggregate outstanding principal amount that Fannie Mae expects the lender to deliver. If a lender fails to deliver the specified amount by the expiration date of a specific contract, Fannie Mae may require the lender to pay Fannie Mae a back-end buyout fee. The method for determining the fee is specified in the Master Agreement. Fannie Mae will draft the applicable fee from the lender's designated custodial account.

General terms and conditions that apply to all Master Agreements are set out in [E-2-03, Master Agreement Terms and Conditions](#).



## **A2-4-03, Variances and Special Provisions (12/06/2016)**

### Introduction

This topic contains information on variances and special provisions, including:

- [Master Agreements with Variances](#)
- [Lender Identification of Mortgages With Variances](#)
- [Eligibility for Enforcement Relief](#)

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### Master Agreements with Variances

Some Master Agreements provide for the delivery of certain special mortgage loan products or other mortgage loans that were originated with terms that are at variance with standard Fannie Mae eligibility, underwriting, or other origination criteria and requirements. The terms and conditions of the variance or the special product will be attached to the Master Agreement, and will apply only to MBS commitments and whole loan commitments issued pursuant to the Master Agreement and may not be applied to deliveries under any other commitment, agreement, or contract unless Fannie Mae negotiates such deliveries with the lender.

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See [A2-4-01, Master Agreement Overview](#), for additional information about mortgage loans that require customized/negotiated terms in a Master Agreement.

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### **Lender Identification of Mortgages With Variances**

The Master Agreement may require the lender to identify certain mortgage loans that have variances or represent special mortgage loan products by reporting a special feature code at delivery.

The lender must report all applicable special feature code(s), including those specified in the Master Agreement and in the [Special Feature Codes](#) document on Fannie Mae's website.

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### **Eligibility for Enforcement Relief**

Unless the terms of the Master Agreement or variance specifically state otherwise, special products or mortgage loans with certain variances that are sold to Fannie Mae under the terms of outstanding Master Agreements are eligible for relief from Fannie Mae's enforcement for breaches of certain underwriting and eligibility representations if the mortgage loan meets all of the requirements of [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#).

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 06, 2016 |
| <a href="#">Announcement SEL-2014-07</a> | June 24, 2014     |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |

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## **A2-4-04, Breaches of a Master Agreement (04/09/2013)**

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### **Introduction**

This topic contains information on breaches of a Master Agreement.

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## Breaches of a Master Agreement

Fannie Mae may terminate the Lender Contract (in its entirety or its individual selling arrangement or servicing arrangement) *with cause* at any time and immediately, if the lender breaches any provisions of its Lender Contract, including (among other things) its contractual obligations, a failure to follow the requirements of Fannie Mae's Guides, to meet Fannie Mae's net worth and other financial requirements, or to meet any of the other eligibility requirements specified in the Lender Contract. If a lender breaches the provisions of its contractual obligations, Fannie Mae may also terminate the lender's right to sell mortgage loans to Fannie Mae, and Fannie Mae's obligation to purchase such mortgage loans, under any contract issued pursuant to the Master Agreement.

A lender's failure to deliver any required mandatory delivery amount, as adjusted by any delivery tolerance, within the specified time period is a breach of the Master Agreement.

A termination of the Master Agreement related to such breaches may take place at any time prior to the expiration date of the Master Agreement, or the expiration date of the applicable conversion period for a conversion Master Agreement.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date    |
|--|---------------|
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013 |

# Chapter A2-5, Mortgage Files and Records



## Mortgage Files and Records

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### Introduction

This chapter includes information on the mortgage files and records that lenders must maintain in connection with each mortgage loan that is sold to Fannie Mae, as well as the ownership of those records, Fannie Mae access to the records, and record retention and storage requirements. It also describes Fannie Mae's requirements for electronic records, signatures, and transactions.

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### In This Chapter

This chapter includes the following sections:

|   |                    |
|---|--------------------|
| <a href="#">A2-5.1, Establishment and Maintenance of Mortgage Files and Records . . . . .</a>         | <a href="#">84</a> |
| <a href="#">A2-5.2, Ownership, Retention, and Examination of Mortgage Files and Records . . . . .</a> | <a href="#">94</a> |

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## Section A2-5.1, Establishment and Maintenance of Mortgage Files and Records



### **A2-5.1-01, Overview of Mortgage Files and Records (04/09/2013)**

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#### **Introduction**

This topic contains information on the establishment and maintenance of mortgage files and records.

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#### **Overview**

Mortgage files and records that may be required to be sent to Fannie Mae include individual mortgage files, permanent mortgage account records, accounting system reports, and any other document created in connection with the mortgage loan. The responsibility for the physical possession of the mortgage loan documents may vary depending on whether the loan is a portfolio or MBS mortgage.

The lender must establish the individual mortgage file when it originates a mortgage. If the lender does not service the mortgage, it must transfer the file to the servicer to ensure that the servicer will have complete information about the mortgage in its records.

The accounting records relating to mortgages serviced for Fannie Mae must be maintained in accordance with sound and generally accepted accounting principles and in such a manner as will permit Fannie Mae's representatives to examine and audit such records at any time.

State and federal law now recognizes electronic records as being equivalent to paper documents for legal purposes; therefore, Fannie Mae's requirements for record accessibility and retention apply equally to paper and electronic records.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcement                             | Issue Date    |
|--|---------------|
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013 |



## A2-5.1-02, Individual Mortgage Loan Files (08/25/2015)

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### Introduction

This topic contains information on individual mortgage loan files, including:

- [General Requirements](#)
- [Contents of a Mortgage Loan File](#)

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### General Requirements

The lender must establish an individual file for each mortgage loan it sells to Fannie Mae. Each file must be clearly identified by Fannie Mae's loan number, which can be marked on the file folder or logically associated with any file which is composed of electronic records.

Files for a participation pool mortgage loan must be clearly identified by the words "Fannie Mae participation" and Fannie Mae's percentage interest.

Files for an MBS mortgage loan must identify the number of the related MBS pool.

Files must include any records that will be needed to service the mortgage loan as well as records that support the validity of the mortgage loan. The servicer should use the individual mortgage loan file established at the time of origination to accumulate other pertinent servicing and liquidation information, such as:

- property inspection reports,
- copies of delinquency repayment plans,
- copies of disclosures of ARM interest rate and payment changes,

- 
- documents related to insurance loss settlements, and
  - foreclosure notices.
- 

### **Contents of a Mortgage Loan File**

The individual mortgage loan file must include:

- a copy of the Participation Certificate, if applicable;
- a copy of the related Schedule of Mortgages for a mortgage loan (or a participation interest in a mortgage loan) if an MBS mortgage;
- originals of the recorded mortgage or deed of trust, any applicable rider, and any other documents changing the mortgage loan terms or otherwise affecting Fannie Mae's legal or contractual rights;
- a copy of the mortgage or deed of trust note and any related addenda;
- a copy of either the unrecorded assignment to Fannie Mae (or the recorded assignment, when applicable), or the original assignment to MERS® (that includes a valid registered MERS Mortgage Identification Number), if the mortgage loan is registered with MERS and MERS is not named as nominee for the beneficiary, and copies of all required intervening assignments;
- a copy of the FHA mortgage insurance certificate, VA loan guaranty certificate, RD loan note guarantee certificate, HUD Indian loan guarantee certificate, or conventional mortgage insurance certificate, if applicable;
- a copy of the underwriting documents, including any DU reports;
- a copy of the title policy, property insurance policy, flood insurance policy (if required) and any other documents that might be of interest to a prospective purchaser or servicer of the mortgage loan or might be required to support title or insurance claims at some future date (for example, FEMA's flood hazard determination form, title evidence, or survey); and
- a copy of the final settlement statement evidencing all settlement costs paid by the borrower and seller.
  - Fannie Mae will not require that the borrower and seller (if applicable) sign the Closing Disclosure. Though these signatures are not required, lenders may obtain borrower and seller signatures, which Fannie Mae supports as a best practice.



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- If there are separate Closing Disclosures for the borrower and seller, the lender must provide copies of the final version of each in the mortgage loan file.
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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcement                             | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2015-09</a> | August 25, 2015   |
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015     |
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012 |
| <a href="#">Announcement SEL-2011-04</a> | May 24, 2011      |
| <a href="#">Announcement SEL-2010-10</a> | August 12, 2010   |
| <a href="#">Announcement 09-19</a>       | June 8, 2009      |

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## A2-5.1-03, Electronic Records, Signature, and Transactions (07/29/2014)

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### Introduction

This topic contains information on electronic records, including:

- [Electronic Records](#)
  - [Receipt of Electronic Records](#)
  - [Electronic Signatures](#)
  - [General Rules on Transactions with Fannie Mae](#)
  - [Electronic Delivery of Appraisal Reports](#)
  - [Disclaimers](#)
- 

### Electronic Records

An electronic record is a contract or other record that is created, generated, sent, communicated, received, or stored by electronic means. A record is information that is inscribed on a tangible

medium or that is stored in an electronic or other medium and is retrievable in perceivable form. Servicers (and/or, as applicable, document custodians) are required to retain the foregoing records as set out below. All records in the individual mortgage loan file may be retained as electronic records, except for the promissory note and any ink-signed originals of instruments that modify or supplement the promissory note. For lenders that have been approved by Fannie Mae to deliver eMortgage loans, this requirement will not apply to eMortgage loans.

Moreover, electronic records may be delivered as part of an electronic transaction by the lender, a document custodian, or Fannie Mae (or by a third party, when one is involved).

All electronic records for mortgage loans sold to Fannie Mae must comply with all applicable requirements and standards set forth or referenced in the federal Electronic Signatures in Global and National Commerce Act (ESIGN) and, if applicable, the Uniform Electronic Transactions Act (UETA) adopted by the state in which the subject property secured by the mortgage loan associated with an electronic record is located.

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### **Receipt of Electronic Records**

Unless Fannie Mae specifies otherwise, Fannie Mae relies on the rules set forth in Section 15 of UETA to make the determination of whether an “electronic record” has been sent and received, and Fannie Mae will not consider an electronic record to have been received until it is able to access it during its regular business hours.

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### **Electronic Signatures**

If an electronic record requires (or permits) an electronic signature, the transmission of the electronic record, along with any passwords or other identification required by Fannie Mae (such as a lender’s nine-digit Fannie Mae seller/servicer number) will constitute the lender’s or the document custodian’s electronic signature.

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### **General Rules on Transactions with Fannie Mae**

When Fannie Mae and a lender or document custodian participate in a transaction that is effected by electronic means and/or evidenced by electronic records, both parties agree to be bound by any electronic records transmitted to or from Fannie Mae that are permitted or required to be delivered electronically under the lender’s contractual obligations.

All electronic transactions must be conducted in a way that Fannie Mae has expressly authorized. Fannie Mae may provide notices, demands, or requests, including notices of defects and demand

letters for indemnification, repurchases and repurchase alternatives, to lenders in accordance with the electronic records provisions of this Guide.

Lenders are required to obtain special approval in order to deliver eMortgages. See [A1-1-01, Application and Approval of Seller/Service](#) (Special Lender Approval), for information concerning the evidence that is required to document approval to deliver eMortgage loans to Fannie Mae.

For transactions involving eMortgage originations and deliveries, lenders must comply with the [Guide to Delivering eMortgage Loans to Fannie Mae](#) and consult with their lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)).

**Note:** Each eMortgage delivered to Fannie Mae must be identified by SFC 508.

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### **Electronic Delivery of Appraisal Reports**

Lenders are required to electronically submit certain appraisal reports including all exhibits, addenda, and photographs for conventional mortgage loans through the Uniform Collateral Data Portal® (UCDP®) prior to the delivery date of the loan to Fannie Mae. The UCDP is the joint portal for submitting electronic appraisal data files to Fannie Mae and Freddie Mac®. For detailed information concerning the UCDP, lenders should refer to [B4-1.1-06, Uniform Appraisal Dataset \(UAD\) and the Uniform Collateral Data Portal \(UCDP\)](#). Lenders may also obtain detailed information on the [UCDP](#) page on Fannie Mae's website.

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### **Disclaimers**

The lender or document custodian agrees that Fannie Mae is authorized to rely conclusively on the accuracy, authenticity, integrity, and validity of the electronic records (including any delivery instructions) and that Fannie Mae is under no obligation to verify or authenticate inaccuracies or inconsistencies through Loan Delivery, the Document Certification application, or any other communication or authentication method.

Fannie Mae will try to correct errors and/or process changes if it receives appropriate notification, but Fannie Mae cannot be held responsible if changes or corrections are not received in time to act on them.

In no event will Fannie Mae be liable for the failure of its Internet service provider, the Internet service provider of a lender or a document custodian, or any telecommunications, information processing, and/or information storage service to transmit an electronic record in a timely and

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accurate manner or for any other inaccuracy or delay that results from the failure of a third-party provider of telecommunications or other services.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014    |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013    |
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011 |

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## **A2-5.1-04, Lender's or Document Custodian's Electronic Transactions With Third Parties (07/26/2011)**

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### Introduction

This topic contains information on electronic transactions with third parties, including:

- [Overview](#)
  - [Electronic Records Received From Third Parties](#)
  - [Consent Requirements](#)
  - [Electronic Signatures](#)
  - [Integrity of Electronic Records](#)
- 

### Overview

A lender may obtain documents that are needed to originate a mortgage—such as the loan application, verifications of employment and income, and the appraisal report—through the use of an electronic record.

Similarly, a document custodian may accept loan delivery data in an electronic format from a lender and provide its certification of an MBS pool submission electronically.

The lender (or document custodian) is responsible for ensuring that any electronic record includes all of the information that would have been required had the record been in paper document form.

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### **Electronic Records Received From Third Parties**

Lenders or document custodians are required to satisfy certain conditions related to the use of electronic records received from third parties. These conditions represent Fannie Mae's minimum standards and relate to:

- reaching a mutual agreement to use the electronic records or disclosures;
- specifying the format for, and evidence of, electronic signatures;
- maintaining the integrity of the electronic records; and
- reproducing the electronic records in paper or other format if requested.

The lender is responsible for the accuracy and authenticity of information it obtains related to the origination of mortgages sold to Fannie Mae. The lender should determine the most appropriate procedures and controls to use given the nature of its operations and its business relationship with the third party.

A document custodian should make a similar determination consistent with its operations and its relationships with the lenders with which it does business.

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### **Consent Requirements**

A lender or document custodian must ensure that the parties to any electronic record have appropriately agreed to the use of the electronic record and/or electronic signature in a way that will create a binding electronic record under ESIGN, UETA, and any other applicable laws. The lender must obtain the specific agreement of the borrower(s) to the use of any electronic record, making sure that it complies with the requirements of ESIGN (refer to Chapter 101(c) of ESIGN) that address the type and content of the consent that must be obtained before using an electronic format to provide any of the disclosures that must be given to borrowers in connection with the origination of a mortgage loan. Lenders and document custodians must be aware of, and comply with, any additional requirements related to the use of electronic signatures, records, and disclosures that are imposed by regulatory agencies or state legislation.

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### **Electronic Signatures**

A lender or document custodian may use any form of electronic signature that is valid under applicable law. All electronic signatures must be "attributable" to the signer. Attribution may be achieved through any combination of technological methods, business processes, and surrounding circumstances that produces a level of attribution that is appropriate to the document

in question, taking into account the nature of the document and the identities of the parties involved.

Lenders or document custodians must collect and retain appropriate evidence to:

- document a signer’s agreement to use an electronic signature,
- demonstrate a signer’s execution of a particular electronic signature, and
- prove its attribution of the electronic signature to that signer.

Any files that a lender maintains must include:

- the name of the person and related entity, if applicable, who signed each document in the loan file;
- the borrower’s consent for the use of any electronic signature or disclosure;
- the date of the signature;
- the method by which the document was signed; and
- any associated information that can be used to verify the electronic signature.

When the lender issues any disclosure electronically, the individual loan file must also include evidence of any required disclosures made before obtaining the borrower’s consent, the borrower’s consent to receiving subsequent disclosures electronically, and evidence of how the lender “reasonably demonstrated” the borrower’s ability to receive the disclosures for which the consent was provided.

When Fannie Mae performs a post-purchase quality control review on a mortgage for which one or more electronic signatures were used, the lender must include the evidence and attribution information for each such use of an electronic signature. This information must be sufficient to enable Fannie Mae to conduct a thorough post-purchase review. For example, the evidence of the borrower’s signature with respect to verification of employment must allow Fannie Mae to request and receive a reverification of the information from the borrower’s employer.

**Note:** Electronically executed sales contracts are acceptable to Fannie Mae. The lender must take reasonable steps to determine that the sales contract is validly signed by the correct parties in all required places (the same steps the lender would follow for a non-electronic sales contract). Because the signing of the sales contract occurs outside of the loan transaction, the lender need only retain a copy of the sales contract and is not required to comply with the other provisions of this section.

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### **Integrity of Electronic Records**

Electronic records must be generated, processed, stored, and transmitted in a manner that ensures that each electronic record:

- accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record, and
- remains accessible for later reference by all persons who are legally entitled to access it for the period of time for which such access is legally required.

The lender (or the document custodian) must take appropriate steps to ensure that the electronic record accurately reflects the information as it was first presented in the electronic record.

To reduce the risk of fraudulently created records, the lender or document custodian is responsible for authenticating the identity of the transmitter of any electronic record and ensuring the integrity of the electronic record at each stage of its creation, transmission, and storage while the electronic record is under its control.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcement</b>                      | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011     |

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## Section A2-5.2, Ownership, Retention, and Examination of Mortgage Files and Records



### **A2-5.2-01, Ownership of Mortgage Loan Files and Records (04/01/2009)**

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#### **Introduction**

This topic contains information on the ownership of mortgage loan files and records.

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#### **Ownership of Mortgage Loan Records**

All records pertaining to mortgage loans sold to Fannie Mae—including but not limited to the following—are at all times the property of Fannie Mae and any other owner of a participation interest in the mortgage loan:

- notes,
- security instruments,
- loan applications,
- credit reports,
- property appraisals,
- tax receipts,
- insurance policies and insurance premium receipts,
- water stock certificates,
- ledger sheets,
- insurance claim files and correspondence,
- foreclosure files and correspondence,



- current and historical computerized data files,
- machine-readable materials, and
- all other papers and records, including, without limitation, any data, information, summaries, analyses, reports, or other materials representing, based on, or compiled from such records that are reasonably required to originate and subsequently service a mortgage loan properly.

These documents and records are Fannie Mae's property regardless of their physical form or characteristics or whether they are developed or originated by the mortgage loan seller or servicer or others.

The mortgage loan originator, seller, or servicer; any service bureau; or any other party providing services in connection with servicing a mortgage loan for, or delivering a mortgage loan to, Fannie Mae will have no right to possession of these documents and records except under the conditions specified by Fannie Mae.

Any of these documents and records in possession of the mortgage loan originator, seller, or servicer, any service bureau, or any other party providing services in connection with selling a mortgage loan to, or servicing a mortgage loan for, Fannie Mae are retained in a custodial capacity only.



## **A2-5.2-02, Access to Records (04/09/2013)**

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### **Introduction**

This topic contains information on access to records, including:

- [Access to Records](#)
  - [General Review Process](#)
- 

### **Access to Records**

Fannie Mae has the right to examine, at any reasonable time, any and all

- records that pertain to mortgage loans held in Fannie Mae's portfolio or those that have been included in an MBS pool;
- accounting reports associated with those mortgage loans and borrower remittances; and

- 
- other reports, data, information, and documentation that Fannie Mae considers necessary to ensure that the lender is in compliance with Fannie Mae requirements.

Specifically, Fannie Mae's examination and audit of a lender's records will consist of

- monitoring all monthly accounting reports submitted to Fannie Mae;
- conducting periodic procedural reviews during visits to the lender's office or the document custodian's place of business;
- conducting, from time to time, in-depth audits of the lender's internal records and operating procedures, including, but not limited to, the examination of financial records, borrower escrow deposit accounts, and underwriting standards; and
- performing spot-check underwriting reviews of mortgage loans in the lender's servicing portfolio on a random sample basis.

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### **General Review Process**

When Fannie Mae sends a written request to a lender to examine mortgage records, the lender must deliver all records to Fannie Mae or to whomever Fannie Mae designates within the time frame specified by Fannie Mae.

Each mortgage loan must be clearly identified. If the lender is retaining any of the records in a format other than paper, the lender must reproduce them at its own expense. Fannie Mae will not execute any trust receipts for documents it requests and will not participate in, or provide compensation for, their delivery. If Fannie Mae has only a participation interest in a mortgage loan, Fannie Mae will agree to provide proof of its ownership interest upon request.

If the lender does not respond to Fannie Mae's request to produce records that Fannie Mae requires it to maintain within the specified time period, Fannie Mae will presume that the lender did not produce the requested records because those records would confirm that the lender did not take certain actions required by Fannie Mae. If that is not the case, the lender must provide a reasonable explanation for its failure to produce the records and, if appropriate, offer evidence that it has satisfied any particular requirement Fannie Mae is concerned about.

If the lender fails to provide a reasonable explanation or any evidence showing that the requirement was satisfied, Fannie Mae can take any action that is authorized under the Contract or Fannie Mae's Guides for the lender's breach of Fannie Mae's requirements.

If Fannie Mae has to take legal action to obtain these records, the lender will be liable for any legal fees, costs, and related expenses incurred by Fannie Mae in enforcing its right of access to the records, unless it is determined that Fannie Mae had no legal right of access.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date    |
|--|---------------|
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013 |



## A2-5.2-03, Retention and Storage of Mortgage File Records (04/09/2013)

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### Introduction

This topic contains information on the retention and storage of mortgage file records, including:

- [Record Retention Requirements](#)
- [Data Integrity](#)
- [Record Storage Formats](#)

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### Record Retention Requirements

If the lender is acting as the document custodian and thus has possession of the original mortgage loan note and any related addenda or an original assignment of the mortgage loan to Fannie Mae for a mortgage that is not registered with MERS, those records must be retained in original form.

**Note:** See the *Servicing Guide* for other record retention requirements that servicers must comply with.

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### Data Integrity

No matter which method the lender uses for obtaining and storing mortgage records, it is responsible for ensuring that the record or information is prepared in compliance with Fannie Mae's requirements, and for ensuring the integrity and accuracy of the individual mortgage file.

Lenders must periodically review changes in technology to make sure that all records (including electronic records) will continue to be obtainable and readable in the future.

If a lender originally obtains a document in paper format, it may later convert the document to an electronic format for storage purposes—and destroy the original document, if it is not one of the documents that must be maintained in its original paper form. Electronic records that were initially generated in paper form must be legible, and the lender must accurately and authentically preserve any alterations, erasures, white-outs, or similar indications of changes. The lender must still be able to retrieve and reproduce a complete and clear copy of the record in its original format (including any addenda, photos, and attachments, if applicable) upon request by Fannie Mae.

The lender must retain documentation that explains the process used to convert paper-based records to electronic formats and specifies the date of conversion, method of conversion, and disposition of the original paper records.

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### **Record Storage Formats**

Lenders may retain most of the records required to originate and service a mortgage loan in an other-than-paper format, regardless of whether the documentation was originally obtained in paper format or in some other type of format. Lenders may use the following methods for storing this documentation:

- photographic,
  - microfilm,
  - electronic (including digital), or
  - other storage technology.
- 

### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcement</b>                      | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |

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# Chapter A2-6, Fannie Mae Trade Name and Trademarks



## Fannie Mae Trade Name and Trademarks

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### Introduction

This chapter contains information on the license Fannie Mae grants to an approved lender to use and display Fannie Mae Marks, limitations on an approved lender's use of Fannie Mae Marks, and termination of a lender's rights to use Fannie Mae Marks.

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### In This Chapter

This chapter contains the following topics:

[A2-6-01, Fannie Mae Trade Name and Trademarks \(04/01/2009\)](#) ..... 99

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## A2-6-01, Fannie Mae Trade Name and Trademarks (04/01/2009)

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### Introduction

This topic contains information on the use of the Fannie Mae trade name and trademarks, including:

- [Overview](#)
  - [License to Use Fannie Mae Marks](#)
  - [Limitations on the Use of Fannie Mae's Marks Under the License](#)
  - [Termination of the License to Use the Fannie Mae Name and Trademarks](#)
- 

### Overview

Fannie Mae owns and uses the Fannie Mae trademark, the Fannie Mae logo, the Federal National Mortgage Association trade name, and numerous other trademarks that identify Fannie Mae as

the source or sponsor of various products or services, collectively the “Marks” or the “Fannie Mae Marks.” For a list of Marks currently used by Fannie Mae and guidelines on how to refer to them, see [Trademarks](#).

Fannie Mae may adopt, use, or obtain rights to other Marks from time to time. The absence of a specific Mark from Fannie Mae’s published lists does not mean that it is not a Fannie Mae Mark. If a lender has questions about whether or not an unlisted Mark is a Fannie Mae Mark, it should contact its lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)).

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### **License to Use Fannie Mae Marks**

Subject to the limitations set forth below, Fannie Mae grants to lenders a nonexclusive, royalty-free, non-assignable and non-sublicenseable license to use and display the Fannie Mae Marks within the United States, including its territories and possessions, solely in connection with the sale, offering for sale, advertising and rendering of the lender’s financial services and for the purposes of making truthful, accurate, and non-misleading references to Fannie Mae or Fannie Mae’s products or services.

This license does not apply to Fannie Mae’s logo or any other corporate logos, slogans or tag lines used by Fannie Mae to identify itself in the marketplace, unless Fannie Mae gives a lender specific written permission to do so. This license does not give lenders any right, title, or interest in any Fannie Mae Marks. A lender that uses Fannie Mae’s Marks agrees that Fannie Mae’s Marks are distinctive, famous Marks that are valid, enforceable, and belong entirely to Fannie Mae.

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### **Limitations on the Use of Fannie Mae’s Marks Under the License**

A lender may make nominative use of the Fannie Mae name to indicate that it is a Fannie Mae–approved lender, but use of the Marks by the lender, and of the Fannie Mae name in particular, may not in any way state or imply that Fannie Mae has endorsed the lender’s products or services, nor constitute co-branded marketing by the lender, unless Fannie Mae gives the lender specific written permission to do so.

Specifically, a lender may state that it is a “Fannie Mae–approved lender” or use the Fannie Mae name when referring to a specific mortgage or loan product that Fannie Mae purchases—such as “Fannie Mae’s HomeReady mortgage.” A lender may not use the Marks in the promotion of the lender’s products or services in a way that is likely to cause confusion, mistake or likely to deceive the public on the actual source or sponsor of the products or services. As such, a lender may not register, use or refer to a domain name that contains the Fannie Mae name, a Fannie Mae Mark, or any derivation thereof, to conduct or promote its own activities.

A lender's right to use Fannie Mae Marks under this license is conditioned on the lender's agreement that the nature and quality of all services that it provides, offers, or sells in connection with its use of the Marks will meet industry standards, adhere to the terms and conditions Fannie Mae specifies both for use of Fannie Mae Marks and the offering of the Fannie Mae products or services by the lenders.

A lender may use a Mark only in connection with the particular products and/or services, including financial products and services, for which Fannie Mae uses the Mark or for which Fannie Mae has registered (or applied to register) or use the particular Mark. If a lender is not certain about the characteristics of the products or services for which the particular Mark is to be used, it should request clarification from Fannie Mae.

A lender may use a Mark for a particular mortgage loan, service, or product (or to identify the features of such mortgage loan, service, or product) only if the mortgage loan, service, or product that the lender offers satisfies all of the requirements that Fannie Mae has established for the particular mortgage loan, service, or product to be eligible for purchase by Fannie Mae. The lender may not use the Mark in connection with a mortgage loan or loan that is offered to another entity for purchase. However, Fannie Mae does permit a lender to use a Mark to identify a mortgage or loan that meets all of Fannie Mae's requirements except that it exceeds Fannie Mae's maximum allowable loan amount, provided the lender clearly and prominently states the following in connection with the mortgage or loan: "This mortgage is not eligible for purchase by Fannie Mae."

A lender may elect to promote a particular mortgage loan, service, or product to be eligible for purchase by Fannie Mae under a proprietary trademark and has no obligation to use the Marks licensed hereunder.

A lender has no right to challenge the validity or enforceability of the Marks, to sublicense the use of any the Marks, or to benefit from the value of any good will that might be created by the lender's use of the Marks.

If Fannie Mae believes that a lender is not conforming to these standards of quality, Fannie Mae may require the lender immediately to either comply with the standards or discontinue use of the Marks. If appropriate, Fannie Mae may pursue equitable remedies, including specific performance or injunctive relief, to remedy the lender's breach.

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### **Termination of the License to Use the Fannie Mae Name and Trademarks**

The license to use the Marks is terminated automatically when the lender's Contract is terminated, regardless of which party initiates the termination or the reason for the termination. Fannie Mae also may terminate the license to use the Marks in connection with a material breach

of the Contract or the terms and conditions of the Fannie Mae trademark license, even if Fannie Mae decides not to terminate the lender's Contract.

If Fannie Mae suspends a lender's selling arrangement, the lender's rights to use the Marks in connection with its loan origination and selling activities will also be suspended.

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# Subpart A3, Getting Started With Fannie Mae



## Getting Started With Fannie Mae

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### Introduction

This subpart describes the requirements a lender must meet in order to transact business with Fannie Mae, which includes the procedures for obtaining technology applications and completing the compliance certifications. It contains policies on concurrent servicing transfers and working with third parties, such as mortgage brokers, loan correspondents, quality control firms, document custodians, and subservicers. It addresses Fannie Mae's requirements related to data delivery and integrity, handling of confidential information, fraud prevention, and fidelity bond and errors and omissions coverage.

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### In This Subpart

This subpart contains the following chapters:

|  |     |
|--|-----|
| A3-1, Fannie Mae's Technology Products .....                         | 104 |
| A3-2, Compliance With Requirements and Laws .....                    | 106 |
| A3-3, Third-Party Lending Functions and Servicing Arrangements ..... | 118 |
| A3-4, Lending Practices .....  | 150 |
| A3-5, Fidelity Bond and Errors and Omissions Coverage .....          | 163 |

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# Chapter A3-1, Fannie Mae's Technology Products



## Fannie Mae's Technology Products

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### Introduction

This chapter includes information on the initial steps a lender must take to do business with Fannie Mae with respect to technology applications and operational setup.

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### In This Chapter

This chapter provides information on the following subjects:

|  |     |
|--|-----|
| <a href="#">A3-1-01, Fannie Mae's Technology Products (04/01/2009)</a> ..... | 104 |
|--|-----|

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## A3-1-01, Fannie Mae's Technology Products (04/01/2009)

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### Introduction

This topic provides information on Fannie Mae's technology products, including:

- [System Requirements](#)
  - [Registering for an Application](#)
  - [Operational Setup](#)
- 

### System Requirements

Fannie Mae's technology solutions require a standard hardware and software configuration. To ensure that Fannie Mae's technology tools perform at or above the expected levels as determined by Fannie Mae's performance baseline testing, the lender may need to upgrade its current computer configuration. Review the equipment configurations presented in [Technology Requirements](#) to ensure that you meet or exceed them.

**Note:** This information does not apply to integration solutions. See [Technology Integration](#) for information about lender integration solutions.

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### **Registering for an Application**

To become an approved user of any of Fannie Mae's single-family technology applications, lenders should visit the [Technology Manager page](#) for instructions in how to register for an application.

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### **Operational Setup**

Fannie Mae provides assistance to all newly approved lenders to ensure that they are set up properly to conduct business with Fannie Mae. Once a lender is approved as a seller or servicer, a senior Fannie Mae marketing consultant contacts the lender to provide information about establishing bank accounts, getting started with Fannie Mae technology, and taking advantage of relevant training.

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# Chapter A3-2, Compliance With Requirements and Laws



## Compliance With Requirements and Laws

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### Introduction

This chapter describes an approved lender's obligation to comply with various laws related to mortgage lending and servicing, and to adhere to responsible lending practices when originating mortgage loans for delivery to Fannie Mae.

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### In This Chapter

This chapter provides information on the following subjects:

|   |     |
|---|-----|
| <a href="#">A3-2-01, Compliance With Laws (01/31/2017)</a> .....          | 106 |
| <a href="#">A3-2-02, Responsible Lending Practices (12/16/2014)</a> ..... | 113 |

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## A3-2-01, Compliance With Laws (01/31/2017)

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### Introduction

This topic contains information on compliance with laws, including:

- [Compliance With Laws](#)
- [Enforcement for Violations of Compliance with Laws](#)
- [IRS Reporting Requirements](#)
- [Compliance with Fannie Mae Data Breach Incident Requirements](#)
- [Department of Treasury Office of Foreign Assets Control \(OFAC\) Regulations](#)
- [Anti-Money Laundering Requirements](#)
- [Lender Reporting Requirements](#)
- [Additional Information](#)

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## Compliance With Laws

The lender (and any subservicer or third-party originator it uses) must be aware of, and in full compliance with, all federal, state, and local laws (e.g., statutes, regulations, ordinances, administrative rules, and orders that have the effect of law, and judicial rulings and opinions) that apply to any of its origination, selling, or servicing practices or other business practices (including the use of technology) that may have a material effect on Fannie Mae. Among other things, this means that the lender must comply with any applicable law that addresses fair housing, fair lending, equal credit opportunity, truth in lending, wrongful discrimination, appraisals, real estate settlement procedures, borrower privacy, data security, escrow account administration, mortgage insurance cancellation, debt collection, credit reporting, electronic signatures or transactions, predatory lending, anti-money laundering, terrorist activity, ability to repay, state community and marital property, or the enforcement of any of the terms of the mortgage. Lenders also must ensure that appraisals conducted in connection with single-family mortgage loans delivered to Fannie Mae conform to the [Appraiser Independence Requirements](#).

As applicable law can change quickly, and sometimes without widespread notice, the lender must establish appropriate facilities for monitoring applicable legal developments and implementing appropriate measures to stay in compliance with applicable law, and demonstrate satisfactory performance of its legal compliance upon Fannie Mae's request. When a local or state law or regulation represents a potential conflict with Fannie Mae's requirements, the lender must advise its lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)).

The lender may be required to repurchase a mortgage loan that is in breach of the requirements of this topic at any time notwithstanding that the loan is otherwise eligible for relief from enforcement for breaches of certain underwriting and eligibility representations and warranties in accordance with [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#). Also see [A2-2.1-06, Life-of-Loan Representations and Warranties](#), for additional information.

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## Enforcement for Violations of Compliance with Laws

Fannie Mae may enforce a remedy for all lender violations of applicable federal, state, and local laws that may have a material effect on Fannie Mae. However, Fannie Mae limits those situations for which it may enforce a repurchase to those in which

- the lender's failure to comply could be expected either to
  - impair Fannie Mae's or its servicer's ability to enforce the note or mortgage, or
  - impose assignee liability on Fannie Mae; or

- the loan has been found to have been in violation by a court or regulatory authority, or Fannie Mae has made a finding based on the facts available to it that a violation may have occurred, of any one of the following:
  - laws administered or regulations implemented by the Department of the Treasury’s Office of Foreign Assets Control (OFAC);
  - the Fair Housing Act or regulations thereunder;
  - the anti-discrimination provisions of the Equal Credit Opportunity Act or regulations thereunder;
  - federal or state prohibitions on unfair, deceptive, or abusive acts or practices (UDAAP); or
  - the Securities Exchange Act of 1934 or regulations thereunder.

With respect to UDAAP, Fannie Mae will take into consideration published federal and state announcements of interpretations as well as all published judicial and administrative decisions and will not enforce a repurchase if

- the matter can be cured by remediation to the injured party and the lender makes such remediation, or
- after the third anniversary of the acquisition (or MBS pool issue date) of a loan (unless the lender self-reports), a federal or state enforcement authority has indicated, asserted, or claimed that such practice violates or may violate UDAAP, or a federal or state court has held that a specific practice violates UDAAP.

A repurchase demand based on a compliance with laws violation will include supporting facts and findings made by Fannie Mae. Fannie Mae’s determination that a violation has occurred must be consistent with the facts and circumstances provided by the selling lender and any other information obtained by Fannie Mae as part of its evaluation of the situation.

If Fannie Mae issues a repurchase demand in connection with a failure to comply with laws when there is pending litigation underway involving that same issue or when a government agency with authority to make a determination regarding the issue has publicly stated that it is reviewing the issue, the lender will not be required to repurchase the loan until 30 days after the litigation has been dismissed, settled, or concluded at trial in an adjudication or the government agency has made a final determination (collectively, the “resolution”). After the resolution, the lender may request that Fannie Mae review the appropriateness of the repurchase demand in light of the resolution, and Fannie Mae will withdraw the repurchase demand where appropriate.

Loans that are not subject to repurchase under compliance with laws may be subject to other remedies. For example, the lender remains obligated to indemnify and hold Fannie Mae harmless

(as described in [A2-1-03, Indemnification for Losses](#)) against all losses incurred by Fannie Mae related to any claim of non-compliance with laws.

Notwithstanding the foregoing, with respect to noncompliance with the ability to repay (ATR) requirements in the Truth in Lending Act and its implementing regulations, which could impose assignee liability on Fannie Mae, Fannie Mae will not issue a repurchase demand on such grounds unless a court, regulator, or other authoritative body concludes that a specific loan did not comply with ATR.

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### **IRS Reporting Requirements**

The lender must comply with IRS requirements for

- reporting the receipt of \$600 or more of interest payments from a borrower,
- filing Statements for Recipients of Miscellaneous Income (IRS Form 1099-MISC) to report payments of fees to attorneys for handling liquidation proceedings,
- filing notices of Acquisition or Abandonment of Secured Property (IRS Form 1099-A) to report the acquisition of a property by foreclosure or acceptance of a deed-in-lieu or by a borrower's abandonment of a property, and
- filing notices of Cancellation of Debt (IRS Form 1099-C) to report the cancellation of any part of a borrower's indebtedness.

For specific information about the lender's responsibilities for notifying the IRS about the receipt of interest, payment of fees, acquisition of properties, or cancellation of debt, see the *Servicing Guide*.

---

### **Compliance with Fannie Mae Data Breach Incident Requirements**

The lender must maintain a response program consistent with the requirements of the Interagency Guide on Response Programs for Unauthorized Access to Customer Information and Customer Notice (as published in the Federal Register) for all Fannie Mae mortgage loans. Refer to the *Servicing Guide* for requirements that lenders and servicers must follow when it has been determined there has been a data breach.

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### **Department of Treasury Office of Foreign Assets Control (OFAC) Regulations**

Lenders must comply with the OFAC regulations. All lenders that deliver mortgage loans to and/or service mortgage loans for Fannie Mae must establish and maintain an effective OFAC compliance program. Lenders may not deliver to Fannie Mae any mortgage loan in which the

borrower, key principal, or principal is a “specially designated national and blocked person” on the list (SDN List) maintained by OFAC. It is the lender’s responsibility to determine and verify that each borrower, key principal, and principal is not listed on the most recent OFAC SDN List prior to delivery of the mortgage loan to Fannie Mae.

For specific information about the servicer’s responsibilities for ensuring compliance with the OFAC regulations, see the *Servicing Guide*.

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### **Anti-Money Laundering Requirements**

Pursuant to 31 C.F.R. Parts 1010 and either 1020 or 1029, as applicable, of the Financial Crimes Enforcement Network’s (FinCEN) Final Rule, lenders must be in compliance with all applicable provisions of the Bank Secrecy Act (BSA) and its implementing regulations and have internal policies, procedures, and controls to identify suspicious activities. In accordance with these rules, lenders must report instances of

- non-compliance, compliance failures, or sanctions related to the anti-money laundering requirements of the BSA to Fannie Mae Ethics (see [E-1-03, List of Contacts](#)); and
  - suspicious activity related to loans sold to Fannie Mae or Fannie Mae’s business activities to Mortgage Fraud Reporting (see [E-1-03, List of Contacts](#)). Refer to [A3-4-03, Preventing, Detecting, and Reporting Mortgage Fraud](#), for additional information.
- 

### **Lender Reporting Requirements**

The lender must notify Fannie Mae if, after conducting due diligence, it determines that a breach of a selling warranty related to compliance with laws has likely occurred. The lender’s notification responsibilities depend on how many loans are affected and whether the breach could warrant a repurchase demand based on the criteria described above.

#### **Reporting Category 1**

The lender must notify Fannie Mae if both of the following conditions are met:

- the number of loans affected by the same potential breach exceeds the lesser of 500 loans or 1% of prior year loan deliveries to Fannie Mae, and
- all potentially affected loans were delivered to Fannie Mae within the same calendar quarter.

The notification is required within 60 days of the later of (1) the end of the calendar quarter in which such loans were delivered or (2) discovery of the potential breach. The lender must report such loans via the Lender Self-Report Mailbox (see [E-1-03, List of Contacts](#)).

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**Note:** If the calculation described above results in fewer than five potentially affected loans, then the lender does not need to notify Fannie Mae.

## Reporting Category 2

The following reporting requirements apply when:

- the potential breach could warrant a repurchase demand, or
- the number of loans affected by the same type of potential breach delivered in the same calendar quarter does not exceed the lesser of 500 loans or 1% of prior year loan deliveries to Fannie Mae.

| Reporting Requirements   |  |
|--|--|
| If...  | Then...  |
| the breach could warrant a repurchase demand and has not been remedied or will not be remedied within 60 days, | the lender must notify Fannie Mae within 60 days via the Lender Self-Report Mailbox (see <a href="#">E-1-03, List of Contacts</a> ). |
| the breach could warrant a repurchase demand and has been remedied or will be remedied within 60 days,         | the lender does not need to notify Fannie Mae.   |
| the breach would not warrant a repurchase demand,  | the lender does not need to notify Fannie Mae.   |

### Examples:

#### **Scenario 1: A lender identifies a repeated potential breach related to compliance with laws where a repurchase demand is not warranted.**

The lender determines June 1 it may have failed to provide a property valuation when required under the Equal Credit Opportunity Act. This impacted 600 loans that were delivered to Fannie Mae between January 1 and March 31. The lender must report the potential breach to Fannie Mae within 60 days of June 1. In this scenario, the number of loans impacted exceeded 500 loans and the loans were delivered within the same quarter.

#### **Scenario 2: A lender that delivered 70,000 loans to Fannie Mae the prior year identifies a repeated potential breach related to compliance with laws where a repurchase demand is not warranted.**

The lender determines August 15 it may have failed to provide a property valuation when required under the Equal Credit Opportunity Act. This impacted 200 loans that were delivered to

Fannie Mae between January 1 and March 31, and 400 loans that were delivered to Fannie Mae between April 1 and June 30. The lender will not be required to report the potential breach for either quarter, as the number of loans impacted in each quarter did not exceed 500 loans. In this scenario, 500 loans is less than 700 loans (1% of prior year deliveries).

**Scenario 3: A lender identifies a single loan impacted by a potential breach for which a repurchase demand is a potential remedy.**

The lender may have violated the Fair Housing Act. The lender must report the breach to Fannie Mae within 60 days of determination of the potential breach, unless it determines the non-compliance has been remedied or will be remedied within 60 days in accordance with applicable law.

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**Additional Information**

Notwithstanding these reporting requirements, lenders are still required to comply with all applicable federal, state, and local laws, including but not limited to those specifically noted above concerning IRS reporting, the OFAC regulations, and anti-money laundering requirements.

For additional information on a lender's responsibilities for self-reporting to Fannie Mae, refer to [D1-3-06, Lender Post-Closing Quality Control Reporting, Record Retention, and Audit](#). For additional information on a lender's reporting responsibilities with respect to misrepresentation or fraud, refer to [A3-4-03, Preventing, Detecting, and Reporting Mortgage Fraud](#).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2017-01</a> | January 31, 2017  |
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016   |
| <a href="#">Announcement SEL-2016-04</a> | May 31, 2016      |
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015     |
| <a href="#">Announcement SEL-2014-16</a> | December 16, 2014 |
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014 |
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014     |
| <a href="#">Announcement SEL-2014-07</a> | June 24, 2014     |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013   |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010  |
| <a href="#">Announcement 09-01</a>       | January 7, 2009   |



## A3-2-02, Responsible Lending Practices (12/16/2014)

### Introduction

This topic contains information on responsible lending practices, including:

- [Overview](#)
- [Responsible Lending Policies](#)
- [Underwriting Standards](#)

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### Overview

Fannie Mae requires each lender to use prudent, sound, and responsible business practices in its marketing and origination efforts. The lender's operating policies and procedures must provide an effective means of ensuring responsible lending practices, and identifying and avoiding predatory lending practices.

Fannie Mae requires lenders to update their business practices as necessary to ensure continuing responsible lending practices that are in line with current market conditions. Fannie Mae also requires lenders to have policies and procedures, including quality control procedures, to ensure that loans delivered to Fannie Mae comply with these responsible lending requirements. For quality control requirements, see Part D, Ensuring Quality Control (QC).

### Responsible Lending Policies

The following summarizes Fannie Mae’s policies on responsible lending. As noted below, other sections of the *Selling Guide* provide additional information with respect to Fannie Mae’s responsible lending requirements.

| Topic                           | Policy   |
|---------------------------------|--|
| Steering                        | <p>Borrowers should be offered the lowest-cost product with the lowest-risk loan terms for which they qualify. Lenders must not steer borrowers toward a particular loan program to qualify the borrower for a mortgage loan in an effort to misrepresent the borrower’s true credit and/or income related qualifications.</p> <p>Lenders also must ensure that their loan originator compensation practices comply with the loan originator compensation provisions of the Truth in Lending Act and Regulation Z, and that loan originators comply with these requirements when presenting loan options to consumers.</p> |
| HOEPA Loans                     | <p>A mortgage loan that is subject to the Home Ownership and Equity Protection Act of 1994 as described in Section 32 of Regulation Z (HOEPA) is not eligible for delivery to Fannie Mae. A mortgage loan that is part of a larger transaction that is structured in a manner intended to circumvent the requirements of HOEPA and Section 32 of Regulation Z is also ineligible for delivery to Fannie Mae.</p>   |
| Single Premium Credit Insurance | <p>Lenders may not require the borrower to purchase, and no proceeds of the mortgage loan may be used to purchase, single premium credit insurance (e.g., life, disability, accident, unemployment, or health insurance) or a single fee debt cancellation agreement. See also <a href="#">B7-3-05, Additional Insurance Coverage</a>.</p>   |
| Prepayment Penalties            | <p>Mortgage loans subject to prepayment penalties are ineligible for sale to Fannie Mae.</p>   |
| Arbitration                     | <p>A mortgage loan that was originated on or after October 31, 2004, and is subject to mandatory arbitration is not eligible for delivery to</p>   |

| Topic   | Policy   |
|---|--|
|   | Fannie Mae. See also <a href="#">B8-3-02, Special Note Provisions and Language Requirements</a> .  |
| State Higher-Priced Loans                                     | Certain state-defined higher-priced loans are ineligible for sale to Fannie Mae, regardless of whether the lender is subject to such state requirements as a matter of law. Any state higher-priced loan described in <a href="#">B2-1.4-02, Mortgage Loan Eligibility</a> , is ineligible for sale to Fannie Mae.   |
| Interagency Guidance on Nontraditional Mortgage Product Risks | A mortgage loan that has a residential loan application date on or after September 13, 2007, and that is a “nontraditional mortgage loan” within the meaning of the Interagency Guidance on Nontraditional Mortgage Product Risks, 71 Fed. Reg. 58609 (Oct. 4, 2006), must comply in all material respects with such guidance, regardless of whether the lender is subject to the guidance as a matter of law. |
| Statement on Subprime Mortgage Lending (Subprime Statement)   | An adjustable-rate mortgage (ARM) loan that has a residential loan application date on or after September 13, 2007, must comply in all material respects with the Statement on Subprime Mortgage Lending, 72 Fed. Reg. 37569 (July 10, 2007), regardless of whether the lender is subject to such statement as a matter of law.  |

A lender may be required to repurchase a mortgage loan that is in breach of the requirements of this topic at any time notwithstanding that the loan is otherwise eligible for relief from enforcement for breaches of certain underwriting and eligibility representations and warranties in accordance with [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#). Also see [A2-2.1-06, Life-of-Loan Representations and Warranties](#), for additional information.

## Underwriting Standards

In addition to complying with applicable legal obligations regarding a borrower’s ability to repay, every mortgage loan delivered to Fannie Mae must be underwritten in order to establish that the borrower has the willingness and capacity to repay the debt. Lenders delivering mortgage loans to Fannie Mae should ensure that mortgage loan underwriting standards recognize a variety of factors when evaluating a borrower’s capacity to repay a loan. All mortgage loans delivered to Fannie Mae must adhere to the following requirements, which are eligible for relief from enforcement for breaches of certain underwriting and eligibility representations and warranties in accordance with [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#):

- An analysis of a borrower's repayment capacity must include an evaluation of the borrower's capacity to repay the debt by its final maturity, assuming a fully amortizing repayment schedule based on the term of the mortgage loan.
- The assessment of a borrower's repayment capacity is particularly important if a loan has risk-layering. When risk-layering is involved, the lender must demonstrate the existence of effective mitigating factors that support the lender's underwriting decision and borrower's repayment capacity, and the lender must have clear policies governing the use of risk-layering features. Lenders must not rely solely on one factor to compensate for the risk, but instead must consider a combination of mitigating factors, such as the borrower's credit history, the loan-to-value ratio, the borrower's debt-to-income (DTI) ratio, the borrower's level of reserves and, as applicable, the borrower's prior mortgage payment history.
- Generally, lenders must verify and document the borrower's income (both source and amount), assets, and liabilities used in the underwriting decision for all mortgage loans.
- DTI is a typical method of assessing a borrower's repayment capacity. A lender's analysis of a borrower's DTI must include the total monthly housing-related payments, calculated to include not only principal and interest, but also taxes and insurance, and any other property-related assessments (such as HOA dues or co-op fees), in addition to other long-term and significant short-term monthly debts.
- The final mortgage loan application signed by the borrower at closing must include all income and debts of the borrower that were verified, disclosed, or identified during the mortgage process and considered by the lender in the qualification for the mortgage loan subject to the requirements of [B3-6-01, General Information on Liabilities](#), and [B3-6-02, Debt-to-Income Ratios](#). Lenders must have adequate internal controls and processes in place to evaluate borrower income and liabilities.

**Note:** Notwithstanding the foregoing, certain exceptions are made to the above underwriting standards for DU Refi Plus and Refi Plus mortgage loans. See [B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations](#).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b>  |
|---|--------------------|
| <a href="#"><u>Announcement SEL-2014-16</u></a> | December 16, 2014  |
| <a href="#"><u>Announcement SEL-2014-07</u></a> | June 24, 2014      |
| <a href="#"><u>Announcement SEL-2013-06</u></a> | August 20, 2013    |
| <a href="#"><u>Announcement SEL-2013-03</u></a> | April 9, 2013      |
| <a href="#"><u>Announcement SEL-2012-04</u></a> | May 15, 2012       |
| <a href="#"><u>Announcement SEL-2011-05</u></a> | June 28, 2011      |
| <a href="#"><u>Announcement SEL-2010-13</u></a> | September 20, 2010 |
| <a href="#"><u>Announcement SEL-2010-11</u></a> | August 13, 2010    |
| <a href="#"><u>Announcement SEL-2010-06</u></a> | April 30, 2010     |
| <a href="#"><u>Announcement SEL-2010-01</u></a> | March 2, 2010      |
| <a href="#"><u>Announcement 09-24</u></a>       | July 10, 2009      |

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# Chapter A3-3, Third-Party Lending Functions and Servicing Arrangements



## Third-Party Lending Functions and Servicing Arrangements

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### Introduction

This chapter explains Fannie Mae's requirements regarding the outsourcing of mortgage origination and servicing functions. It also addresses other servicing arrangements as well as the requirements related to document custody and document custodians.

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### In This Chapter

This chapter contains the following sections:

|   |     |
|---|-----|
| A3-3-01, Outsourcing of Mortgage Processing and Third-Party Originations (12/15/2015) | 119 |
| A3-3-02, Concurrent Servicing Transfers (02/23/2016)                                  | 122 |
| A3-3-03, Other Servicing Arrangements (12/15/2015)                                    | 127 |
| A3-3-04, Document Custodians (02/23/2016)   | 130 |
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## **A3-3-01, Outsourcing of Mortgage Processing and Third-Party Originations (12/15/2015)**

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### **Introduction**

This topic contains information on the outsourcing of mortgage originations to third parties, including:

- [Third-Party Origination Types](#)
  - [Approval Procedures](#)
  - [Management Procedures for Third-Party Originations](#)
- 

### **Third-Party Origination Types**

Fannie Mae classifies mortgages into three different origination types:

- retail,
- correspondent, or
- broker.

Refer to the *Glossary* for the definition of each origination type.

A third-party origination is any mortgage that is completely or partially originated, processed, underwritten, packaged, funded, or closed by a third-party originator, that is, an entity other than the lender that sells the mortgage to Fannie Mae, such as a mortgage broker or correspondent. Fannie Mae does not consider a mortgage that is originated and/or funded by a lender's parent, affiliate, or subsidiary to be a third-party origination unless the parent, affiliate, or subsidiary uses the services of a mortgage broker or loan correspondent to perform some or all of the loan origination functions.

The lender is responsible for ensuring that any mortgages originated and processed by third parties that it sells to Fannie Mae meet Fannie Mae's eligibility criteria and are originated in a sound manner (see [D1-1-01, Lender Quality Control Programs, Plans, and Processes](#) and [A3-2-02, Responsible Lending Practices](#)). Special Feature Codes are required at delivery for third-party mortgage loans (see [Special Feature Codes](#)).

Lenders remain fully liable to Fannie Mae under the terms of their Contractual Obligations for any functions that are outsourced to third parties.

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## Approval Procedures

Before entering into an agreement with a third-party originator, the lender must satisfy itself that the third-party originator is capable of producing quality mortgages. Therefore, Fannie Mae requires the lender to have written procedures for the approval of third-party originators. Specifically, the lender's procedures must include a review of the following:

- most recent financial statements;
- current licenses;
- resumes of principal officers and underwriting personnel;
- the third party's QC procedures so that the lender can determine if the party and its originations comply with the lender's standards for quality;
- results of background checks for principal officers (for example, obtaining a credit report, screening through a mortgage fraud database or investor exclusionary list, confirming business references, etc.); and
- the third-party originator's hiring procedure for checking all employees, including management, involved in the origination of mortgage loans (including application through closing) against the U.S. General Services Administration (GSA) Excluded Parties List, the HUD Limited Denial of Participation List (LDP List), and the Federal Housing Finance Agency (FHFA) Suspended Counterparty Program (SCP) list.

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## Management Procedures for Third-Party Originations

Lenders must have effective procedures for management of third-party originations, given that lenders may lack first-hand knowledge about the borrowers, properties, and business practices of the individuals who originate the mortgage loans. Fannie Mae recommends that lenders document their arrangement with third-party originators by a contractual agreement that includes specific warranties related to the eligibility of mortgages and the third-party originator's responsibilities, as well as avenues of recourse that can be taken if the warranties are breached.

Effective management procedures for third-party originations include:

| ✓ | Management Procedures for Third-Party Originations   |
|---|--|
|   | A system for evaluating and approving third-party originators  |
|   | A method for verifying, and periodically reverifying, a third-party originator's compliance with applicable laws, licensing, and qualifications for originating mortgage loans |

| ✓ | <b>Management Procedures for Third-Party Originations</b>  |
|---|--|
|   | A method for confirming that a third-party originator complies not only with its contract with the lender, but also with the terms of the lender’s Contractual Obligations with Fannie Mae |
|   | A requirement that a third-party originator have a written QC plan and a method to validate the existence of that plan   |
|   | A process for resolving QC discrepancies and tracking corrective actions   |
|   | A requirement for submitting periodic reports on activity and performance issues to the lender’s senior management   |
|   | Standards for evaluating a third-party originator’s performance  |
|   | Provisions for suspending or terminating the third-party originator’s relationship   |
|   | Annual review of the third-party originator’s financial statements to determine that it is financially viable and capable of meeting its contract terms                                    |
|   | Quarterly review of the performance of mortgage loans originated by the third-party originator (for example, particularly delinquencies and foreclosures)                                  |

If a lender enters into a contract with a third party known for the quality of its underwriting (such as a mortgage insurer) to help the lender in underwriting its mortgage originations, the mortgage loans will not be considered third-party originations.

**Note:** Fannie Mae monitors the performance of third-party originations from lenders to identify issues with performance or profile. Based on these reviews, Fannie Mae may take action against lenders, up to and including restricting or eliminating a lender’s ability to deliver third-party originations to Fannie Mae.

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2015-13</a> | December 15, 2015 |
| <a href="#">Announcement SEL-2014-11</a> | August 26, 2014   |
| <a href="#">Announcement SEL-2014-06</a> | May 27, 2014      |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011     |
| <a href="#">Announcement SEL-2010-03</a> | March 29, 2010    |



## **A3-3-02, Concurrent Servicing Transfers (02/23/2016)**

---

### **Introduction**

This topic contains information on concurrent servicing transfers, including:

- [Concurrent Servicing Transfers](#)
  - [Servicer Eligibility Criteria](#)
  - [Servicing Assignment Contract](#)
  - [Notification of Concurrent Servicing Transfers](#)
  - [Termination of Concurrent Servicing Transfers](#)
  - [Servicing Execution Tool \(SET\) Bifurcation Option Terms and Conditions](#)
- 

### **Concurrent Servicing Transfers**

A concurrent servicing transfer (also known as a transfer of servicing concurrent with delivery) occurs when a selling lender transfers the servicing rights for a mortgage loan to a Fannie Mae–approved servicer at the same time it sells the loan to Fannie Mae. This is an “automatic” transfer because Fannie Mae’s prior approval of the transaction is not required.

If the selling lender is servicing the mortgage loans prior to delivery and will not be servicing the mortgage loans after delivery, the selling lender may automatically transfer servicing to a lender that is eligible to service them for Fannie Mae, and has agreed to do so, effective concurrently with delivery of the mortgage loans to Fannie Mae. The lender must notify Fannie Mae at the time of loan delivery that servicing has been transferred.

Additionally, the selling lender may designate the servicing lender as Fannie Mae’s servicer for the mortgage loans by notifying Fannie Mae at the time of delivery if:

- the selling lender is not servicing the mortgage loans prior to delivery because it has contracted with another lender (the “servicing lender”) to service the mortgage loans for the selling lender;
- the selling lender will not be servicing the mortgage loans after delivery;
- the servicing lender is eligible to service the mortgage loans for Fannie Mae; and
- the servicing lender agrees to service the mortgage loans for Fannie Mae, which requires the contractual servicing relationship be with Fannie Mae instead of with the seller.

If the servicing lender wants the contractual servicing relationship to be with the selling lender instead of with Fannie Mae, even after delivery of the mortgage loans to Fannie Mae, the selling lender must become Fannie Mae's servicer (as "master servicer"), and the servicing lender must become a "subservicer." (See [A3-3-03, Other Servicing Arrangements](#), and the *Servicing Guide*.)

A transfer of servicing that becomes effective concurrent with delivery of the mortgage loans to Fannie Mae must be implemented in accordance with the requirements in the *Servicing Guide*.

After Fannie Mae has purchased or securitized a mortgage loan, Fannie Mae must approve all subsequent assignments of servicing related to that mortgage loan before the servicing can be transferred. See the *Servicing Guide* for additional requirements.

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### **Servicer Eligibility Criteria**

The transferee servicer must meet Fannie Mae's eligibility criteria that apply to a lender that becomes Fannie Mae's servicer in a post-delivery transfer of servicing as described in the *Servicing Guide*.

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### **Servicing Assignment Contract**

The servicing transfer agreement between the lender and the transferee servicer must provide (among other requirements) that:

- the effective date for transfer of the servicing of the mortgage loans will be no later than the date Fannie Mae funds the whole loan delivery or issues the MBS;
- Fannie Mae may request and obtain (at any time) a copy of such agreement; and
- the agreement must provide, for the stated benefit of Fannie Mae, that the transferee servicer, as of the effective date:
  - accepts the servicing portfolio and agrees to service the mortgage loans in accordance with all Fannie Mae requirements;
  - assumes responsibility for all of the lender's contractual obligations related to the mortgage loans, including all selling warranties and any other liabilities that arise in connection with the mortgage loans or the servicing of them prior to the delivery of the mortgage loans to Fannie Mae;
  - has performed due diligence review(s) of the servicing portfolio to its satisfaction, which includes examination of the books, records, and custodial accounts of the lender with respect to the servicing portfolio;

- assumes full responsibility to Fannie Mae for the correctness of such books and records; and
- represents and warrants that the provisions of any agreement between the servicer and any other party providing for servicing the mortgage loans will not continue after the date on which Fannie Mae funds the whole loan delivery or issues the MBS.

By accepting a transfer of servicing, the transferee servicer agrees to the above matters and represents and warrants that they are correct (as applicable), even in those cases in which the contractual relationship between the lender and the transferee servicer is such that no agreement to assign the servicing is legally necessary at the time the mortgage loans are delivered to Fannie Mae.

Further, by designating another lender as servicer of the mortgage loans on the applicable loan schedule, the lender represents and warrants that with respect to such mortgage loans:

- the servicer has agreed to the above matters and represents and warrants that they are correct (as applicable), and
- the provisions of any agreement between the lender and any other party providing for servicing of the mortgage loans will not continue after the date on which Fannie Mae funds the whole loan delivery or issues the MBS.

However, the lender is not released from any liabilities to Fannie Mae with respect to the mortgage loans or the servicing of them prior to the delivery of the mortgage loans to Fannie Mae. The lender and the servicer will be jointly and severally liable to Fannie Mae for the obligations and liabilities related to the mortgage loans or the servicing of them that arise before delivery of the mortgage loans to Fannie Mae.

In addition to the requirements of this section, a transfer of servicing that becomes effective concurrent with delivery of the mortgage loans to Fannie Mae must be implemented in accordance with Fannie Mae's requirements in the *Servicing Guide*.

After Fannie Mae has purchased or securitized a mortgage loan, Fannie Mae must approve all subsequent assignments of servicing related to that mortgage loan before the servicing can be transferred.

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### **Notification of Concurrent Servicing Transfers**

The lender must notify Fannie Mae of the transferee servicer by entering the transferee servicer's nine-digit Fannie Mae seller/servicer number into the Loan Delivery application.

If required, the lender must also include in its delivery package mortgage assignments prepared in accordance with [B8-6-02, Mortgage Assignment to Fannie Mae](#).

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### **Termination of Concurrent Servicing Transfers**

If a concurrent servicing transfer does not meet Fannie Mae's eligibility standards as stated in this Guide and in the *Servicing Guide*, Fannie Mae is entitled to terminate the transferee's servicing with respect to the affected mortgage loans in order to transfer servicing of the mortgage loans to another servicer, pursuant to Fannie Mae's rights under the MSSC. The lender is obligated for all losses incurred by Fannie Mae resulting from the lender's designation of an ineligible servicer.

For additional information about concurrent servicing transfers, see the *Servicing Guide*.

---

### **Servicing Execution Tool (SET) Bifurcation Option Terms and Conditions**

Using the Servicing Execution Tool (SET) in Fannie Mae's whole loan committing application, lenders may arrange on a loan-by-loan basis for a concurrent sale of servicing to an approved Fannie Mae servicer. See [C2-1.3-01, Servicing Execution Tool](#), for additional information.

A lender approved as a seller for bifurcated SET transactions ("SET Bifurcation") is directly liable to Fannie Mae for the obligations and liabilities related to the SET Bifurcation mortgage loans, including all selling representations and warranties required to be made by a seller, and for obligations and liabilities related to servicing of the SET Bifurcation mortgage loans that arise before delivery of the mortgage loans to Fannie Mae. The servicer retained by the lender concurrent with Fannie Mae's acquisition of the mortgage loan is responsible for the servicing duties, obligations and responsibilities related to the mortgage loan that arise both prior to Fannie Mae's acquisition of the loan and thereafter, but otherwise the servicer is not responsible for breaches of any of the selling lender's selling representations, warranties, obligations or liabilities related to the SET Bifurcation mortgage loans.

The lender's sale of SET Bifurcation mortgage loans to Fannie Mae is subject to the following:

- Upon the sale of a SET Bifurcation mortgage loan to Fannie Mae, the lender makes all representations and warranties required to be made by a seller under this *Selling Guide*.
- SET Bifurcation mortgage loans must be underwritten by Desktop Underwriter and must receive an Approve/Eligible recommendation.
- The lender acknowledges and agrees that:

- Fannie Mae is entitled to enforce directly against the lender, and the lender is liable for, any and all remedies (including, without limitation, repurchase) for a breach of the lender’s obligations and liabilities related to the SET Bifurcation mortgage loans. Fannie Mae is under no obligation to enforce or attempt to enforce any such remedies against the servicer.
- Without limiting the provisions of the Guides, the lender must resolve repurchase requests with respect to SET Bifurcation mortgage loans within the time and manner required by the *Servicing Guide*. Failure to do so may result in termination of the lender’s approval to participate in SET Bifurcation, as well as any other remedies Fannie Mae may elect to pursue.
- Notwithstanding anything to the contrary in the Lender Contract or any other agreement between the lender and Fannie Mae, by its sale of SET Bifurcation mortgage loans to Fannie Mae, the lender:
  - authorizes Fannie Mae to disclose from time to time to the applicable servicer any information (and any related assessments and analyses developed by Fannie Mae) that Fannie Mae may have concerning the lender (including, for example, information related to the lender’s financial condition and relationship with Fannie Mae), the SET Bifurcation mortgages, the servicing of SET Bifurcation mortgages and related quality control reports, and waives any requirement that Fannie Mae maintain the confidentiality of such information to the extent such requirement would otherwise prohibit such disclosure; and
  - shall have no rights or claims against Fannie Mae in connection with such disclosure or transfer of information, and waives any and all claims arising out of or based upon the confidential nature of such information.
- The lender acknowledges that Fannie Mae may, at its sole discretion:
  - from time to time, amend or supplement Fannie Mae’s procedures and requirements for the purchase of SET Bifurcation mortgage loans, by publishing such amendments or supplementary material in the *Selling Guide* or in other written communications; and
  - terminate the lender’s approval to participate in SET Bifurcation by delivering notice to the lender at any time.



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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016  |
| <a href="#">Announcement SEL-2015-03</a> | March 31, 2015     |
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015   |
| <a href="#">Announcement SEL-2011-10</a> | September 27, 2011 |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011      |



## A3-3-03, Other Servicing Arrangements (12/15/2015)

### Introduction

This topic provides an overview of other servicing arrangements, including:

- [Subservicing](#)
- [General Requirements for Subservicing Arrangements](#)
- [Pledge of Servicing Rights and Transfer of Interest in Servicing Income](#)

---

### Subservicing

A lender may use other organizations to perform some or all of its servicing functions. Fannie Mae refers to these arrangements as “subservicing” arrangements, meaning that a servicer (the “subservicer”) other than the contractually responsible servicer (the “master” servicer) is performing the servicing functions.

The following are not considered to be subservicing arrangements:

- when a computer service bureau is used to perform accounting and reporting functions;
- when the originating lender sells and assigns servicing to another lender, unless the originating lender continues to be the contractually responsible servicer.

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## General Requirements for Subservicing Arrangements

A servicer may use a subservicer only if it will not interfere with the servicer's ability to meet Fannie Mae's remitting and reporting requirements.

A master servicer may not enter into new subservicing arrangements—or extend existing arrangements to include newly originated mortgages—unless both the master servicer and the subservicer are Fannie Mae-approved servicers in good standing who are able to perform the duties associated with the master servicer/subservicer arrangement.

The master servicer must ensure that its written agreement with the subservicer acknowledges Fannie Mae's right to rescind its recognition of the subservicing arrangement if Fannie Mae decides to transfer the master servicer's portfolio for any reason.

The master servicer must confirm its existing subservicing arrangements when it submits the *Lender Record Information* ([Form 582](#)) each year.

For additional information concerning subservicer and master servicer duties, responsibilities, and other requirements, see the [Servicing Guide](#) on Fannie Mae's website.

---

## Pledge of Servicing Rights and Transfer of Interest in Servicing Income

A lender may enter into one of the following transactions, provided that the purpose of the transaction is a purpose permitted by Fannie Mae and the lender obtains Fannie Mae's prior written consent:

- a pledge, or grant of a security interest in, the servicing rights to all or part of its Fannie Mae servicing portfolio, including mortgage loans in MBS pools (a “pledge of servicing”);
- a sale, assignment, transfer, pledge, or hypothecation of all or any portion of its compensation in excess of the amount needed to service mortgage loans for Fannie Mae (“excess servicing compensation”); or
- a sale, assignment, transfer, pledge or hypothecation of all or any portion of its right to receive reimbursement of servicing advances.

**Note:** A transaction in either of the last two bullets above is referred to as a “transfer of an interest in servicing income.”

A lender may enter into a pledge of servicing or a transfer of an interest in servicing income for the following purposes only:

- to fund the acquisition and performance of required servicing activities for additional servicing and/or servicing portfolios;
- to provide collateral for warehouse lines of credit; or
- to effect the purchase of all or substantially all of the assets of a mortgage banking company, including a management buyout of its existing company, or a buyout of the controlling ownership interests of existing shareholders.

The lender must request Fannie Mae’s prior approval of a specific pledging transaction or transfer of an interest in servicing income at least 30 days prior to the proposed effective date.

A pledge of servicing transaction between the lender and the secured creditor must be documented by a security agreement agreed to by the lender and the secured creditor. The lender, the secured creditor, and Fannie Mae must also execute an acknowledgment agreement acceptable to Fannie Mae, which sets forth the rights and responsibilities of the lender, the secured creditor, and Fannie Mae.

A transfer of an interest in servicing income transaction between the lender and the purchaser or financier must be documented by a purchase and sale, security or financing agreement in a form agreed to by the lender and the purchaser or financier. The lender, the purchaser or financier, and Fannie Mae must also execute a subordination of interest agreement acceptable to Fannie Mae, which sets forth the rights and responsibilities of the lender, the purchaser or financier, and Fannie Mae.

For additional information about the terms and provisions of the security agreement and the acknowledgment agreement, see the *Servicing Guide*.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2015-13</a> | December 15, 2015 |
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015     |

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## **A3-3-04, Document Custodians (02/23/2016)**

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### **Introduction**

This topic provides general information on document custodians, including:

- [Overview](#)
  - [Role and Responsibilities of the Document Custodian](#)
  - [Selecting a Document Custodian](#)
  - [Documentation of the Document Custodian Relationship](#)
  - [Compensation for the Document Custodian](#)
  - [Lender's Liability for Custodian Documents](#)
  - [Approval Process for New Document Custodians](#)
  - [Eligibility Criteria for Document Custodians](#)
  - [Monitoring the Financial Rating of Document Custodians](#)
  - [Insurance Requirements](#)
  - [Financial Institution Bond](#)
  - [Errors and Omissions](#)
- 

### **Overview**

Fannie Mae requires that certain documents relating to mortgage loans in its portfolio and in MBS pools be held by Fannie Mae's designated document custodian (DDC) or another custodian institution (called document custodians) that meet the eligibility criteria set out in the Fannie Mae *Selling Guide* and *Servicing Guide* (collectively referred to as Guides) and in the *Fannie Mae Requirements for Document Custodians* ([RDC guide](#)). If a seller/servicer (or an affiliate of a seller/servicer) satisfies these eligibility criteria, receives approval from Fannie Mae, and meets any other conditions that Fannie Mae may require, it may act as document custodian for mortgage loans it sells to Fannie Mae. The seller/servicer also may choose to negotiate a custodial arrangement with an eligible third-party document custodian, or use Fannie Mae's DDC as its document custodian.

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### **Role and Responsibilities of the Document Custodian**

The document custodian must:

- provide appropriate information to enable a servicer to determine that the document custodian satisfies Fannie Mae's eligibility criteria, and
  - assist the servicer in monitoring the document custodian's financial viability and operational capabilities on an ongoing basis.
-

The document custodian must review and examine all required custody documents that the seller delivers to it to ensure that all required documents are received and that they conform to the data and documentation provisions of the Guides that apply to document custody in addition to the provisions of the RDC guide. From that point forward, the document custodian must exercise control over all documents that are retained in its custody on behalf of Fannie Mae. See [C1-2-03, Ownership of Mortgage Loans Prior to Purchase or Securitization and Third-Party Security Interests](#), for information concerning control of mortgage notes during the loan certification process.

If the document custodian discovers errors or missing documents as part of the certification process prior to Fannie Mae's purchase of the mortgage loans, the document custodian must work with the seller to resolve the issues. The document custodian is acting on behalf of the servicer and Fannie Mae when certifying loan documents/data at the time of acquisition by Fannie Mae.

If, as a result of post-certification quality control or audit processes, the document custodian discovers data discrepancies that were not previously identified, the document custodian must adhere to procedures outlined in the RDC guide regarding the resolving of discrepancies.

At any time, with or without cause, Fannie Mae has the right to require a servicer or document custodian to transfer documents to a different document custodian, which may be the DDC or another eligible document custodian.

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### Selecting a Document Custodian

A document custodian designated by a seller or servicer may be a third-party custodian, or it may be the seller or servicer itself or an affiliate of the seller or servicer.

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### Documentation of the Document Custodian Relationship

Each custodian arrangement for MBS pools (other than one between the lender and Fannie Mae's DDC, which must be evidenced by the execution of a *Designated Custodian Master Custodial Agreement* ([Form 2010](#)), must be evidenced by the execution of a *Master Custodial Agreement* ([Form 2003](#)), which is a triparty agreement by and among the lender, the document custodian, and Fannie Mae.

To do this, the lender must send the original Form 2003 that contains original signatures for both the lender and the custodian to Fannie Mae's Vice President for Disclosure and Custody Operations at the address on the form. Fannie Mae will sign the document, retain the original, and send copies of the fully executed Agreement to the lenders and custodians.

The lender will need to add the document custodian to its profile within the Loan Delivery application. If the document custodian is newly approved, the document custodian will need to register for the Document Certification application. For all MBS pool mortgages, the document custodian will certify the loans through the Document Certification application.

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### **Compensation for the Document Custodian**

The lender must pay all compensation the document custodian is due for the performance of its duties under the custodian arrangement. Fannie Mae is under no obligation to pay any compensation to the document custodian.

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### **Lender's Liability for Custodian Documents**

The lender is responsible for the safekeeping of Fannie Mae custody documents at all times. Therefore, the lender may be held liable for any and all losses incurred by Fannie Mae because the document custodian it selected failed to perform its fiduciary responsibilities, regardless of whether the document custodian meets Fannie Mae eligibility criteria.

However, if the losses incurred by Fannie Mae are the result of the absence of, or a defect in, a particular document, Fannie Mae also has the right to require the document custodian to make Fannie Mae whole if the document custodian breaches its fiduciary obligations to Fannie Mae with respect to the mortgages involved in the losses.

Therefore, Fannie Mae requires lenders to establish appropriate methods for monitoring the financial viability and operational capabilities of any document custodian it uses to hold custody documents for Fannie Mae. At a minimum, the lender must require a document custodian to advise it each year about the results of internal audits so that the lender can evaluate whether Fannie Mae documents are being properly managed and controlled.

Fannie Mae reserves the right to require a lender to transfer documents for both existing and future business to a different document custodian even if the current custodian satisfies Fannie Mae's eligibility criteria and meets Fannie Mae's operating standards.

The requirements for transferring documents to a different custodian are described in the *Servicing Guide* and in the RDC guide.

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### **Approval Process for New Document Custodians**

Fannie Mae requires all new document custodians to be approved by Fannie Mae. If a document custodian that does not currently hold Fannie Mae mortgage loans desires to certify and/or hold MBS mortgage loans for Fannie Mae, the document custodian must comply with the application and approval process. The new document custodian must be approved before it certifies and/or

holds Fannie Mae MBS mortgage loans. If approved, the document custodian will be an Active Document Custodian. The document custodian will maintain its active status provided it certifies at least one loan on behalf of Fannie Mae in each calendar year.

To receive approval, the document custodian must submit a completed *Application for Active Document Custodianship* ([Form 2008](#)) to Fannie Mae along with the required supporting documentation described on the Form and in the related instructions, which are available on Fannie Mae's website. Separate approval is required for a document custodian to certify and maintain custody of eMortgages delivered to Fannie Mae. For information concerning the approval processes for new document custodians and for eMortgage custodians, see the RDC guide.

---

### **Eligibility Criteria for Document Custodians**

In order to serve as a Fannie Mae document custodian, an institution must meet all of the following criteria:

- The institution must be one of the following:
  - a financial institution subject to supervision and regulation by the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency (OCC), or the National Credit Union Administration (NCUA);
  - a subsidiary or parent of a financial institution or holding company that is supervised and regulated by one of these entities;
  - a Federal Home Loan Bank.
- Be in good standing with its regulator, if the document custodian itself is the regulated institution, or, if the document custodian is not the regulated institution, the document custodian's parent or subsidiary must be in good standing with its regulator. To be in good standing, the document custodian (or its parent or subsidiary, when applicable) cannot be in receivership or conservatorship, undergoing liquidation, or operating under any other program of management oversight by its primary regulator.

Fannie Mae will consider a request to permit a document custodian that is successfully operating under an approved capital plan to hold Fannie Mae documents, particularly if the document custodian is an organization that has previously acted as a document custodian for Fannie Mae documents.

- The institution must satisfy Fannie Mae's financial rating requirements, as applicable:

1. A third-party document custodian must have one of the following ratings:
  - 125 or better rating from IDC Financial Publishing, Inc. (IDC); or
  - C or better rating from Kroll Bond Rating Agency, Inc. (Kroll).
2. A document custodian that is the seller or servicer or an affiliate of the seller or servicer must have one of the following ratings:
  - 130 or better rating from IDC, or
  - C+ or better rating from Kroll.

When the document custodian is not a regulated financial institution, the document custodian's parent or subsidiary must, itself, meet the financial rating standards. If the regulated entity is rated by IDC and Kroll, then the document custodian (or its parent or subsidiary) only needs to satisfy one of the two rating requirements (provided that the other rating is not lower than a 75 from IDC or a D from Kroll).

In addition to the custodial institution meeting the eligibility criteria above, a seller or servicer that serves as Fannie Mae's document custodian or designates an affiliated entity as Fannie Mae's document custodian should have a financial rating that meets or exceeds at least one of the following criteria:

- Fitch Long Term rating of BBB, or
- Standard & Poor's Long Term rating of BBB, or
- Moody's Investors Service, Inc. Long Term rating of Baa2.

If the seller or servicer is not a rated institution, then the nearest parent that has a rating should have a financial rating that meets or exceeds at least one of the criteria immediately above. If the seller or servicer fails to meet the recommended financial rating, Fannie Mae, in its sole discretion, may restrict the seller's or servicer's ability to serve as Fannie Mae's document custodian or to use an affiliated document custodian or may impose additional duties and restrictions on the seller or servicer and/or on the affiliated document custodian.



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## Monitoring the Financial Rating of Document Custodians

The seller or servicer and the document custodian must have procedures in place to monitor the document custodian's financial rating on a quarterly basis to ensure ongoing eligibility to act as a document custodian. If the custodian is not a regulated institution and is relying upon its parent's or subsidiary's rating, then the seller or servicer and the document custodian must have procedures in place to monitor that parent's or subsidiary's rating. Should the financial rating fall below the minimum criteria, both the document custodian and seller or servicer must immediately notify their Fannie Mae Servicing Consultant and send an email notification to Fannie Mae's Custodian Oversight and Monitoring department (see [E-1-03, List of Contacts](#)). Fannie Mae will determine, in its sole discretion, whether it will allow the documents to remain with the current document custodian or require them to be transferred to an acceptable document custodian.

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## Insurance Requirements

Each document custodian must have a Financial Institution Bond (or equivalent insurance) and Errors and Omissions insurance policies in effect at all times. The requirements described in this section do not diminish or alter any current insurance requirements or obligations otherwise required by Fannie Mae for a seller/servicer (in its capacity other than as a document custodian).

The required insurance coverage must be underwritten by insurance carriers rated by either A.M. Best Company, Inc. or Standard and Poor's, Inc. as follows:

- Carriers rated by A.M. Best Company, Inc. must have a "B" or better rating.
- Carriers rated by Standard and Poor's, Inc. must have a "BBB" or better rating.

A document custodian that is a subsidiary or affiliate of a financial institution may use its parent's or affiliate's Financial Institution Bond, and Errors and Omissions insurance policies. The document custodian must be named as a joint insured under the Financial Institution Bond and the Errors and Omission policies, and if the document custodian is not a regulated financial institution, the parent's or affiliate's bond or insurance policies must at a minimum meet Fannie Mae requirements as stated in this Guide and the *Servicing Guide*.

The document custodian must notify the seller/servicer and the Director of Custodian Oversight and Monitoring within Fannie Mae's Operations Division at least 30 days before the effective date of an insurer's action to cancel, reduce, decline to renew, or impose a restrictive modification to the document custodian's coverage, for any reason other than a partial or full exhaustion of the insurer's limit of liability under the policy. (See [A3-3.1-02, Document Custodian Reporting Requirements: Active and Inactive Status](#).)

The document custodian must also report to the seller/servicer and to the Director of Custodian Oversight and Monitoring within Fannie Mae's Operations Division within 10 business days after the occurrence of any single loss in excess of \$100,000 that would be covered by the Financial Institution Bond or the Errors and Omissions policy—even if no claim will be filed or if Fannie Mae's interest will not be affected. In addition, the document custodian must promptly advise both the seller/servicer and Fannie Mae of any cases of embezzlement or fraud in the document custodian's organization, even if Fannie Mae's mortgage notes are not involved or if no loss has been incurred. The document custodian's report should indicate the total amount of any embezzlement or fraud loss regardless of whether a claim was or will be filed with an insurer.

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### **Financial Institution Bond**

Financial Institution Bond (or equivalent insurance) must protect against, at a minimum:

- Losses resulting from dishonest or fraudulent acts of directors, officers, employees, and contractors; and
- Physical damage or destruction to, or loss of, any mortgage notes and assignments while such documents are located on the document custodian's premises or in-transit while under the control of the document custodian.

The insurance coverage must be in an amount that is commercially reasonable and is commonly found in the mortgage industry, based on the number of mortgage notes and assignments held in custody. The policy's deductible clause may be for any amount up to a maximum of 5% of the face amount of the bond. A document custodian must obtain Fannie Mae's permission for a higher deductible amount.

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### **Errors and Omissions**

The document custodian must have errors and omissions insurance covering the following:

- liability due to errors or omissions in the performance of services, and
- claims resulting from the document custodian's breach of duty, neglect, misstatement, misleading statement, or other wrongful acts committed in the conduct of document custodial services.

Coverage limits must be not less than \$1 million per claim and \$10 million in the aggregate, on a claims-made basis. The policy's deductible may be for any amount up to a maximum of 5% of the face amount of the policy.

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## Related Announcements

The table below provides references to the Announcements that have been released that are related to this topic.

| Announcement                             | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2015-13</a> | December 15, 2015 |
| <a href="#">Announcement SEL-2014-11</a> | August 26, 2014   |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012 |
| <a href="#">Announcement SEL-2012-10</a> | October 2, 2012   |
| <a href="#">Announcement SEL-2011-01</a> | January 27, 2011  |
| <a href="#">Announcement SEL-2010-10</a> | August 12, 2010   |
| <a href="#">Announcement 08-37</a>       | December 19, 2008 |
| <a href="#">Announcement 08-32</a>       | December 10, 2008 |



## A3-3-05, Custody of Mortgage Documents (09/27/2011)

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### Introduction

This topic contains information on the custody of mortgage documents, including:

- [Overview](#)
- [Required Custodial Documents for Portfolio Mortgages](#)
- [Required Custodial Documents for MBS Mortgages](#)
- [Document Storage Requirements for Portfolio Mortgages](#)
- [Document Storage Requirements for MBS Mortgages](#)
- [Release of Custodial Documents](#)

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### Overview

Custodial documents are the legal documents pertaining to a mortgage that Fannie Mae's DDC or a lender-designated document custodian, takes into physical possession when Fannie Mae purchases or securitizes a mortgage.

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### Required Custodial Documents for Portfolio Mortgages

The following documents are considered to be key custodial documents for portfolio mortgages. All other documents may be held in the lender's file for that mortgage.

- original mortgage notes (and note addenda);
- other documents that are also delivered to the document custodian to assist in the certification of portfolio mortgages, such as any instruments that modify the terms of the note, powers of attorney, and interest rate buydown plans; and
- original, unrecorded assignments of the mortgages to Fannie Mae (or corresponding documents for co-op share loans, if applicable).

**Note:** When mortgages are registered in the Mortgage Electronic Registration Systems, Inc. (MERS), assignments of the mortgages to Fannie Mae are not required custody documents.

See [E-2-01, Required Custodial Documents](#).

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### Required Custodial Documents for MBS Mortgages

The following documents are considered to be key custodial documents for MBS mortgages. All other documents may be held in the lender's file for that mortgage.

- original mortgage notes (and note addenda);
- other documents are also delivered to the document custodian to assist in the certification of eligibility of the mortgages for inclusion in an MBS pool, such as any instruments that modify the terms of the note, powers of attorney, and interest rate buydown plans; and
- original, unrecorded assignments of the mortgages to Fannie Mae (or corresponding documents for co-op share loans, if applicable).

**Note:** When mortgages are registered in MERS, assignments of the mortgages to Fannie Mae are not required custody documents.

See [E-2-01, Required Custodial Documents](#).

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### Document Storage Requirements for Portfolio Mortgages

Custodial documents for portfolio mortgages are stored with Fannie Mae's DDC, with the exception of certain portfolio mortgages that Fannie Mae agreed to purchase under the terms of a negotiated contract that permits the lender to designate another document custodian.

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### Document Storage Requirements for MBS Mortgages

Custodial documents for MBS mortgages are maintained by a lender-designated document custodian, which may be a third-party custodian, the lender itself, an affiliate of the lender, or Fannie Mae's DDC.

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### Release of Custodial Documents

The document custodian must not release custodial documents for either portfolio mortgages or MBS mortgages unless it receives a written request containing substantially the same information as required by *Request for Release/Return of Documents* ([Form 2009](#)). If a servicer transfers documents to a different document custodian at any time after an MBS pool is issued, the new document custodian must recertify the pool by indicating that it has received all required documents and that any new documents required in connection with the transfer satisfy Fannie Mae's requirements. (The requirements for transferring documents to a different custodian are described in the *Servicing Guide* and in the [RDC guide](#).)

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2011-10</a> | September 27, 2011 |
| <a href="#">Announcement 08-37</a>       | December 19, 2008  |

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## **A3-3-06, Fannie Mae's Designated Document Custodian (06/28/2011)**

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### **Introduction**

This topic contains information on Fannie Mae's Designated Document Custodian (DDC), including:

- [Overview](#)
  - [Services Provided by the DDC](#)
  - [Execution of a Designated Custodian Master Custodial Agreement by All Lenders](#)
  - [Payment of Fees for Certification and Custody Services](#)
- 

### **Overview**

Fannie Mae requires that all portfolio mortgage deliveries be certified and held by its DDC. This applies to the following:

- Whole mortgage loans,
- As Soon As Pooled Plus (ASAP Plus) loans,
- ASAP Plus loans that are redelivered as MBS pools, and
- E-notes (portfolio mortgages only).

For MBS mortgage deliveries, lenders may elect to use Fannie Mae's DDC to hold mortgage documents for MBS pool deliveries or may select another approved document custodian that meets the eligibility and operational requirements as set forth in the Guides and in the [RDC guide](#).

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### **Services Provided by the DDC**

The DDC performs all of the standard custodial services for the certification and custody of Fannie Mae mortgage loan deliveries.

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### **Execution of a Designated Custodian Master Custodial Agreement by All Lenders**

Fannie Mae requires each lender that will deliver portfolio mortgages to Fannie Mae to execute a *Designated Custodian Master Custodial Agreement* ([Form 2010](#)). Form 2010 will cover certification and custody for both portfolio mortgages and MBS pool mortgages.

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The lender should complete Form 2010 and send it directly to the DDC for its execution.

Upon receipt of the executed Form 2010, the DDC will send the lender ancillary documentation for completion. After the DDC has received the completed ancillary documentation from the lender and has completed its onboarding and other procedures related to the acceptance of new customers, Form 2010 will be executed by the DDC and Fannie Mae. A copy of the fully executed Form 2010 will be returned to the lender for its records.

**Note:** The DDC will not certify loans for a lender until it has received an executed copy of the Form 2010 and the required ancillary documents.

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### **Payment of Fees for Certification and Custody Services**

The DDC will bill the servicer for certification and custody of the portfolio mortgages and MBS pool mortgages (if applicable) upon delivery of each lender file to the DDC. However, if the seller and servicer of the loans are different entities and the servicer has negotiated a fee arrangement with the seller, the seller or servicer should notify the document custodian of the fee arrangements to ensure proper billing. Fannie Mae will look to the servicer as the responsible party if fees have not been remitted to the DDC for services it has provided. Failure to remit payments to the DDC as required shall be a breach of the requirements of the servicer's *Mortgage Selling and Servicing Contract*.

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### **Related Announcements**

The table below provides references to Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011     |
| <a href="#">Announcement SEL-2010-02</a> | March 2, 2010     |
| <a href="#">Announcement 08-37</a>       | December 19, 2008 |

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## Section A3-3.1, Other Document Custodians



### A3-3.1-01, Operational Requirements for all Document Custodians (12/15/2015)

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#### Introduction

This topic contains information on document custodian operational requirements, including:

- [Operating Standards](#)
  - [Independent Custody Department](#)
  - [Commingling of Fannie Mae Custodial Documents](#)
  - [Monthly Quality Control Review](#)
  - [Annual Audit Requirements](#)
- 

#### Operating Standards

All document custodians must meet at least the following minimum operating standards with respect to staffing, written procedures, disaster recovery plans, document tracking capabilities, and physical storage facilities:

- Register for the Web-based Document Certification system in order to have the ability to electronically transmit MBS pool certifications. The institution agrees to be bound by any electronic record transmitted to or from Fannie Mae that is permitted or required to be delivered electronically under the Guides or directions that Fannie Mae has otherwise provided to the document custodian in another form.
- Employ a staff that is familiar with the forms and procedures for mortgage loan and pool certifications and mortgage document control that Fannie Mae requires and how they relate to each staff member's specific functions.
- Have established written procedures that address the review and control of the note, assignments of the mortgage or deed of trust, and any special documentation that Fannie Mae requires for certain types of mortgages, as well as have authorized access procedures and measures in place to determine that employees adhere to the access procedures and all other written procedures.
- Maintain a written disaster recovery plan that covers relocation/restoration of the facilities, physical recovery of the files, backup and recovery of information from electronic data



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processing systems, and additional requirements of periodic testing and monitoring of the plan;

- Have a process in place to obtain from the lender and retain the Fannie Mae loan number for every loan for which the document custodian provides custodial services, and be able to perform reconciliations using the Fannie Mae loan number as may be required by Fannie Mae from time to time;
- Have sufficient capabilities to track the receipt and release of documents or files, to keep track of the physical location of the documents or files, and to provide management reports to identify released documents or files, etc.
- Maintain secure, fire-resistant storage facilities that have adequate dual-access controls to ensure the safety and security of the custody documents and that provide at least two hours of fire protection.
- Be able to meet other requirements that Fannie Mae may subsequently specify.

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### **Independent Custody Department**

Fannie Mae requires that if a lender wants to act as the document custodian for MBS mortgages it delivers to Fannie Mae, it must have an independent custody department (which is established and operated under the trust powers granted by its primary regulator). This requirement also applies to an affiliate of a lender that is acting as Fannie Mae's document custodian.

The lender's or affiliate's custody department must:

- satisfy Fannie Mae's eligibility criteria for document custodians;
- be physically separate from the departments performing mortgage origination, selling, and servicing functions;
- maintain its own separate personnel, files, and operations;
- be subject to periodic review or inspection by the lender's primary regulator, or by the primary regulator of the lender's parent or subsidiary, if the lender is not a regulated institution; and
- have custodial officers who are duly authorized by corporate resolution or bylaws to act on behalf of the lender in its trust capacity and are empowered to enter into the *Master Custodial Agreement* ([Form 2003](#)).

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## Commingling of Fannie Mae Custodial Documents

Third-party custodians may commingle Fannie Mae mortgage files with other investors' mortgage files as long as: the loans are identified as Fannie Mae loans on the physical file and on the document custodian's tracking system; the pool files can be assembled quickly upon Fannie Mae's request; and Fannie Mae has reasonable access to the document custodian's system in the event the document custodian is unable to assemble the files.

Custodians approved to certify and maintain custody of eMortgages must follow the requirements for storage and segregation of electronic documents set forth in the RDC guide.

All lenders or affiliates that serve as document custodians will be required to segregate Fannie Mae mortgage files from those of other investors. All Fannie Mae mortgage files should be clearly identified as Fannie Mae assets.

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## Monthly Quality Control Review

Fannie Mae requires that document custodians develop and implement a monthly quality control (QC) review process to examine the quality of document and data certifications for the prior month. See the *Fannie Mae Requirements for Document Custodians* ([RDC guide](#)) for information concerning the minimum requirements for the monthly QC process. Fannie Mae reserves the right to review the QC results, as necessary.

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## Annual Audit Requirements

Document custodians are required to engage the services of an independent third-party audit firm to perform an annual audit to assess whether the document custodian satisfies Fannie Mae's eligibility criteria and operates in compliance with Fannie Mae's requirements. Document custodians are responsible for all costs associated with the independent audit.

See the RDC guide for information concerning the minimum eligibility standards for independent third-party auditors and minimum audit requirements.

**Note:** Fannie Mae's name must not be used in any documents pertaining to the audit or the audit results without Fannie Mae's express prior written consent. See [A3-3-04, Document Custodians](#), for information concerning internal audits.

Fannie Mae reserves the right to perform on-site reviews of document custodians, as necessary.

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Fannie Mae's *Annual Statement of Eligibility for Document Custodians* ([Form 2001](#)) includes the document custodian's certification that it meets the requirement pertaining to having had an annual audit performed by an eligible independent third-party audit firm. See *Annual Statement of Eligibility of Document Custodians* in [A3-3.1-02, Document Custodian Reporting Requirements: Active and Inactive Status](#), for additional information concerning annual certifications.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2015-13</a> | December 15, 2015  |
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015      |
| <a href="#">Announcement SEL-2014-12</a> | September 30, 2014 |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">Announcement 08-37</a>       | December 19, 2008  |



## **A3-3.1-02, Document Custodian Reporting Requirements: Active and Inactive Status (10/02/2012)**

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### Introduction

This topic contains information on the document custodian's status and the annual certification that document custodians provide to Fannie Mae, including:

- [Annual Statement of Eligibility of Document Custodians](#)
- [Annual Determination of Active and Inactive Status](#)
- [Termination of Document Custodian Based on Inactive Status](#)
- [Change in Document Custodian's Organization or Ownership](#)

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### Annual Statement of Eligibility of Document Custodians

Fannie Mae document custodians are required to self-verify annually that they continue to meet Fannie Mae's eligibility and operational requirements for document custodians. See [A3-3-04, Document Custodians](#), for information concerning the eligibility requirements for all

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document custodians and [A3-3.1-01, Operational Requirements for all Document Custodians](#), for operational information.

Document custodians must prepare an *Annual Statement of Eligibility for Document Custodians (Form 2001)* for each calendar year. The completed form must be submitted by March 31st of the year after the year covered by the form. Form 2001 must be emailed or mailed to the Custodian Oversight and Monitoring department (see [E-1-03, List of Contacts](#)).

Form 2001 does not replace or diminish the lender's responsibility to monitor the eligibility and operations compliance of the document custodian(s) it uses; it supplements that requirement.

Document custodians no longer complying with Fannie Mae's eligibility or operational requirements must contact Fannie Mae's Custodian Oversight and Monitoring department immediately.

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### **Annual Determination of Active and Inactive Status**

Fannie Mae will designate each document custodian as either an Active Document Custodian or an Inactive Document Custodian. An Active Document Custodian is defined as an entity that has certified MBS or portfolio mortgage loans for Fannie Mae in the previous calendar year. An Inactive Document Custodian is defined as an entity that has not certified MBS or portfolio mortgage loans for Fannie Mae in the previous calendar year but is holding mortgage loans in custody for Fannie Mae.

Fannie Mae will determine a document custodian's subsequent designation (active or inactive) on an annual basis ending December 31st of each calendar year. Both Active and Inactive Document Custodians are obligated to meet Fannie Mae's eligibility and operational requirements as set forth in the *Selling Guide*, the *Servicing Guide*, and in the [RDC guide](#) in order to hold mortgage loans in custody for Fannie Mae.

Any document custodian identified by Fannie Mae as an Active Document Custodian, based on the criteria set forth above, will not have to apply for approval provided the document custodian maintains its Active Document Custodian status by certifying at least one loan on behalf of Fannie Mae in each subsequent calendar year.

If an Inactive Document Custodian desires to certify new MBS mortgage loans for Fannie Mae, the custodian must comply with the application and approval process described above. An Inactive Document Custodian must be approved as an Active Document Custodian before it may certify new MBS loans for Fannie Mae. Any document custodian that is approved by Fannie Mae as an Active Document Custodian will maintain its Active Document Custodian status provided it certifies at least one MBS or portfolio loan on behalf of Fannie Mae in each subsequent calendar year.

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### **Termination of Document Custodian Based on Inactive Status**

Fannie Mae reserves the right to terminate any Inactive Document Custodian, regardless of how long such custodian was previously an Active Document Custodian, and require them to move the documents to an Active Document Custodian, even though such Inactive Document Custodian meets all of Fannie Mae's eligibility and operational requirements for Document Custodians.

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### **Change in Document Custodian's Organization or Ownership**

Fannie Mae requires official notice at least 30 days prior to any sale, merger, reorganization or other major change in the document custodian's organization or ownership. The document custodian must provide notification via email to the Custodian Oversight and Monitoring department. Fannie Mae will then determine if the document custodian needs to seek re-approval or take any other actions to satisfy Fannie Mae's requirements to act as a document custodian.

Fannie Mae also requires that when all or part of the existing document custodian's custody business is being acquired by a new document custodian ("custody acquisition"), but the servicer remains the same, both the existing and the new document custodian must provide Fannie Mae at least 30 days advance written notice of such acquisition. See the RDC guide for information concerning specific responsibilities required of the existing and new document custodians in connection with the proposed custody acquisition.

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### **Related Announcements**

The table below provides the references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2012-10</a> | October 2, 2012   |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |
| <a href="#">Announcement 08-37</a>       | December 19, 2008 |
| <a href="#">Announcement 08-32</a>       | December 10, 2008 |

## Section A3-3.2, Document Custodian Electronic Transactions



### A3-3.2-01, Document Custodian Electronic Transactions (04/01/2009)

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#### Introduction

This topic contains information on document custodian electronic transactions, including:

- [Compliance of Electronic Records](#)
  - [Document Certification Application](#)
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#### Compliance of Electronic Records

All electronic records for mortgages sold to Fannie Mae must comply with all applicable requirements and standards set forth or referenced in the federal Electronic Signatures in Global and National Commerce Act (ESIGN) and, if applicable, the Uniform Electronic Transactions Act (UETA) adopted by the state in which the subject property secured by the mortgage loan associated with the electronic record is located.

For specific electronic records requirements, see the following:

- [A2-5.1-03, Electronic Records, Signature, and Transactions.](#)
  - [A2-5.1-04, Lender's or Document Custodian's Electronic Transactions With Third Parties.](#)
- 

#### Document Certification Application

The Document Certification application is a Web-based program that provides the document custodian with enhanced access to the lender's pool data, allowing for more accurate and efficient document certification.

The Document Certification application is integrated with the Loan Delivery application, which offers document custodians real-time access to submitted pools and to any corrections a lender has made to a submitted pool and provides lenders with a real-time view of the certification status of their pools.



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# Chapter A3-4, Lending Practices



## Lending Practices

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### Introduction

This chapter includes information on Fannie Mae’s requirements related to data delivery, data quality, and the handling of confidential information. It also contains the steps that approved lenders must take to prevent, detect, and report mortgage fraud.

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### In This Chapter

This chapter includes the following sections:

|   |     |
|---|-----|
| A3-4-01, Confidentiality of Information (01/31/2017) .....                      | 150 |
| A3-4-02, Data Quality and Integrity (10/24/2016) .....                          | 155 |
| A3-4-03, Preventing, Detecting, and Reporting Mortgage Fraud (02/23/2016) ..... | 158 |

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## A3-4-01, Confidentiality of Information (01/31/2017)

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### Introduction

This topic contains the following:

- [General Requirements](#)
  - [Loan Quality, Loan Performance Data and NPI](#)
  - [Feedback on New Products, Product Upgrade, or New Service Offering](#)
  - [Specific Transactions or Dealings](#)
  - [Fannie Mae Obligations](#)
  - [Exclusions from Confidential Information](#)
- 

### General Requirements

A seller/servicer often obtains confidential information about borrowers, security property, and Fannie Mae when performing underwriting, origination, selling, servicing, or other activities under the *Selling* and *Servicing Guides* (“Confidential Information”).



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Confidential Information includes nonpublic personal information (NPI) and all of the following:

- information relating to
  - technical specifications;
  - product development strategy and activity;
  - pricing and financial information;
  - designs;
  - unpublished patent applications;
  - inventions;
  - improvements;
  - writings and other works of authorship;
  - trade secrets;
  - drawings;
  - models;
  - software (including source code and object code), algorithms, and flow charts; and
  - other documentation;
- all other confidential, proprietary, or trade secret information which a reasonable person would recognize as such, or which is specifically designated as confidential; and
- any compilation or summary of the foregoing when disclosed by or on behalf of Fannie Mae to the seller/servicer.

The following table describes Fannie Mae’s requirements related to Confidential Information.

| ✓ | <b>The seller/servicer must ...</b>  |
|---|--|
|   | Take appropriate steps to ensure the security, integrity, and confidentiality of Confidential Information. |
|   | Comply with all relevant applicable laws and regulations, including laws protecting borrower privacy.      |

|  |  |
|--|--|
|  | <p>Not disclose Confidential Information to third parties, without Fannie Mae’s prior written approval, except on a need-to-know basis to the seller/servicer’s partners, affiliates, officers, employees, directors, contractors, counsels, agents, or representatives, provided they are subject to confidentiality obligations at least as stringent as those set forth in this topic.</p> <p><b>Note:</b> These restrictions do not apply to the extent the seller/servicer is required to disclose the Confidential Information by applicable law, provided that the seller/servicer</p> <ul style="list-style-type: none"> <li>• uses all reasonable efforts to give Fannie Mae notice at least ten business days prior to such disclosure; and</li> <li>• discloses only that portion of the Confidential Information that the seller/servicer’s legal counsel determines is legally required to be furnished, and request that the information remain confidential.</li> </ul> <p>The requirement to provide Fannie Mae notice is waived if the seller/servicer</p> <ul style="list-style-type: none"> <li>• is required by law to disclose in confidence Confidential Information in response to requests from a governmental agency, regulator, or self-regulatory authority that has authority to regulate or oversee the seller/servicer’s business (including bank examiners, securities examiners, and regulators’ inspector general offices); and</li> <li>• formally requests that the information be treated in confidence and exempt from the Freedom of Information Act (FOIA) and other open records laws requests.</li> </ul> |
|  | <p>Not use Confidential Information in any way that could be viewed as</p> <ul style="list-style-type: none"> <li>• a conflict of interest</li> <li>• a breach of confidentiality or privacy, or</li> <li>• the gaining of an unfair advantage from the seller/servicer’s relationship with Fannie Mae.</li> </ul>   |
|  | <p>Implement commercially reasonable measures meeting or exceeding industry standards to ensure the security, integrity, and confidentiality of Confidential Information, including:</p>   |

|  |  |
|--|--|
|  | <ul style="list-style-type: none"><li>• using industry-standard encryption for data in transit and virus checking programs designed to prevent the transmission and receipt of viruses and other malicious code,</li><li>• instituting appropriate disaster recovery and back-up procedures,</li><li>• instituting appropriate procedures to prevent disclosure of data and other materials to a party other than the intended recipient, and</li><li>• employing methods for securely disposing or destroying such information.</li></ul> <p><b>Note:</b> These measures must meet, at least, the same level of protection that the seller/servicer seeks for its own information of a similar nature. The seller/servicer must collaborate with Fannie Mae in assessing the sufficiency of these measures and the seller/servicer’s information security program, upon reasonable request from Fannie Mae.</p> |
|  | Promptly notify Fannie Mae’s Privacy Office (see <a href="#">E-1-03, List of Contacts</a> ) in writing of any loss or unauthorized use, disclosure of , or access to Confidential Information and take all steps reasonably requested by Fannie Mae to mitigate the consequences of such breach.   |

The seller/servicer must have the borrower’s authorization to disclose borrower NPI, unless permitted by applicable law, and may disclose information about a borrower’s payment history to a third party if the borrower submits written authorization. The information disclosed must be accurate, complete, and easily understandable.

Fannie Mae may seek immediate equitable relief to enjoin any unauthorized use or disclosure of Confidential Information, in addition to all other rights and remedies it may have at law or otherwise.

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### **Loan Quality, Loan Performance Data and NPI**

Fannie Mae may at times share loan quality and loan performance data and other NPI with the seller/servicer in compliance with permitted purposes outlined in the Gramm-Leach-Bliley Act and other applicable privacy laws. The seller/servicer must use such data only for those limited permitted purposes.

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### **Feedback on New Products, Product Upgrade, or New Service Offering**

The seller/servicer may provide feedback in connection with a new product, product upgrade, or new service offering yet to be released by Fannie Mae in the marketplace. The feedback

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may include comments and recommendations. When the seller/servicer provides feedback, it grants Fannie Mae an unlimited, worldwide, perpetual, and irrevocable license under the seller/servicer's intellectual property rights, without duty to account, to disclose, incorporate, practice, deploy, or adapt such feedback.

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### **Specific Transactions or Dealings**

For specific transactions or dealings, the seller/servicer and Fannie Mae may enter into a separate written confidentiality agreement. This separate agreement will control in case of conflict with the provisions of this topic. In addition, the seller/servicer and Fannie Mae may also agree in a separate written agreement that the confidentiality obligations set forth in this topic will apply to Fannie Mae.

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### **Fannie Mae Obligations**

Fannie Mae will not disclose confidential information received from a seller/servicer in furtherance of this Guide to a third party, except as required or permitted by law.

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### **Exclusions from Confidential Information**

The obligations in this topic do not apply to information that

- is or becomes public through no fault of the seller/servicer,
  - was previously known or is disclosed to the seller/servicer free of any obligation to keep it confidential, or
  - is independently developed by the seller/servicer without reference or access to the Confidential Information.
- 

### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2017-01</a> | January 31, 2017  |
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015     |



## **A3-4-02, Data Quality and Integrity (10/24/2016)**

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### **Introduction**

This topic contains information on data quality and integrity, including:

- [Overview](#)
  - [Quality of Data on Form 1003](#)
  - [Entering Loan Data in Fannie Mae's Whole Loan Committing Application](#)
  - [Verification of Data in DU](#)
  - [Delivery Data](#)
  - [Reporting of Gross Monthly Rent](#)
  - [Life-of-Loan Representations and Warranties](#)
  - [Sources for Further Information](#)
- 

### **Overview**

It is imperative that the lender supply Fannie Mae with high-quality data. The accuracy and completeness of the data that a lender provides to Fannie Mae has a direct impact on the lender's ability to effect efficient secondary marketing transactions. In addition, Fannie Mae must report to the federal government certain information related to its housing goals, and relies on lender-provided data to make these reports.

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### **Quality of Data on Form 1003**

Fannie Mae relies on the lender to capture complete and accurate information from the borrower on the *Uniform Residential Loan Application* ([Form 1003](#)) during the loan application process. A complete, signed, and dated Form 1003 must be included in the loan file. It is particularly important for the lender to indicate whether the borrower is a first-time home buyer and for the lender to complete Part X of Form 1003: Information for Government Monitoring Purposes.

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### **Entering Loan Data in Fannie Mae's Whole Loan Committing Application**

Accurately entering loan data through Fannie Mae's whole loan committing application is critical to ensure that the lender obtains the product pricing desired. Inaccurate or insufficient data entered into the whole loan committing application may delay the transaction and result in unintended pair-off fees or insufficient funding for the lender's pipelines. Fannie Mae encourages lenders to utilize the additional information available via the links provided below.

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## Verification of Data in DU

All data entered into DU must be accurate and verifiable. For each underwriting recommendation rendered by DU, Fannie Mae requires the lender to have adequate procedures in place to validate the integrity of specific data. For specific quality control reviews that must be performed for each underwriting recommendation, see [D1-3-02, Lender Post-Closing Quality Control Review of Approval Conditions, Underwriting Decisions, and Documentation](#).

---

## Delivery Data

A lender must provide key information—called loan delivery data—about all of the mortgages that it delivers to Fannie Mae. Required delivery data includes information required under the Home Mortgage Disclosure Act and its implementing Regulation C and Housing Goals data elements. In certain cases, some of these data elements are not required to qualify a borrower or underwrite a loan; however, such data elements are required by Fannie Mae, and lenders must capture this data for delivery. If such data is not obtained through the traditional loan application process, it must be captured by the lender through other means and reported to Fannie Mae. (An example of this is reporting of gross monthly rent — see below.)

Fannie Mae monitors delivery data for completeness and accuracy. The lender will be required to correct data as needed. Initial submission of complete and accurate data is crucial because post-delivery efforts to obtain missing data or reconcile inconsistent data are time consuming and costly to Fannie Mae and the lender. Errors in a lender's delivery data may delay issuance of funds to the lender.

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## Reporting of Gross Monthly Rent

Eligible rents on the subject property (gross monthly rent) must be reported to Fannie Mae 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. If the borrower is using rental income from the subject property to qualify for the mortgage loan, the *Selling Guide* provides a list of acceptable documentation and calculation methods for determining the rental income amounts for qualifying purposes. These sources may also be used to obtain the gross monthly rental amount for reporting purposes. See [B3-3.1-08, Rental Income](#), for details.

If the borrower is not using any rental income from the subject property to qualify, gross monthly rent must be documented only for lender reporting purposes. The borrower can provide one of the sources listed in [B3-3.1-08, Rental Income](#), or may provide one of the following sources (listed in order of preference):

- 
- the appraisal report for a one-unit investment property or two- to four-unit property, or *Single-Family Comparable Rent Schedule* ([Form 1007](#)), provided neither the applicable appraisal nor Form 1007 is dated 12 months or more prior to the date of the note;
  - if the property is not currently rented, the lender may use the opinion of market rents provided by the appraiser; or
  - if an appraisal or Form 1007 is not required for the transaction, the lender may rely upon either a signed lease from the borrower or may obtain a statement from the borrower of the gross monthly rent being charged (or to be charged) for the property. The monthly rental amounts must be stated separately for each unit in a two- to four-unit property. The disclosure from the borrower must be in the form of one of the following:
    - a written statement from the borrower, or
    - an addition to the *Uniform Residential Loan Application* (Form 1003).

The lender must retain in the loan file the documentation that was relied upon to determine the amount of eligible rent reported.

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### **Life-of-Loan Representations and Warranties**

The lender is responsible for supplying Fannie Mae with high-quality, accurate, and complete data. Even if a mortgage loan has met the requirements for enforcement relief as set forth in [A2-2.1-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU](#), and [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#), the lender remains responsible for representations and warranties for the life of the loan related to misstatements, misrepresentations, omissions, and data inaccuracies subject to the limitations set forth in [A2-2.1-06, Life-of-Loan Representations and Warranties](#).

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### **Sources for Further Information**

The sources listed below provide additional information for lenders regarding the delivery of accurate and complete data to Fannie Mae.

- [A4-1-01, Maintaining Seller/Service Eligibility](#)
- [B1-1-01, Contents of the Application Package](#)
- [C1-2-02, Loan Data and Documentation Delivery Requirements](#)

- [Housing Goals Data](#) page on Fannie Mae's website
- [ULDD Quick Guide — Guidelines for Housing Goals](#)
- [Pricing & Execution Training](#)  
[Desktop Underwriter](#) Help & Training

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016   |
| <a href="#">Announcement SEL-2015-06</a> | May 26, 2015       |
| <a href="#">Announcement SEL-2014-16</a> | December 16, 2014  |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013      |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012      |
| <a href="#">Announcement SEL-2011-10</a> | September 27, 2011 |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011      |



## **A3-4-03, Preventing, Detecting, and Reporting Mortgage Fraud (02/23/2016)**

### Introduction

This topic contains information on preventing, detecting, and reporting mortgage fraud, including:

- [Overview](#)
- [Types of Fraud](#)
- [Lender Fraud-Prevention Measures](#)
- [Lender Hiring Practices](#)
- [Life-of-Loan Representations and Warranties Related to Misstatements, Misrepresentations, and Omissions](#)
- [Lender Reporting Requirements](#)
- [Tools and Resources](#)



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## Overview

Fannie Mae takes mortgage fraud very seriously and seeks to work with its lenders and servicers to prevent and detect mortgage fraud.

There are two primary motivations for committing mortgage fraud. Fraud for house is motivated by a desire to get a marginal borrower into a house and may involve misrepresentation of information on loan applications. Fraud for profit is motivated by a desire of mortgage participants to improperly acquire mortgage loan proceeds for personal gain. Often fraud for profit schemes involve a pattern: two or more mortgage loans, multiple parties in various roles within the mortgage industry, and no true intent to repay the mortgage. Participants in fraud schemes can include borrowers, originators, appraisers, brokers, real estate agents, closing agents, builders, lenders, and title companies.

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## Types of Fraud

There are a variety of types of mortgage fraud. These include:

- undisclosed liabilities,
- misrepresentation of income or employment,
- misrepresentation of credit,
- identity theft and/or Social Security number discrepancy,
- misrepresentation of assets,
- misrepresentation of occupancy,
- misrepresentation of property value,
- property flips based on inflated appraisals or other false characteristics,
- misrepresentation of the subject property characteristics or comparables,
- sale of fraudulent loans or double selling of loans,
- mishandling of escrow funds or custodial accounts, and
- diversion of sales proceeds.

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## **Lender Fraud-Prevention Measures**

Fannie Mae works closely with lenders to combat the growing problem of fraud in the mortgage industry. Fannie Mae assumes that the information and processes on which loan decisions are based are honest, accurate, and credible, and that lenders are striving for information and process integrity at every stage in the life of a mortgage—from application through servicing.

To prevent and detect fraud, it is critical that lenders know their business partners, aggressively sample their loan populations, carefully review transactions, and consider using outside resources. Specifically, lenders must:

- Have proper hiring practices in place, including careful reference checks. See Lender Hiring Practices below.
- Before engaging the services of any contractor or vendor or other individual involved in activities related to the origination or servicing of loans owned by Fannie Mae, confirm that the individual does not appear on the Federal Housing Finance Agency’s Suspended Counterparty Program list. See Lender Hiring Practices below.
- Aggressively sample loans that have a high risk for fraud as part of the quality control process. This includes loans that are early payment defaults or that involve problematic business sources, loans in high-risk areas (such as areas with high levels of early delinquencies or defaults), or those that have characteristics in common with previously detected fraudulent transactions.
- Evaluate appraisers and get references. Confirm that the appraiser is currently classified and has not been the subject of disciplinary action.
- Be selective in choosing closing attorneys and settlement agents, and communicate concerns about suspicious files to these individuals.
- Modify closing instructions to prevent flips without lender consent.
- Report suspected fraud to proper authorities.
- Report suspected fraud to Fannie Mae.

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## **Lender Hiring Practices**

The lender is required to document and implement as part of its hiring process a procedure for checking all employees, including management, involved in the origination of mortgage loans (including application through closing) against the U.S. General Services Administration (GSA)

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Excluded Parties List (EPL), the HUD Limited Denial of Participation List (LDP List), and the Federal Housing Finance Agency's (FHFA) Suspended Counterparty Program (SCP) list.

Allowing individuals on these lists to manage or perform origination functions may increase the lender's and Fannie Mae's exposure to fraud. Therefore, Fannie Mae requires that if, at the time of hire, the lender has determined that an individual is on the GSA, LDP, or SCP list, the lender may not permit that employee to manage or perform origination functions on loans sold to Fannie Mae.

**Note:** An individual confirmed to be on one of these lists *for any reason* may not be permitted to manage or perform origination functions on any loans sold to Fannie Mae. For example, an individual who is excluded from participating in HUD multifamily programs should be excluded from involvement in the origination of any Fannie Mae loans.

Furthermore, if the lender obtains third-party originated loans, the lender must confirm that the third-party originator has a documented procedure for checking their potential employees against the lists.

Lenders can access the GSA, LDP, and SCP lists via the links provided below:

- GSA EPL – available through GSA's [System for Award Management](#) website. The review of GSA EPL must include a search for actions taken across all federal agencies.
- HUD's LDP List – available through [HUD's website](#).
- FHFA's SCP List – available through [FHFA's website](#).

The GSA and LDP lists are also available via [AllRegs](#).

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### **Life-of-Loan Representations and Warranties Related to Misstatements, Misrepresentations, and Omissions**

Even if a mortgage loan has met the requirements for enforcement relief set forth in [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#), the lender remains responsible for representations and warranties for the life of the loan related to misstatements, misrepresentations, and omissions as set forth in [A2-2.1-06, Life-of-Loan Representations and Warranties](#).

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### **Lender Reporting Requirements**

A lender must notify Fannie Mae if it learns about any misrepresentation or fraud. It must do so regardless of who committed the act or whether the lender believes that the act resulted in an

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actual breach of its selling warranties. Before notifying Fannie Mae about any misrepresentation or fraud, a lender should conduct appropriate due diligence to determine whether a reasonable basis exists to conclude that misrepresentation or fraud may have occurred. If such reasonable basis exists, a lender must notify Fannie Mae within 30 days via the Lender Self-Report Mailbox (see [E-1-03, List of Contacts](#)). This includes any fraudulent or dishonest activities by lenders, contractors, or brokers. A record of activity under the internal audit and management control systems must be maintained and made available to Fannie Mae upon request. Fannie Mae may perform additional audit procedures as needed.

For information about a lender's responsibility for reporting other possible breaches of selling warranties, see [A2-2-01, Contractual Representations and Warranties](#). Lenders that have information concerning possible mortgage fraud or misrepresentation must contact the Lender Self-Report Mailbox (see [E-1-03, List of Contacts](#)). Indications of potential mortgage fraud may also be directed to Mortgage Fraud Reporting (see [E-1-03, List of Contacts](#)).

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## Tools and Resources

Fannie Mae has resources for help in preventing and detecting mortgage fraud at [Mortgage Fraud Prevention](#). Fannie Mae also has anti-fraud tools available to registered lenders with DU.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2014-11</a> | August 26, 2014   |
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014     |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013   |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |

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# Chapter A3-5, Fidelity Bond and Errors and Omissions Coverage



## Fidelity Bond and Errors and Omissions Coverage

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### Introduction

This chapter describes Fannie Mae's fidelity bond and errors and omissions coverage and policy requirements.

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### In This Chapter

This chapter provides information on the following subjects:

|  |     |
|--|-----|
| A3-5-01, Fidelity Bond and Errors and Omissions Coverage Provisions (01/31/2017) . . . . . | 163 |
| A3-5-02, Fidelity Bond Policy Requirements (01/31/2017) . . . . .                          | 165 |
| A3-5-03, Errors and Omissions Policy Requirements (01/31/2017) . . . . .                   | 166 |
| A3-5-04, Reporting Fidelity Bond and Errors and Omissions Events (01/31/2017) . . . . .    | 168 |

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## A3-5-01, Fidelity Bond and Errors and Omissions Coverage Provisions (01/31/2017)

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### Introduction

This topic contains information on the provisions of the fidelity bond and errors and omissions insurance policies.

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### Fidelity Bond and Errors and Omissions

A seller/servicer must have a blanket fidelity bond and an errors and omissions insurance policy in effect at all times. These policies must insure the seller/servicer against losses resulting from dishonest or fraudulent acts committed by the seller/servicer's personnel, any employees of outside firms that provide data processing services for the seller/servicer, and temporary

contract employees or student interns. The fidelity bond also should protect against dishonest or fraudulent acts by the seller/servicer's principal owner, if the seller/servicer's insurance underwriter provides that type of coverage. The seller/servicer also must obtain a direct surety bond to cover any officers (including its principal owner) if they cannot be covered by the fidelity bond.

A seller/servicer that is a subsidiary of another institution may use its parent's fidelity bond and errors and omissions insurance policy as long as it is named as a joint insured under the bond or policy. However, if the parent's deductible amount exceeds the maximum deductible that Fannie Mae would allow based on the seller/servicer's total servicing portfolio, the seller/servicer must obtain a fidelity bond in its own name for an amount that is at least equal to the amount of the parent's deductible, with a separate deductible amount that is no higher than the maximum amount Fannie Mae allows for the seller/servicer's coverage. For example, if Fannie Mae requires a seller/servicer to maintain a fidelity bond of at least \$5 million (with a deductible amount of no more than \$250,000) and the seller/servicer is named as a joint insured on its parent's bond of \$50 million (with a deductible amount of \$2.5 million), the seller/servicer must maintain its own separate bond for at least \$2.5 million (with a maximum deductible of \$250,000). Corporate sellers/servicers may obtain coverage under the Mortgage Bankers Blanket Bond Policy, the Savings and Loan Blanket Bond Policy, or the Bankers Blanket Bond Policy. Fannie Mae also will accept coverage underwritten by an insurer that is affiliated with Lloyd's of London. However, the seller/servicer must obtain individual coverage if owned as a sole proprietorship or as a partnership.

Each fidelity bond or errors and omissions insurance policy must include the following provisions (when they can be obtained):

- Fannie Mae is named as a "loss payee" on drafts the insurer issues to pay for covered losses incurred by Fannie Mae,
- Fannie Mae has the right to file a claim directly with the insurer if the seller/servicer fails to file a claim for a covered loss incurred by Fannie Mae,
- Fannie Mae will be notified at least 30 days before the insurer cancels, reduces, declines to renew, or imposes a restrictive modification to the seller/servicer's coverage for any reason other than a partial or full exhaustion of the insurer's limit of liability under the policy, and
- a provision that the insurer will notify Fannie Mae within ten days after the insurer receives a seller/servicer's request to cancel or reduce any coverage.

Within 30 days after a seller/servicer obtains (or renews) its fidelity bond or its errors and omissions coverage, it should send a copy of the insurance certificate to its lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)). If the seller/servicer obtains an endorsement to the

bond or policy or obtains additional coverage, it also should provide a copy of the endorsement or a description of the additional coverage, unless the information can be summarized substantively on the insurance certificate.

The insurance certificate should indicate:

- the insurer's name,
  - the bond or policy number,
  - the named insured,
  - the type and amount of coverage (specifying whether the insurer's liability limits are on an aggregate loss or per mortgage basis),
  - the effective date of the coverage, and
  - the deductible amount.
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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcement                             | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2017-01</a> | January 31, 2017 |

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## **A3-5-02, Fidelity Bond Policy Requirements (01/31/2017)**

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### Introduction

This topic contains information on fidelity bond policy requirements.

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### Fidelity Bond Coverage

The fidelity bond coverage must be equal to a percentage of the total portfolio of residential mortgages that the seller/servicer services for itself and all other investors, including Fannie Mae. The amount of coverage required for a direct surety bond covering officers not included in a seller/servicer's fidelity bond coverage is calculated the same way as fidelity bond coverage,

except that the percentages are applied only to the seller/servicer's Fannie Mae servicing portfolio. The deductible limits for fidelity bonds also apply to direct surety bonds.

The amount of fidelity bond coverage is determined in accordance with the following:

| Coverage Required                          | Mortgages Serviced    |
|--|-----------------------|
| \$300,000                                  | \$100,000,000 or less |
| +0.150% of the next \$400,000,000          |                       |
| +0.125% of the next \$500,000,000          |                       |
| +0.100% of any amount over \$1,000,000,000 |                       |

The policy's deductible clause may be for any amount up to the greater of \$100,000 or 5% of the face amount of the bond.

The seller/servicer must get Fannie Mae's permission for higher deductible amounts. The seller/servicer's request for a higher deductible amount should explain the reason for the request and provide a copy of the seller/servicer's most recent audited financial statements (prepared under generally accepted accounting principles).

## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2017-01</a> | January 31, 2017 |



## **A3-5-03, Errors and Omissions Policy Requirements (01/31/2017)**

### Introduction

This topic describes errors and omissions policy requirements, including:

- [Errors and Omissions](#)
- [Deductible Clause](#)
- [Mortgage Impairment or Substitute for Errors and Omissions](#)



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## Errors and Omissions

The errors and omissions policy must, at least, protect the seller/servicer against negligence, errors, and omissions in:

- maintaining property and flood insurance that meets Fannie Mae's requirements,
- maintaining any required mortgage insurance or loan guaranty,
- determining whether properties are located in Special Flood Hazard Areas,
- paying real estate taxes and any special assessments, and
- complying with reporting requirements of the mortgage insurer or guarantor.

The errors and omissions coverage should equal the amount of the seller/servicer's fidelity bond coverage. However, Fannie Mae does not require errors and omissions coverage in excess of \$10 million if the seller/servicer's portfolio consists only of mortgages secured by one- to four-unit properties. See the formula in [A3-5-02, Fidelity Bond Policy Requirements](#) to determine the amount of coverage required.

Fannie Mae accepts policies that provide for either coverage per aggregate loss or coverage per mortgage. If the policy provides coverage per mortgage:

- the insurer's liability must at least equal the amount of the highest unpaid principal balance for a residential mortgage that the seller/servicer has in its portfolio, and
- the seller/servicer must review the balances of the mortgages it services before each premium renewal date to determine whether this limitation needs to be increased as the result of the origination of higher balance mortgages during the last coverage period.

The errors and omissions policy may place sublimits on the insurer's liability for the different types of losses, although the policy must provide for full liability on property insurance losses.

Sublimits of liability must equal at least 15% of the liability that applies for property insurance.

For example, if the highest unpaid balance in the seller/servicer's portfolio is \$300,000, the property insurance liability would be \$300,000 and the insurer could limit its liability for real estate tax losses to \$45,000 (15% of \$300,000).

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## Deductible Clause

For policies that provide coverage per mortgage, the maximum deductible amount for each mortgage cannot be more than 5% of the insurer's liability per mortgage.

For policies that provide coverage per aggregate loss, the deductible clause may be for any amount up to the greater of \$100,000 or 5% of the face amount of the policy. For example, if a policy provides \$100,000 liability per mortgage, the deductible amount for each mortgage should be \$5,000, regardless of the actual principal balance of the mortgage.

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### **Mortgage Impairment or Substitute for Errors and Omissions**

Fannie Mae will accept a mortgage impairment or mortgage interest policy as a substitute for an errors and omissions policy, provided Fannie Mae receives substantially the same coverage that an errors and omissions policy would provide.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2017-01</a> | January 31, 2017  |
| <a href="#">Announcement SEL-2010-02</a> | March 2, 2010     |



## **A3-5-04, Reporting Fidelity Bond and Errors and Omissions Events (01/31/2017)**

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### **Introduction**

This topic contains information on reporting fidelity bond and errors and omissions events.

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### **Reporting Fidelity Bond and Errors and Omissions Events**

The seller/servicer must report the following events to Fannie Mae within ten business days after they occur:

- The occurrence of a single fidelity bond or errors and omissions policy loss that exceeds \$100,000—even when no claim will be filed or when Fannie Mae’s interest will not be affected.

- The receipt of a notice from the insurer regarding the intended cancellation, reduction, nonrenewal, or restrictive modification of the seller/servicer’s fidelity bond or errors and omissions policy.

The seller/servicer must send Fannie Mae a copy of the insurer’s notice, describe in detail the reason for the insurer’s action if it is not stated in the notice, and explain the efforts it has made to obtain replacement coverage or to otherwise satisfy Fannie Mae’s insurance requirements.

If Fannie Mae funds are not involved, the seller/servicer must promptly advise Fannie Mae of all cases of embezzlement or fraud in its organization even if no loss has been incurred. The seller/servicer’s report should indicate the total amount of any loss regardless of whether a claim was filed with an insurer.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2017-01</a> | January 31, 2017  |

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# Subpart A4, Maintaining Seller/Servicer Eligibility



## Maintaining Seller/Servicer Eligibility

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### Introduction

This subpart contains the requirements to which sellers/servicers must adhere in order to maintain their eligibility to transact business with Fannie Mae. It describes the financial statements, operational reports, and Lender Record information that sellers/servicers must submit to Fannie Mae, and it addresses the types of organizational changes and events for which sellers/servicers must notify Fannie Mae in writing.

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### In This Subpart

This subpart contains the following chapters:

|   |     |
|---|-----|
| A4-1, Maintaining Seller/Servicer Eligibility: Overview .....   | 171 |
| A4-2, Submission of Operational and Financial Information ..... | 177 |
| A4-3, Changes in the Seller/Servicer's Organization .....       | 183 |

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# Chapter A4-1, Maintaining Seller/Servicer Eligibility: Overview



## Maintaining Seller/Servicer Eligibility: Overview

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### Introduction

This chapter describes the requirements a seller/servicer must satisfy to maintain or reactivate its status as a Fannie Mae-approved seller/servicer. Reactivated sellers/servicers may again deliver loans to Fannie Mae and/or service Fannie Mae loans (and subservice loans for other Fannie Mae-approved servicers). It also includes information on the servicer's required rating.

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### In This Chapter

This chapter contains the following topics

[A4-1-01, Maintaining Seller/Servicer Eligibility \(01/31/2017\)](#) ..... 171

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## A4-1-01, Maintaining Seller/Servicer Eligibility (01/31/2017)

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### Introduction

This topic contains information on maintaining seller/servicer eligibility, including:

- [Minimum Financial Requirements](#)
  - [Additional Financial Requirements](#)
  - [Compliance with Lender Contract](#)
  - [Eligible Seller/Servicer Maintenance Fee](#)
  - [Deactivated Sellers/Servicers](#)
  - [Requirements for Servicer Rating](#)
- 

### Minimum Financial Requirements

Sellers/servicers must meet minimum net worth, capital, and liquidity requirements to maintain their seller/servicer eligibility. If a seller/servicer fails to maintain any of these minimum requirements, such failure constitutes a breach of the Lender Contract:

**Minimum Net Worth:** All approved sellers/servicers must maintain a minimum Lender Adjusted Net Worth, calculated in accordance with [A1-1-01, Application and Approval of Seller/Servicer](#), of at least \$2.5 million, plus a dollar amount that represents 0.25% of the unpaid principal balance (UPB) of the seller/servicer’s total portfolio of one- to four-unit residential mortgage loans for which the seller/servicer is contractually obligated to service for the owner of the loan. The minimum Lender Adjusted Net Worth does not include mortgage loans serviced under a subservicing arrangement—that is, for which the seller/servicer is contractually obligated to service for another servicer.

**Note:** For entities such as nonprofit corporations whose financial reporting requirements or standards do not facilitate calculation of Lender Adjusted Net Worth, as discussed above, Fannie Mae will determine equivalent financial data to determine compliance with the minimum net worth requirements.

**Minimum Capital:** Sellers/servicers also must have minimum acceptable levels of capital. Sellers/servicers that are depository institutions are required to meet the minimum regulatory capital requirements of their primary regulator. All other entities must have a minimum Lender Adjusted Net/Total Assets ratio of 6%, or equivalent, as determined by Fannie Mae.

**Minimum Liquidity for Non-Depository Sellers/Servicers:** Non-depository sellers/servicers must maintain a minimum liquidity requirement based on the Agency Serious Delinquency (SDQ) Rate, as described in the following table.

The Agency SDQ Rate is defined as:

100 times (the UPB of loans 90 days or more delinquent or in foreclosure for Fannie Mae, Freddie Mac, and Ginnie Mae divided by the total UPB of mortgage loans serviced for Fannie Mae, Freddie Mac, and Ginnie Mae.

| If the Agency SDQ Rate is ... | Then the minimum liquidity requirement is ...   |
|-------------------------------|---|
| less than or equal to 6%      | .035% of the UPB of the seller/servicer’s portfolio of the mortgage loans serviced for Fannie Mae, Freddie Mac, and Ginnie Mae.   |
| greater than 6%               | <ul style="list-style-type: none"> <li>• .035% of the UPB of the seller/servicer’s portfolio of the mortgage loans serviced for Fannie Mae, Freddie Mac, and Ginnie Mae.</li> <li>• 2% of the UPB of the Agency SDQ Rate over 6%.</li> </ul> <p><b>Example:</b></p> |

| If the Agency SDQ Rate is ... | Then the minimum liquidity requirement is ...   |
|-------------------------------|---|
|                               | <p>Total UPB of mortgage loans serviced for Fannie Mae, Freddie Mac, and Ginnie Mae = \$100,000,000</p> <ul style="list-style-type: none"> <li>• Agency SDQ Rate = 7%</li> <li>• Base liquidity = .035% times \$100,000,000 = \$35,000</li> <li>• Incremental liquidity amount = 2% times \$100,000,000 times (7% minus 6%) = \$20,000</li> <li>• Minimum liquidity requirement = \$35,000 + \$20,000 = \$55,000</li> </ul> |

The minimum liquidity requirement for subservicers does not include mortgage loans serviced for another servicer. Available liquidity includes

- unrestricted cash and cash equivalents;
- Allowable for Sale or Held for Trading investment grade securities including Agency MBS;
- obligations of GSEs, and U.S. Treasury obligations; and
- unused, undesignated, and available portions of credit lines, including those for, or partially for, servicing advances.

### Additional Financial Requirements

Fannie Mae may, at any time based on its view of a seller/servicer's financial strength, impose additional financial requirements, including enhanced net worth, capital, or liquidity requirements, as well as provisions related to

- declines in net worth,
- profitability,
- cross-default, and
- recourse.

Any additional requirements Fannie Mae imposes may apply to a particular seller/servicer, a defined group or type of seller/servicer, or all sellers/servicers. A seller/servicer's failure to comply with any additional requirements may result in Fannie Mae declaring a breach of the Lender Contract.

**Decline in Net Worth:** Fannie Mae may declare a breach of the Lender Contract in the event of a material decline in a Lender's Adjusted Net Worth. Typically Fannie Mae considers a decline in Lender Adjusted Net Worth of more than 25% over a quarterly reporting period, or more than 40% over two-consecutive quarterly reporting periods, to be material.

**Profitability:** Fannie Mae may declare a breach of the Lender Contract if the seller/servicer records four or more consecutive quarterly losses and experiences a decline in its Lender Adjusted Net Worth of 30% or more during the same period.

**Cross-default Provisions:** A seller/servicer must provide Fannie Mae with notification in the form of an updated *Lender Record Information (Form 582)*, within 30 days of the occurrence of any of the following:

- a breach by the seller/servicer on a credit or funding facility, including warehouse lines or servicing advance lines of credit;
- a breach by any seller/servicer-affiliated or related entity in any of its obligations with Fannie Mae, including parental guarantees; or
- a breach of any agreements with any other creditors where such breach involves an amount that exceeds 3% of the seller/servicer's Lender Adjusted Net Worth.

The notice must be provided to Fannie Mae electronically. At any time after receipt of such notice or Fannie Mae otherwise learning of such a breach, provided such breach has not been cured within any applicable cure period in such agreement, Fannie Mae may declare a breach of the Lender Contract.

**Recourse Obligation:** Fannie Mae may permit a seller/servicer to take on credit recourse obligations, provided the seller/servicer meets additional requirements imposed by Fannie Mae on the seller/servicer. Fannie Mae will assess the financial strength of the seller/servicer to determine whether the seller/servicer can take on credit recourse obligations. If permitted, Fannie Mae will determine whether the seller/servicer must post collateral or provide other forms of risk reduction measures to secure the additional obligations.

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## Compliance with Lender Contract

To maintain eligibility as a seller/servicer, the seller/servicer must comply with its Lender Contract. Failure to do so is a breach of the Lender Contract.



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### Eligible Seller/Servicer Maintenance Fee

Sellers/servicers will be assessed an Eligible Seller/Servicer Maintenance Fee of \$1,000 at the beginning of each calendar year. Fannie Mae will waive this annual fee if a seller/servicer has met either of the following thresholds during the previous calendar year:

- delivered at least one mortgage loan, as a whole loan or in an MBS pool, to Fannie Mae; or
- owned (as master servicer) the servicing rights for a portfolio of Fannie Mae loans as of December 31, with a minimum unpaid principal balance of \$25 million.

Amounts due will be billed during the first quarter of the calendar year. Failure to pay the Eligible Seller/Servicer Maintenance Fee in a timely manner will result in Fannie Mae's revoking the seller/servicer approval.

---

### Deactivated Sellers/Servicers

If a seller/servicer has not delivered any mortgage loans to Fannie Mae in the previous calendar year, the seller/servicer's status may be deactivated. Once deactivated, the seller/servicer will be required to go through the reactivation process in order to be eligible to sell (if selling status was deactivated) or service (if servicing status was deactivated).

**Reactivation Process:** The seller/servicer will be re-activated as a Fannie Mae seller/servicer after Fannie Mae reviews the applicable documentation and determines that the seller/servicer meets the eligibility requirements. The seller/servicer will be charged a \$2,500 reactivation fee to complete the reactivation process. This fee will be waived for a selling reactivation if the seller was the owner (as master servicer) of the servicing rights for a portfolio of Fannie Mae loans as of December 31, with a minimum unpaid principal balance of \$25 million. This fee will also be waived for a servicing reactivation if the seller has delivered at least one mortgage loan, as a whole loan or in an MBS pool, to Fannie Mae during the previous calendar year.

---

### Requirements for Servicer Rating

The servicer that has external servicer ratings as a primary servicer for prime residential mortgage loans must obtain a rating from at least one of the following agencies and must maintain the corresponding minimum rating provided in the following table:

| Rating Agency             | Minimum Required Rating |
|---------------------------|-------------------------|
| Moody's Investors Service | SQ3                     |

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| <b>Rating Agency</b>    | <b>Minimum Required Rating</b> |
|-------------------------|--------------------------------|
| Standard & Poor's, Inc. | Average                        |
| Fitch, Inc.             | RPS3                           |

The servicer of Alt-A or non-prime products must maintain ratings equivalent to the ratings for prime servicers if the servicer's Lender Contract does not have any required minimum servicer ratings. If servicer ratings are available from fewer than three agencies, all available ratings must comply with the standards above.

---

### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2017-01</a> | January 31, 2017   |
| <a href="#">Announcement SEL-2015-13</a> | December 15, 2015  |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2012-10</a> | October 2, 2012    |
| <a href="#">Announcement SEL-2011-13</a> | December 20, 2011  |

---

# Chapter A4-2, Submission of Operational and Financial Information



## Submission of Operational and Financial Information

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### Introduction

This chapter explains the financial statements, operational reports, and *Lender Record Information* form that an approved seller/servicer must submit to Fannie Mae to demonstrate its continued compliance with Fannie Mae's requirements.

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### In This Chapter

This chapter contains the following topics:

|   |     |
|---|-----|
| A4-2-01, DELETED TOPIC: Net Worth, Liquidity, and Credit Rating Requirements (01/31/2017) ..... | 177 |
| A4-2-02, Financial Statements and Reports (01/31/2017) .....                                    | 178 |
| A4-2-03, Lender Record Information (Form 582) (01/31/2017) .....                                | 181 |

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## A4-2-01, DELETED TOPIC: Net Worth, Liquidity, and Credit Rating Requirements (01/31/2017)

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### Introduction

The contents in this topic were deleted.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Dates        |
|--|--------------------|
| <a href="#">Announcement SEL-2017-01</a> | January 31, 2017   |
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015      |
| <a href="#">Announcement SEL-2011-01</a> | January 27, 2011   |
| <a href="#">Announcement 08-23</a>       | September 16, 2008 |



## A4-2-02, Financial Statements and Reports (01/31/2017)

### Introduction

This topic contains information on financial statements and reports, including:

- [Financial Reporting Requirements](#)
- [Financial Statement Requirements](#)
- [Submission of Special Financial Reports](#)
- [Failure to Submit Required Financial Reports](#)

---

### Financial Reporting Requirements

The seller/servicer must demonstrate its financial adequacy to Fannie Mae. To demonstrate financial adequacy, Fannie Mae requires the seller/servicer to submit its audited annual financial statements and the *Authorization for Verification of Credit and Business References* ([Form 1001](#)), within 90 days after the end of the seller/servicer's fiscal year. Form 1001 is used to identify the presence of any new principal officers, partners, or owners (either direct or indirect) of a 5% or more interest in the seller/servicer. The audited annual financial statements and the executed Form 1001 may be sent either electronically or via hard copy to Fannie Mae's Lender Eligibility and Compliance Unit. (See [E-1-03, List of Contacts](#)).

In addition, Fannie Mae may, at any time, require the seller/servicer to submit unaudited financial statements, audited financial statements other than the annual statements (if reasonably

available), or any other financial information that Fannie Mae considers necessary and reasonable. Fannie Mae also has the right to require more frequent and more detailed financial reporting from a seller/servicer so that it can better monitor the continuing eligibility of the seller/servicer or additional financial requirements imposed by Fannie Mae on the seller/servicer. A seller/servicer's failure to timely provide the additional financial reporting upon Fannie Mae's request may result in Fannie Mae declaring a breach of the Lender Contract.

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### **Financial Statement Requirements**

Financial statements must be prepared under Generally Accepted Accounting Principles (GAAP), must include the opinion of an independent public accountant, and must be comparative with the previous year's reports.

If the seller/servicer's financial statements are consolidated with those of its parent or holding company, they must contain sufficient detail to enable Fannie Mae to review the seller/servicer's financial data separately from that of the other companies.

Financial statements must include the following:

- a balance sheet,
- an income statement,
- a statement of retained earnings,
- a statement of additional paid-in capital,
- a statement of changes in financial position, and
- all related notes.

A seller/servicer that is a state- or federally-supervised depository institution may submit its latest published financial statements if audited statements are not available every year, provided the seller/servicer submits a written certification that it does not get yearly audited statements and that the published statements are identical to those submitted to its supervising authority. A balance sheet, income statement, and statement of changes in financial position must also be submitted if they are not included in the published statements.

A seller/servicer that is not a supervised depository institution, but is a HUD-approved mortgagee, may submit a copy of the annual financial audit report required by HUD instead of sending separate financial statements.

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## Submission of Special Financial Reports

A seller/servicer that is a mortgage banker (including one that is a subsidiary of a federally supervised depository institution), housing finance agency, or real estate investment trust must submit a *Mortgage Bankers' Financial Reporting Form* ([Form 1002](#)) following the end of each calendar quarter.

The seller/servicer must submit this information within 30 days for the March 31, June 30, and September 30 reports and within 60 days for the December 31 report.

Each report should include only the financial data related to the quarterly reporting period for which the report is being submitted.

A seller/servicer that operates under an accounting cycle other than the standard calendar quarterly cycle does not need to change its methodology, but it needs to be sure that the information submitted with each reporting period includes data for only the quarter required for that specific report.

Incomplete, inaccurate, or late submissions may affect a seller/servicer's ability to conduct business with Fannie Mae. Should extenuating circumstances prevent a seller/servicer from filing on time, it must provide timely notification to Fannie Mae.

Because the information on this form will be used by Fannie Mae, Freddie Mac, Ginnie Mae, and the Mortgage Bankers' Association, the seller/servicer must submit its data electronically, as specified in the form.

---

## Failure to Submit Required Financial Reports

Untimely submission of financial statements, as well as untimely submissions of the [Forms 1001](#), [Form 1002](#), and [Form 582](#) as referenced in this Chapter, constitutes an inadequate verification of the seller/servicer's ability to meet Fannie Mae's financial and eligibility requirements. Therefore, if a seller/servicer fails to timely submit required financial reports and information, one or more of the following may occur:

- Fannie Mae may suspend the seller/servicer's privileges for selling or servicing mortgages or terminate the Lender Contract if Fannie Mae does not receive the requested financial reports and information when they are due.
- Fannie Mae may exercise any other available and appropriate remedy, including charging a compensatory fee of \$1,000 per month until Fannie Mae receives the requested reports.

- Fannie Mae may also require seller/servicers to provide special reports related to financial information about their operations.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2017-01</a> | January 31, 2017   |
| <a href="#">Announcement SEL-2014-06</a> | May 27, 2014       |
| <a href="#">Announcement 08-23</a>       | September 16, 2008 |



## A4-2-03, Lender Record Information (Form 582) (01/31/2017)

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### Introduction

This topic contains information on the submission of *Lender Record Information* to Fannie Mae, including:

- [Lender Record Information Form](#)
- [Submitting the Lender Record Information Form](#)

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### Lender Record Information Form

The *Lender Record Information* ([Form 582](#)) provides information needed to verify that the seller/servicer continues to meet Fannie Mae's basic eligibility requirements as well as certifications regarding compliance with Fannie Mae requirements such as insurance, compliance with laws and the seller/servicer's authority to transact business with Fannie Mae. Refer to Form 582 for the specifics of the required information and certifications.

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### Submitting the Lender Record Information Form

The seller/servicer must update its Form 582 when it submits its annual financial statements, within 90 days of its fiscal year-end. The form must be submitted to Fannie Mae electronically. To obtain user IDs to access and submit the online Form 582, refer to [Fannie Mae's website](#).

After the initial report submission, the seller/servicer must submit updates as changes to its status occur. Sellers/servicers that submit updates throughout the year can substantially reduce their fiscal year-end reporting.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcement</b>                             | <b>Issue Date</b> |
|---|-------------------|
| <a href="#"><u>Announcement SEL-2017-01</u></a> | January 31, 2017  |
| <a href="#"><u>Announcement SEL-2014-03</u></a> | April 15, 2014    |

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## Chapter A4-3, Changes in the Seller/ Servicer's Organization



### Changes in the Seller/Servicer's Organization

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#### Introduction

This chapter describes the types of organizational changes and events for which an approved seller/servicer must provide advance written notice to Fannie Mae.

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#### In This Chapter

This chapter provides information on the following subject:

[A4-3-01, Report of Changes in the Seller/Servicer's Organization \(01/31/2017\)](#) . . . . . 183

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### A4-3-01, Report of Changes in the Seller/Servicer's Organization (01/31/2017)

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#### Introduction

This topic contains information on the reporting of changes in the seller/servicer's organization.

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#### Report of Changes in the Seller/Servicer's Organization

The seller/servicer must send Fannie Mae advance written notice of any contemplated major changes in its organization to allow Fannie Mae adequate time to review and analyze the contemplated change and provide its prior written approval or notice of non-objection or objection, where required. The written notice from the seller/servicer must include copies of any filings with, or approvals from, the seller/servicer's state and/or other regulatory authority. The seller/servicer should contact its lead Fannie Mae regional office for additional guidance or may email the notice to the Changes in Lender Organization mailbox found on [E-1-03, List of Contacts](#).

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Examples of the major changes that require advance written notice include, but are not limited to, the following:

- any mergers, consolidations, or reorganizations;
- the sale of all or substantially all of the seller/servicer's assets or the purchase of all or substantially all of the assets of another Fannie Mae-approved seller or servicer;
- any substantial change in ownership, regardless of whether it is by direct or indirect means (indirect means include any change in the ownership of the seller/servicer's parent, any owner of the parent, or any other beneficial owner of the seller/servicer that does not own a direct interest in the seller/servicer);
- a change in an organization's legal structure or charter;
- the change of any senior management personnel;
- a significant change in the seller/servicer's financial position;
- a change in the legal name of the seller/servicer's organization; or
- a change in the address of its principal place of business.

Changes of the type described in the first four bullet points above require Fannie Mae's prior written approval of or notice of non-objection to the change before the change is made.

If the seller/servicer fails to provide adequate advance written notice of or obtain prior written approval or notice of non-objection (where required) for such contemplated changes, such failure is a breach of the Lender Contract and Fannie Mae may exercise any available remedies.

The seller/servicer is also required to provide immediate written notice to Fannie Mae if a regulatory agency assumes a participatory role in the management of the seller/servicer's operations.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2017-01</a> | January 31, 2017   |
| <a href="#">Announcement SEL-2015-03</a> | March 31, 2015     |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |



# Part B, Origination Through Closing



## Origination Through Closing

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### Introduction

This part provides the requirements for originating conventional and government loans for sale to Fannie Mae.

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### [Subpart B1, Loan Application Package](#)

This subpart contains information concerning the documentation required in application packages for loans to be delivered to Fannie Mae and the allowable age of credit documents. It also includes a sample borrower authorization form.

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### [Subpart B2, Eligibility](#)

This subpart provides Fannie Mae eligibility policies.

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### [Subpart B3, Underwriting Borrowers](#)

This subpart contains borrower underwriting policies for conventional mortgage loans for sale to Fannie Mae.

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### [Subpart B4, Underwriting Property](#)

This subpart contains property eligibility and underwriting policies for conventional loans for sale to Fannie Mae.

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### [Subpart B5, Unique Eligibility and Underwriting Considerations](#)

This subpart contains unique eligibility and underwriting considerations. Where appropriate, references to Fannie Mae's standard underwriting policies and requirements are provided.

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### [Subpart B6, Government Programs Eligibility and Underwriting Requirements](#)

This subpart contains information on eligible government mortgage programs.

### [Subpart B7, Insurance](#)

This subpart provides requirements for mortgage, title, and other types of insurance.

### [Subpart B8, Closing: Legal Documents](#)

This subpart provides Fannie Mae's policies on documenting the loan closing process.

### **In This Part**

This part contains the following subparts:

|   |      |
|---|------|
| <a href="#">Subpart B1, Loan Application Package</a>                                      | 188  |
| <a href="#">Subpart B2, Eligibility</a>   | 197  |
| <a href="#">Subpart B3, Underwriting Borrowers</a>  | 316  |
| <a href="#">Subpart B4, Underwriting Property</a>   | 583  |
| <a href="#">Subpart B5, Unique Eligibility and Underwriting Considerations</a>            | 769  |
| <a href="#">Subpart B6, Government Programs Eligibility and Underwriting Requirements</a> | 939  |
| <a href="#">Subpart B7, Insurance</a>   | 951  |
| <a href="#">Subpart B8, Closing: Legal Documents</a>                                      | 1015 |

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# Subpart B1, Loan Application Package



## Loan Application Package

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### Introduction

This subpart describes the documentation required in application packages for loans to be delivered to Fannie Mae. It describes the allowable age of credit documents and provides a sample of a borrower’s signature authorization form.

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### In This Subpart

This subpart contains the following chapter:

|   |     |
|---|-----|
| <a href="#">B1-1, Application Package Documentation</a> ..... | 189 |
|---|-----|

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# Chapter B1-1, Application Package Documentation



## Application Package Documentation

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### Introduction

This chapter describes the documents that must be included in the loan application package, and provides a sample Blanket Authorization form. This chapter also contains information on the allowable age of credit documents and federal income tax returns.

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### In This Chapter

This chapter contains the following topics:

|   |     |
|---|-----|
| B1-1-01, Contents of the Application Package (12/16/2014) .....                                 | 189 |
| B1-1-02, Blanket Authorization Form (04/01/2009) .....  | 192 |
| B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns<br>(10/24/2016) ..... | 193 |

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## B1-1-01, Contents of the Application Package (12/16/2014)

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### Introduction

This topic contains information on the contents of the application package, including:

- [Documenting the Loan Application](#)
  - [Requirements for the Loan Application Package](#)
  - [Uniform Underwriting and Transmittal Summary and DU Underwriting Analysis Report](#)
  - [Preliminary Review of Borrower's Application](#)
- 

### Documenting the Loan Application

A loan application must be documented on the following forms:

- the *Uniform Residential Loan Application* ([Form 1003](#) or [Form 1003\(S\)](#))
- if applicable, a *Statement of Assets and Liabilities* ([Form 1003A](#) or [Form 1003AS](#)).

The initial loan application must include sufficient information for the underwriter to reach an informed decision about whether to approve the mortgage loan. The final loan application signed by the borrower must include all income and debts disclosed or identified during the mortgage process.

A complete, signed, and dated version of the original and final Form 1003 or Form 1003(s) must be included in the mortgage file. Except as provided below, if either the note or the security instrument is executed pursuant to a power of attorney in accordance with this Guide, then the final (but not the original) loan application may also be executed pursuant to that same power of attorney. See [B8-2-03, Signature Requirements for Security Instruments](#), [B8-3-03, Signature Requirements for Notes](#), [B8-5-06, Requirements for Use of a Power of Attorney](#), for additional information. Notwithstanding the preceding sentence, a power of attorney may be used to execute both the original and final Form 1003 or Form 1003(s) if either

- a borrower is on military service with the United States armed forces serving outside the United States or deployed aboard a United States vessel, as long as the power of attorney
  - expressly states an intention to secure a loan on a specific property, or
  - complies with the requirements under the *VA Lender's Handbook* relating to powers of attorney for VA-insured mortgage loans, or
- such use is required of lender by applicable law.

---

## Requirements for the Loan Application Package

The table below provides the requirements for the loan application package.

| ✓ | The loan application package must include ...  |
|---|--|
|   | A copy of the ratified sales agreement, if applicable.   |
|   | Escrow/closing or settlement instructions, if applicable.  |
|   | Any other information or documentation needed to verify, clarify, or substantiate information in the borrower's application. |
|   | Any other documentation that is needed to make a prudent underwriting decision.  |

**Note:** Any available technology may be used to produce copies of the documents in the mortgage loan file, such as a photocopier, facsimile machine, document scanner,



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or camera. Copies of documents provided by the borrower may be photos or scanned versions of the original documents and can be delivered to the lender in hardcopy or via email or other electronic means.

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### ***Uniform Underwriting and Transmittal Summary and DU Underwriting Analysis Report***

The *Uniform Underwriting and Transmittal Summary* ([Form 1008](#)) summarizes key data from the loan application package. Lenders use this information in reaching the underwriting decision. Form 1008 must be retained in the mortgage file for manually underwritten mortgage loans. Lenders may, but are not required to, retain Form 1008 for loans underwritten with DU.

For loans underwritten with DU, the final DU Underwriting Analysis Report must be retained in the mortgage file.

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### **Preliminary Review of Borrower's Application**

The lender should perform a preliminary review of the borrower's application to determine that the requested mortgage loan satisfies Fannie Mae mortgage eligibility criteria. The lender's level of review should be the same for each mortgage. This eligibility review should take place before underwriting begins and be based on predictive risk factors that are incorporated into the [Eligibility Matrix](#), specifically:

- loan-to-value/combined loan-to-value ratios,
- representative credit score,
- product type,
- purpose,
- occupancy, and
- number of units.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2014-16</a> | December 16, 2014  |
| <a href="#">Announcement SEL-2013-08</a> | October 22, 2013   |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">Announcement SEL-2010-11</a> | August 13, 2010    |



## B1-1-02, Blanket Authorization Form (04/01/2009)

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### Introduction

This topic provides the Blanket Authorization form.

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### Blanket Authorization Form

The lender obtains the borrower's signature on the following Blanket Authorization form to obtain the documentation needed to evaluate the borrower's creditworthiness.

This borrower-signed document gives the lender blanket authorization to request the information needed to document the borrower's creditworthiness. I hereby authorize \_\_\_\_\_ (the "lender") to verify my past and present employment earnings records, bank accounts, stock holdings, and any other asset balances that are needed to process my mortgage loan application. I further authorize \_\_\_\_\_ (the "lender") to order a consumer credit report and verify other credit information, including past and present mortgage and landlord references. It is understood that a photocopy of this form also will serve as authorization. The information the lender obtains is only to be used in the processing of my application for a mortgage loan.

The lender attaches a copy of the Blanket Authorization form to each [Form 1005/Form 1005\(S\)](#) or [Form 1006/Form 1006\(S\)](#) sent to a verifying institution. The information must be requested

directly from the institution. The completed form(s) must be signed and dated, and must be sent directly from the verifying institution.



## **B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns (10/24/2016)**

### **Introduction**

This topic contains information on the allowable age of credit documents and federal income tax returns.

- [Allowable Age of Credit Documents](#)
- [Allowable Age of Federal Income Tax Returns](#)

### **Allowable Age of Credit Documents**

Credit documents include credit reports and employment, income, and asset documentation. For all mortgage loans (existing and new construction), the credit documents must be no more than four months old on the note date. When consecutive credit documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. For example, when two consecutive monthly bank statements are used to verify a depository asset, the date of the most recent statement must be no more than four months old on the note date. If the credit documents are older than allowed, the lender must update them. For age requirements related to appraisals, see [B4-1.2-02, Appraisal Age and Use Requirements](#).

### **Allowable Age of Federal Income Tax Returns**

For some types of sources of income, Fannie Mae requires lenders to obtain copies of federal income tax returns (personal returns and, if applicable, business returns). The “most recent year’s” tax return is defined as the last return scheduled to have been filed with the IRS. For example,

| <b>If Today’s Date is....</b> | <b>Then the Most Recent Year’s Tax Return would be...</b> |
|-------------------------------|---|
| February 15, 2013             | 2011  |
| April 17, 2013                | 2012  |
| December 15, 2013             | 2012  |

The following table describes which tax-related documentation to obtain depending on the application date and disbursement date of the mortgage loan.

| Application Date   | Disbursement Date  | Documentation Required  |
|--|--|---|
| October 15 <sup>a</sup> , [current year minus 1] to April 14 <sup>b</sup> , current year | October 15 <sup>aa</sup> [current year minus 1] to April 14 <sup>bb</sup> , current year | The most recent year's tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.   |
|  | April 15 <sup>aa</sup> , current year to June 30, current year                           | <p>The previous year's tax return (the return due in April of the current year) is recommended, but not required.</p> <p>The lender must ask the borrower whether he or she has completed and filed his or her return with the IRS for the previous year. If the answer is yes, the lender must obtain copies of that return. If the answer is no, the lender must obtain copies of tax returns for prior two years.</p> <p>Lenders must only obtain completed and signed IRS Form 4506-T for transcripts of tax returns provided by the borrower to the lender. (The lender is not required to file IRS Form 4506-T for tax returns not provided by the borrower.)</p> |
|  | July 1, current year to October 14 <sup>bb</sup> , current year                          | The lender must obtain  |
| April 15 <sup>aa</sup> , current year to October 14 <sup>bb</sup> , current year         | April 15 <sup>aa</sup> , current year to December 31, current year                       | <ul style="list-style-type: none"> <li>• the most recent year's tax return, <b>OR</b> all of the following:</li> <li>• A copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS,                             <ul style="list-style-type: none"> <li>– The lender must review the total tax liability reported on</li> </ul> </li> </ul>   |

| Application Date | Disbursement Date  | Documentation Required   |
|------------------|--|--|
|                  |  | <p>IRS Form 4868 and compare it with the borrower’s tax liability from the previous two years as a measure of income source stability and continuance. An estimated tax liability that is inconsistent with previous years may make it necessary for the lender to require the current returns in order to proceed.</p> <ul style="list-style-type: none"> <li>• IRS Form 4506–T transcripts confirming “No Transcripts Available” for the applicable tax year, <b>and</b></li> <li>• Returns for the prior two years</li> </ul> |
|                  | January 1, [current year plus 1] to April 14 <sup>bb</sup> , [current year plus 1] | The most recent year’s tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.  |

<sup>a</sup>Or the April/October filing dates for the year in question as published by the IRS.

<sup>b</sup>Or the day prior to the April/October filing dates for the year in question as published by the IRS.

### Exceptions

- For business tax returns, if the borrower’s business uses a fiscal year (a year ending on the last day of any month except December), the lender may adjust the dates in the above chart to determine what year(s) of business tax returns are required in relation to the application date/ disbursement date of the new mortgage loan.
- For loans with income validated by DU, lenders may rely on the age of tax transcript methodology provided by the service. See [B3-2-02, DU Validation Service](#).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b>  |
|---|--------------------|
| <a href="#"><u>Announcement SEL-2016-08</u></a> | October 24, 2016   |
| <a href="#"><u>Announcement SEL-2014-13</u></a> | November 10, 2014  |
| <a href="#"><u>Announcement SEL-2014-11</u></a> | August 26, 2014    |
| <a href="#"><u>Announcement SEL-2013-07</u></a> | September 24, 2013 |
| <a href="#"><u>Announcement SEL-2013-04</u></a> | May 28, 2013       |
| <a href="#"><u>Announcement 09-19</u></a>       | June 8, 2009       |

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# Subpart B2, Eligibility

## Eligibility

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### Introduction

This subpart describes Fannie Mae’s mortgage, borrower, and property eligibility policies and occupancy type requirements.

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### In This Subpart

This subpart contains the following chapters:

|                                  |     |
|----------------------------------|-----|
| B2-1, Mortgage Eligibility ..... | 198 |
| B2-2, Borrower Eligibility ..... | 278 |
| B2-3, Property Eligibility ..... | 298 |

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# Chapter B2-1, Mortgage Eligibility



## Mortgage Eligibility

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### Introduction

This chapter explains the requirements related to mortgage eligibility.

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### In This Chapter

This chapter contains the following topics:

|   |     |
|---|-----|
| B2-1-01, Occupancy Types (11/03/2015) .....               | 198 |
| B2-1.1, LTV, CLTV, HCLTV, and Subordinate Financing ..... | 201 |
| B2-1.2, Loan Purpose .....                                | 212 |
| B2-1.3, Loan Amortization Types .....                     | 232 |
| B2-1.4, Other Loan Attributes and Related Policies .....  | 258 |

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## B2-1-01, Occupancy Types (11/03/2015)

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### Introduction

This topic contains information on occupancy type requirements, including:

- [Overview](#)
  - [Principal Residence Properties](#)
  - [Second Home Properties](#)
  - [Investment Properties](#)
- 

### Overview

Fannie Mae purchases or securitizes mortgages secured by properties that are principal residences, second homes, or investment properties. For the maximum allowable LTV/CLTV/



HCLTV ratios and representative credit score requirements for each occupancy type, see the [Eligibility Matrix](#).

### Principal Residence Properties

A principal residence is a property that the borrower occupies as his or her primary residence. The following table describes conditions under which Fannie Mae considers a residence to be a principal residence even though the borrower will not be occupying the property.

| Borrower Types  | Requirements for Owner-Occupancy  |
|---|---|
| Multiple borrowers  | Only one borrower needs to occupy and take title to the property, except as otherwise required for mortgages that have guarantors or co-signers. (See <a href="#">B2-2-04, Guarantors, Co-Signers, or Non-Occupant Borrowers</a> .) |
| Parents or legal guardian wanting to provide housing for their physically handicapped or developmentally disabled adult child | If the child is unable to work or does not have sufficient income to qualify for a mortgage on his or her own, the parent or legal guardian is considered the owner/occupant.   |
| Children wanting to provide housing for parents   | If the parent is unable to work or does not have sufficient income to qualify for a mortgage on his or her own, the child is considered the owner/occupant.   |

**Note:** If a property is used as a group home, and a natural-person individual occupies the property as a principal residence or as a second home, Fannie Mae's terms and conditions for such occupancy status as provided will be applicable.

### Second Home Properties

The table below provides the requirements for second home properties.

| ✓ | Second Home Requirements                                      |
|---|---|
|   | must be occupied by the borrower for some portion of the year |
|   | is restricted to one-unit dwellings                           |
|   | must be suitable for year-round occupancy                     |
|   | the borrower must have exclusive control over the property    |

| ✓ | <b>Second Home Requirements</b>  |
|---|--|
|   | must not be rental property or a timeshare arrangement <sup>a</sup>  |
|   | cannot be subject to any agreements that give a management firm control over the occupancy of the property |

<sup>a</sup>If the lender identifies rental income from the property, the loan is eligible for delivery as a second home as long as the income is not used for qualifying purposes, and all other requirements for second homes are met (including the occupancy requirement above).

For additional guidance on entering housing expenses in DU for second home properties, see the related [DU Job Aid](#).

### Investment Properties

An investment property is owned but not occupied by the borrower. An LLPA applies to all mortgage loans secured by an investment property. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. See the [Loan-Level Price Adjustment \(LLPA\) Matrix](#).

For borrowers who are natural-person individuals, eligibility and pricing for group homes will be the same as currently provided under the terms and conditions established for investment, second home, or owner-occupied properties, depending on the particular occupancy status.

For additional guidance on entering housing expenses in DU for investment properties, see the related DU Job Aid.

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015  |
| <a href="#">Announcement SEL-2015-03</a> | March 31, 2015    |
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |
| <a href="#">Announcement SEL-2011-09</a> | August 30, 2011   |
| <a href="#">Announcement 09-32</a>       | October 30, 2009  |

## Section B2-1.1, LTV, CLTV, HCLTV, and Subordinate Financing



### B2-1.1-01, Loan-to-Value (LTV) Ratios (03/29/2016)

#### Introduction

This topic contains information on LTV ratios, including:

- [Calculation of the LTV Ratio](#)
- [Sales Price and Appraised Value Used by DU](#)
- [Loan-Level Price Adjustments](#)

#### Calculation of the LTV Ratio

The maximum allowable LTV ratio for a first mortgage is based on a number of factors including, the representative credit score, the type of mortgage product, the number of dwelling units, and the occupancy status of the property.

The following table describes the requirements for calculating LTV ratios for a first mortgage transaction. The result of these calculations must be truncated (shortened) to two decimal places, then rounded up to the nearest whole percent. For example:

- 94.01% will be delivered as 95%, and
- 80.001% will be delivered as 80%.

The rounding rules noted above also apply to the CLTV and HCLTV ratio calculations. Lenders' systems must contain rounding methodology that results in the same or a higher LTV ratio.

| Underwriting Method | Type of Transaction         | Calculation of the LTV Ratio <sup>a</sup>   |
|---------------------|-----------------------------|---|
| Manual and DU       | Purchase money transactions | Divide the original loan amount by the property value. (The property value is the lower of the sales price or the current appraised value.) |

| <b>Underwriting Method</b> | <b>Type of Transaction</b>                 | <b>Calculation of the LTV Ratio<sup>a</sup></b>  |
|----------------------------|--|--|
| Manual and DU              | Refinance transactions                     | Divide the original loan amount by the property value. (The property value is the current appraised value.)  |
| Manual                     | Co-op share loans                          | See Calculating the LTV ratio for Co-op Share Loans in <a href="#">B4-2.3-04, Loan Eligibility for Co-op Share Loans</a> .   |
| Manual and DU              | Mortgages with financed mortgage insurance | Divide the original loan amount plus the financed mortgage insurance by the property value. (The property value is the lower of the sales price or the current appraised value.) |

<sup>a</sup>As defined in the Glossary [E-3-15, Glossary of Fannie Mae Terms: O](#), the original loan amount is the amount of the loan as indicated by the note.

**Note:** The LTV ratio calculations shown above may differ for certain mortgage loans. For details on these differences, see [B2-1.2-05, Payoff of Installment Land Contract Requirements](#); [B5-2-03, Manufactured Housing Underwriting Requirements](#); [B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions](#); [B5-3.3-01, HomeStyle Energy for Energy Improvements on Existing Properties](#); [B5-3.2-03, HomeStyle Renovation Mortgages: Collateral Considerations](#); [B5-5.1-02, Community Seconds Loan Eligibility](#); [B5-5.1-04, Community Land Trusts](#); [B5-5.3-03, Loans with Resale Restrictions: Underwriting and Collateral Considerations](#); and [B7-1-01, Provision of Mortgage Insurance](#).

Refer to the [Eligibility Matrix](#) for maximum allowable LTV ratios.

### **Sales Price and Appraised Value Used by DU**

DU uses information in the online loan application to obtain the sales price and appraised value it uses to calculate the LTV, CLTV, and HCLTV ratios.

To determine the sales price and appraised value, DU uses the amounts entered in the following data fields:

Sales price = Line a + Line b + Line c in Section VII, where:

- Line a = Purchase price (the sales price for purchase transactions, or the cost of construction for construction transactions).

- Line b = Alterations, improvements, repairs (for HomeStyle Renovation transactions, the cost of alterations, improvements, or repairs).
- Line c = For construction transactions, the cost or value of the land if the borrower acquired the lot separately.

Appraised value = Property Appraised Value in the Additional Data screen.

**Note:** If the estimated value that was submitted to DU differs from the actual value, the lender must correct the information in DU and resubmit the loan casefile.

---

### Loan-Level Price Adjustments

An LLPA may apply to certain mortgages based on the LTV ratio and representative credit score. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. See the [Loan-Level Price Adjustment \(LLPA\) Matrix](#).

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-03</a> | March 29, 2016     |
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016  |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013      |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011     |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010   |
| <a href="#">Announcement SEL-2010-01</a> | March 2, 2010      |
| <a href="#">Announcement 09-32</a>       | October 30, 2009   |



## **B2-1.1-02, Combined Loan-to-Value (CLTV) Ratios (02/23/2016)**

### **Introduction**

This topic contains information on CLTV ratios, including:

- [Calculation of the CLTV Ratio](#)
- [Loan-Level Price Adjustments](#)

### **Calculation of the CLTV Ratio**

For first mortgage loans that are subject to subordinate financing, the lender must calculate the LTV ratio and the CLTV ratio. (For first mortgage loans that are subject to a HELOC, see [B2-1.1-03, Home Equity Combined Loan-to-Value \(HCLTV\) Ratios](#).)

The CLTV ratio is determined by dividing the sum of the items listed below by the lesser of the sales price or the appraised value of the property.

- the original loan amount of the first mortgage,
- the drawn portion (outstanding principal balance) of a HELOC, and
- the unpaid principal balance of all closed-end subordinate financing. (With a closed-end loan, a borrower draws down all funds on day one and may not make any payment plan changes or access any paid-down principal once the loan is closed.)

**Note:** For each subordinate liability, in order for the lender to accurately calculate the CLTV ratio for eligibility and underwriting purposes, the lender must determine the drawn portion of all HELOCs, if applicable, and the unpaid principal balance for all closed-end subordinate financing. If any subordinate financing is not shown on a credit report, the lender must obtain documentation from the borrower or creditor.

If the borrower discloses, or the lender discovers, new (or increased) subordinate financing after the underwriting decision has been made, up to and concurrent with closing, the lender must re-underwrite the mortgage loan. (See [B3-6-02, Debt-to-Income Ratios](#), for additional information.)

**Note:** The CLTV ratio calculation may differ for certain mortgage loans. For details on these differences, see [B2-1.2-05, Payoff of Installment Land Contract](#)

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[Requirements](#); [B5-2-03, Manufactured Housing Underwriting Requirements](#); [B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions](#); [B5-3.2-03, HomeStyle Renovation Mortgages: Collateral Considerations](#); [B5-3.3-01, HomeStyle Energy for Energy Improvements on Existing Properties](#); [B5-5.1-02, Community Seconds Loan Eligibility](#); [B5-5.1-04, Community Land Trusts](#); and [B5-5.3-03, Loans with Resale Restrictions: Underwriting and Collateral Considerations](#).

Refer to the [Eligibility Matrix](#) for allowable CLTV ratios.

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### Loan-Level Price Adjustments

An LLPA applies to certain mortgages with subordinate financing. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. See the [Loan-Level Price Adjustment \(LLPA\) Matrix](#).

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011    |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010  |
| <a href="#">Announcement 09-32</a>       | October 30, 2009  |

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## **B2-1.1-03, Home Equity Combined Loan-to-Value (HCLTV) Ratios (02/23/2016)**

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### Introduction

This topic contains information on HCLTV ratios, including:

- [Calculation of the HCLTV Ratio](#)
- [Permanently Modified HELOCs](#)

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## Calculation of the HCLTV Ratio

For first mortgages that have subordinate financing under a HELOC, the lender must calculate the HCLTV ratio. This is determined by dividing the sum of the items listed below by the lesser of the sales price or appraised value of the property.

- the original loan amount of the first mortgage,
- the full amount of any HELOCs (whether or not funds have been drawn), and
- the unpaid principal balance (UPB) of all closed-end subordinate financing.

**Note:** For each subordinate liability, in order for the lender to accurately calculate the HCLTV ratio for eligibility and underwriting purposes, the lender must determine the maximum credit line for all HELOCs, if applicable, and the unpaid principal balance for all closed-end subordinate financing. If any subordinate financing is not shown on a credit report, the lender must obtain documentation from the borrower or creditor.

If the borrower discloses, or the lender discovers, new (or increased) subordinate financing after the underwriting decision has been made, up to and concurrent with closing, the lender must re-underwrite the mortgage loan. (See [B3-6-02, Debt-to-Income Ratios](#), for additional information.)

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## Permanently Modified HELOCs

If the lender determines the HELOC has been permanently modified and the outstanding UPB is less than the permanently modified HELOC, the lender must use the modified HELOC amount in calculating the HCLTV ratio for eligibility purposes and for delivery. The lender must obtain appropriate documentation that the HELOC has been permanently modified and include this documentation in the loan file.

If the outstanding UPB is greater than the permanently modified HELOC, the lender must use the outstanding UPB to calculate the HCLTV ratio for eligibility purposes and for delivery. As noted above, the lender must obtain appropriate documentation and include that documentation in the loan file.

In no case may the CLTV ratio exceed the HCLTV ratio.

**Note:** The HCLTV ratio calculation may differ for certain mortgage loans. For details on these differences, see [B2-1.2-05, Payoff of Installment Land Contract](#)



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[Requirements; B5-2-03, Manufactured Housing Underwriting Requirements; B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions; B5-3.3-01, HomeStyle Energy for Energy Improvements on Existing Properties; B5-3.2-03, HomeStyle Renovation Mortgages: Collateral Considerations; and B5-5.1-02, Community Seconds Loan Eligibility.](#)

**Note:** Refer to the [Eligibility Matrix](#) for maximum allowable HCLTV ratios.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2012-10</a> | October 2, 2012   |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011    |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010  |

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## **B2-1.1-04, Subordinate Financing (06/30/2015)**

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### Introduction

This topic contains information on new and existing subordinate financing, including:

- [Subordinate Financing Requirements](#)
  - [Acceptable Subordinate Financing Types](#)
  - [Unacceptable Subordinate Financing Terms](#)
  - [Eligible Variable Payment Terms for Subordinate Financing](#)
  - [Eligible Repayment Terms for Employer Subordinate Financing](#)
  - [Resubordination Requirements for Refinance Transactions](#)
  - [Defining Refinance Transactions Based on Subordinate Lien Payoff](#)
- 

### Subordinate Financing Requirements

Fannie Mae purchases or securitizes first-lien mortgages that are subject to subordinate financing except for co-op share loans that are subject to subordinate financing. (See [B4-2.3-04, Loan](#)

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[Eligibility for Co-op Share Loans](#), for an exception to this policy for DU Refi Plus and Refi Plus transactions.) Subordinate liens must be recorded and clearly subordinate to Fannie Mae's first mortgage lien. Lenders must disclose the existence of subordinate financing and the subordinate financing repayment terms to Fannie Mae, the appraiser, and the mortgage insurer. If a first mortgage is subject to subordinate financing, the lender must calculate the LTV, CLTV, and HCLTV ratios.

For more information on subordinate financing originated in connection with the Section 502 Leveraged (Blended) Loan Program, see [B6-1-05, Eligible RD-Guaranteed Mortgages](#).

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### Acceptable Subordinate Financing Types

The table below provides the requirements for acceptable subordinate financing types.

| ✓ | Acceptable Subordinate Financing Types   |
|---|--|
|   | Variable payment mortgages that comply with the details below.   |
|   | Mortgages with regular payments that cover at least the interest due so that negative amortization does not occur. |
|   | Mortgages with deferred payments in connection with employer subordinate financing (see below).                    |
|   | Mortgage terms that require interest at a market rate.   |

If financing provided by the property seller is more than 2% below current standard rates for second mortgages, the subordinate financing must be considered a sales concession and the subordinate financing amount must be deducted from the sales price.

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### Unacceptable Subordinate Financing Terms

The table below describes unacceptable subordinate financing terms. Refer to [B4-2.3-04, Loan Eligibility for Co-op Share Loans](#), for information related to co-op share loans. For additional information on subordinate financing for DU Refi Plus or Refi Plus transactions, see [B5-5.2-01, DU Refi Plus and Refi Plus Eligibility](#).

| ✓ | Unacceptable Subordinate Financing Terms   |
|---|--|
|   | Mortgages with negative amortization (with the exception of employer subordinate financing that has deferred payments).  |
|   | Subordinate financing that does not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five years after the |

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| ✓ | <b>Unacceptable Subordinate Financing Terms</b>  |
|---|--|
|   | <p>note date of the new first mortgage (with the exception of employer subordinate financing that has deferred payments).</p> <p><b>Note:</b> Fannie Mae will accept these subordinate financing terms when the amount of the subordinate debt is minimal relative to the borrower's financial assets and/or credit profile.</p> |

---

### **Eligible Variable Payment Terms for Subordinate Financing**

Fannie Mae permits variable payments for subordinate financing if the following provisions are met:

- With the exception of HELOCs, when the repayment terms provide for a variable interest rate, the monthly payment must remain constant for each 12-month period over the term of the subordinate lien mortgage. (For HELOCs, the monthly payment does not have to remain constant.)
- The monthly payments for all subordinate liens must cover at least the interest due so that negative amortization does not occur (with the exception of employer subordinate financing that has deferred payments).

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### **Eligible Repayment Terms for Employer Subordinate Financing**

If the subordinate financing is from the borrower's employer, it does not have to require regular payments of either principal and interest or interest only. Employer subordinate financing may be structured in any of the following ways:

- fully amortizing level monthly payments,
- deferred payments for some period before changing to fully amortizing level payments,
- deferred payments over the entire term, or
- forgiveness of the debt over time.

The financing terms may provide for the employer to require full repayment of the debt if the borrower's employment is terminated (either voluntarily or involuntarily) before the maturity date of the subordinate financing.

Refer to [B3-4.3-08, Employer Assistance](#), for additional information.

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### Resubordination Requirements for Refinance Transactions

If subordinate financing is left in place in connection with a first mortgage loan refinance transaction, Fannie Mae requires execution and recordation of a resubordination agreement.

If state law permits subordinate financing to remain in the same subordinate lien position established with the prior first mortgage loan that is being refinanced, Fannie Mae does not require resubordination. The subordinate lien must satisfy any specified criteria of the applicable statutes.

**Note:** Title insurance against the fact that a former junior lien is not properly subordinated to the refinance loan does not release lenders from compliance with these resubordination requirements, or from Fannie Mae’s requirement that the property is free and clear of all encumbrances and liens having priority over Fannie Mae’s mortgage loan.

---

### Defining Refinance Transactions Based on Subordinate Lien Payoff

The table below provides the underwriting considerations related to subordinate financing under refinance transactions.

| <b>Refinance transaction includes payoff of the first lien and ...</b>  | <b>Then lenders must underwrite the transaction as a ...</b> | <b>Comments</b>   |
|---|--|---|
| the payoff of a purchase money second with no cash out,   | Limited cash-out refinance                                   | N/A   |
| the payoff of a non-purchase money second, regardless of whether additional cash out is taken,  | Cash-out refinance   | N/A   |
| the subordinate financing is being left in place, regardless of whether the subordinate financing was used to purchase the property, and the borrower is not taking cash out except to the extent permitted for a limited cash-out refinance transaction, | Limited cash-out refinance                                   | The subordinate lien must be resubordinated to the new first mortgage loan. |

| <b>Refinance transaction includes payoff of the first lien and ...</b>  | <b>Then lenders must underwrite the transaction as a ...</b> | <b>Comments</b> |
|---|--|-----------------|
| the subordinate financing is being left in place, regardless of whether the subordinate financing was used to purchase the property, and the borrower is taking cash out, | Cash-out refinance   |                 |

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015      |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013    |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013      |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">Announcement SEL-2012-04</a> | May 15, 2012       |
| <a href="#">Announcement SEL-2011-13</a> | December 20, 2011  |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011      |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">Announcement 09-37</a>       | December 30, 2009  |
| <a href="#">Announcement 09-32</a>       | October 30, 2009   |
| <a href="#">Announcement 09-19</a>       | June 8, 2009       |

## Section B2-1.2, Loan Purpose



### B2-1.2-01, Purchase Transactions (10/24/2016)

#### Introduction

This topic contains information on purchase transaction eligibility requirements, including:

- [General Purchase Transaction Eligibility Requirements](#)
- [Requirements for Purchase Transactions with LTV, CLTV, or HCLTV Ratios of 95.01 – 97%](#)
- [Non-Arm's Length Transactions](#)
- [Purchase of Preforeclosure or Short Sale Properties — Allowable Fees, Assessments, and Payments](#)

#### General Purchase Transaction Eligibility Requirements

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property or to finance the acquisition and rehabilitation of a property. The table below provides the general requirements for purchase money mortgage transactions. Certain mortgage loans and products may have different eligibility requirements for purchase mortgage transactions. If applicable, the differences will be stated in the specific mortgage loan or product topic section.

| ✓ | General Requirements   |
|---|--|
|   | The minimum borrower contribution requirements for the selected mortgage loan type must be met.  |
|   | Proceeds from the transaction must be used to <ul style="list-style-type: none"><li>• finance the acquisition of the subject property,</li><li>• finance the acquisition and rehabilitation of the subject property,</li><li>• convert an interim construction loan or term note into permanent financing, or</li><li>• pay off the outstanding balance on the installment land contract or contract for deed.</li></ul> |

| ✓ | General Requirements   |
|---|--|
|   | <p>Proceeds from the transaction may not be used to give the borrower cash back other than the following:</p> <ul style="list-style-type: none"> <li>• an amount representing reimbursement for the borrower’s overpayment of fees and charges, including refunds that may be required in accordance with certain federal laws or regulations. The settlement statement must clearly indicate the refund, and the loan file must include documentation to support the amount and reason for the refund; and</li> <li>• a legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears.</li> </ul> <p><b>Note:</b> If the borrower receives cash back for a permissible purpose as listed above, the lender must confirm that the minimum borrower contribution requirements associated with the selected mortgage product, if any, have been met. Reimbursements or refunds permitted above may also be applied as a principal curtailment in accordance with <a href="#">B2-1.4-05, Principal Curtailments</a>.</p> |

**Requirements for Purchase Transactions with LTV, CLTV, or HCLTV Ratios of 95.01 – 97%**

If the LTV, CLTV, or HCLTV ratio exceeds 95% for a purchase transaction, the following requirements apply.

| Criteria                         | Requirements   |
|----------------------------------|--|
| <b>LTV, CLTV, or HCLTV Ratio</b> | 95.01 to 97% <p><b>Note:</b> The CLTV ratio can be up to 105% if the subordinate lien is a Community Seconds loan.</p>                           |
| <b>Loan Type</b>                 | Fixed-rate loans with terms up to 30 years. <p><b>Note:</b> High-balance, adjustable-rate, and HomeStyle Renovation loans are not permitted.</p> |
| <b>Property</b>                  | One-unit principal residence.  |

| Criteria                    | Requirements   |
|-----------------------------|--|
|                             | Manufactured housing is not permitted.   |
| <b>Borrower Eligibility</b> | <ul style="list-style-type: none"> <li>At least one borrower must be a first-time home buyer, as indicated on the <i>Uniform Residential Loan Application</i> (Form 1003) in Section VIII., when at least one borrower responds “No” to Declaration M: Have you had an ownership interest in a property in the last three years?</li> <li>At least one borrower on the loan must have a credit score.</li> </ul> |
| <b>Underwriting Method</b>  | DU only  |
| <b>Reserves</b>             | Reserves requirements will be determined by DU.  |
| <b>Other</b>                | All other standard <i>Selling Guide</i> policies apply.  |

**Note:** The above requirements do not apply to HomeReady mortgage loans. See [B5-6-02, HomeReady Mortgage Loan and Borrower Eligibility](#), for requirements for HomeReady mortgage loans with LTV, CLTV, or HCLTV ratios of 95.01 – 97%.

### Non-Arm's Length Transactions

Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property. Fannie Mae allows non-arm's length transactions for the purchase of existing properties unless specifically forbidden for the particular scenario, such as delayed financing. For the purchase of newly constructed properties, if the borrower has a relationship or business affiliation (any ownership interest, or employment) with the builder, developer, or seller of the property, Fannie Mae will only purchase mortgage loans secured by a principal residence. Fannie Mae will not purchase mortgage loans on newly constructed homes secured by a second home or investment property if the borrower has a relationship or business affiliation with the builder, developer, or seller of the property.

### Purchase of Preforeclosure or Short Sale Properties — Allowable Fees, Assessments, and Payments

Borrowers may pay additional fees, assessments, or payments in connection with acquiring a property that is a preforeclosure or short sale that are typically the responsibility of the seller or



another party. Examples of additional fees, assessments, or payments include, but are not limited to, the following:

- short sale processing fees (also referred to as short sale negotiation fees, buyer discount fees, short sale buyer fees);

**Note:** This fee does not represent a common and customary charge and therefore must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction.

- payment to a subordinate lienholder; and
- payment of delinquent taxes or delinquent HOA assessments.

The following requirements apply:

- The borrower (buyer) must be provided with written details of the additional fees, assessments, or payments and the additional necessary funds to complete the transaction must be documented.
- The servicer that is agreeing to the preforeclosure or short sale must be provided with written details of the fees, assessments, or payments and has the option of renegotiating the payoff amount to release its lien.
- All parties (buyer, seller, and servicer) must provide their written agreement of the final details of the transaction which must include the additional fees, assessments, or payments. This can be accomplished by using the “Request for Approval of Short Sale” or “Alternative Request for the Approval of Short Sale” forms published by the U.S. Treasury [\*Supplemental Directive 09-09\*](#) or any alternative form or addendum.
- The settlement statement must include all fees, assessments, and payments included in the transaction.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016   |
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016    |
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015      |
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015   |
| <a href="#">Announcement SEL-2013-01</a> | January 17, 2013   |
| <a href="#">Announcement SEL-2011-13</a> | December 20, 2011  |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011      |
| <a href="#">Announcement SEL-2010-04</a> | March 29, 2010     |
| <a href="#">Announcement 08-35</a>       | December 18, 2008  |



## **B2-1.2-02, Limited Cash-Out Refinance Transactions (10/24/2016)**

### Introduction

This topic contains information on limited cash-out refinance transactions, including:

- [Eligibility Requirements](#)
- [Requirements for Limited Cash-Out Refinance Transactions with LTV, CLTV, or HCLTV Ratios of 95.01 – 97%](#)
- [Ineligible Transactions](#)
- [Acceptable Uses](#)
- [Cash Back to the Borrower](#)
- [Documentation Requirements](#)
- [Existing Subordinate Liens That Will Not Be Paid Off](#)
- [New Subordinate Financing](#)
- [Refinances to Buy Out An Owner's Interest](#)
- [Exceptions to Limited Cash-Out Refinance Requirements for DU Refi Plus and Refi Plus](#)

## Eligibility Requirements

Limited cash-out refinance transactions must meet the following requirements:

- The transaction is being used to pay off an existing first mortgage loan (including an existing HELOC in first-lien position) by obtaining a new first mortgage loan secured by the same property; or for single-closing construction-to-permanent loans to pay for construction costs to build the home, which may include paying off an existing lot lien.
- Only subordinate liens used to purchase the property may be paid off and included in the new mortgage. Exceptions are allowed for paying off a Property Assessed Clean Energy (PACE) loan or other debt (secured or unsecured) that was used solely for energy improvements.
  - For a PACE loan originated prior to July 6, 2010, there is no limit on how much of the limited cash-out refinance loan amount may be used to pay off the PACE loan. See [B5-3.4-01, Property Assessed Clean Energy Loans](#), for additional information.
  - For a PACE loan originated on or after July 6, 2010, or other debt used for energy improvements, the payoff amount included in the limited cash-out refinance is limited to 15% of the appraised value of the property. See [B5-3.3-01, HomeStyle Energy for Energy Improvements on Existing Properties](#), for additional information.
- The subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan, and the borrowers must confirm their intent to occupy the subject property (for principal residence transactions).

## Requirements for Limited Cash-Out Refinance Transactions with LTV, CLTV, or HCLTV Ratios of 95.01 – 97%

If the LTV, CLTV, or HCLTV ratio exceeds 95% for a limited cash-out transaction, the following requirements apply.

| Criteria             | Requirements   |
|----------------------|--|
| <b>Existing Loan</b> | <p>The lender must document that the existing loan being refinanced is owned (or securitized) by Fannie Mae. Documentation may come from</p> <ul style="list-style-type: none"> <li>• the lender’s servicing system,</li> <li>• the current servicer (if the lender is not the servicer),</li> </ul> |

| Criteria                         | Requirements  |
|----------------------------------|---|
|                                  | <ul style="list-style-type: none"> <li>• Fannie Mae’s Loan Lookup tool, or</li> <li>• any other source as confirmed by the lender.</li> </ul> <p>The lender must inform DU that Fannie Mae owns the existing mortgage using the Owner of Existing Mortgage field in the online loan application before submitting the loan to DU.</p> <p><b>Note:</b> This requirement does not apply if the CLTV exceeds 95% only due to a Community Seconds loan.</p> |
| <b>LTV, CLTV, or HCLTV Ratio</b> | <p>95.01 to 97%</p> <p><b>Note:</b> The CLTV ratio can be up to 105% if the subordinate lien is a Community Seconds loan.</p>   |
| <b>Loan Type</b>                 | <p>Fixed-rate loans with terms up to 30 years.</p> <p><b>Note:</b> High-balance, adjustable-rate, HomeStyle Energy mortgage loans, and HomeStyle Renovation mortgage loans are not permitted.</p>   |
| <b>Property and Occupancy</b>    | <p>One-unit principal residence. All borrowers must occupy the property.</p> <p>Manufactured housing is not permitted.</p>  |
| <b>Credit Score Requirements</b> | <p>At least one borrower on the loan must have a credit score.</p>  |
| <b>Underwriting Method</b>       | <p>DU only</p>  |
| <b>Other</b>                     | <p>All other standard limited cash-out refinance policies apply.</p>  |

**Note:** The above requirements do not apply to DU Refi Plus, Refi Plus, or HomeReady loans. For additional information, see Section B5–5.2, DU Refi Plus and Refi Plus Mortgage Loans, and [B5-6-02, HomeReady Mortgage Loan and Borrower Eligibility](#).

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## Ineligible Transactions

When the following conditions exist, the transaction is ineligible as a limited cash-out refinance and must be treated as a cash-out refinance:

- no outstanding first lien on the subject property (except for single-closing construction-to-permanent transactions, which are eligible as a limited cash-out refinance even though there is not an outstanding lien on the subject property);
- the proceeds are used to pay off a subordinate lien that was not used to purchase the property (other than the exceptions for paying off PACE loans and other debt used for energy-related improvements, described above);
- the borrower finances the payment of real estate taxes for the subject property in the loan amount, but does not establish an escrow account;
- the borrower finances the payment of real estate taxes that are more than 60 days delinquent for the subject property in the loan amount; and
- a short-term refinance mortgage loan that combines a first mortgage and a non-purchase-money subordinate mortgage into a new first mortgage or any refinance of that loan within six months.

The transaction is not eligible for delivery to Fannie Mae when the subject property is listed for sale at the time of disbursement of the new mortgage loan.

See also [B2-1.2-04, Prohibited Refinancing Practices](#)

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## Acceptable Uses

The following are acceptable in conjunction with a limited cash-out refinance transaction:

- modifying the interest rate and/or term for existing mortgages;
- paying off the unpaid principal balance of the existing first mortgage (including prepayment penalties);
- for single-closing construction-to-permanent transactions, paying for construction costs to build a home, which may include paying off an existing lot lien;
- financing the payment of closing costs, points, and prepaid items. With the exception of real estate taxes that are more than 60 days delinquent, the borrower can include real estate taxes

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in the new loan amount as long as an escrow account is established, subject to applicable law or regulation. (For example, if a particular state law does not allow a lender to require an escrow account under certain circumstances, the loan would be eligible as a limited cash-out refinance without an escrow account.) If an escrow account is not being established, see [B2-1.2-03, Cash-Out Refinance Transactions](#);

- receiving cash back in an amount that is not more than the lesser of 2% of the new refinance loan amount or \$2,000;
- buying out a co-owner pursuant to an agreement;
- paying off a subordinate mortgage lien (including prepayment penalties) used to purchase the subject property. The lender must document that the entire amount of the subordinate financing was used to acquire the property; or
- paying off the unpaid principal balance of PACE loans and other debt used for energy-related improvements, described above.

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### Cash Back to the Borrower

As noted above, the borrower may receive a small amount of cash back in a limited cash-out refinance transaction. The lender may also refund the borrower for the overpayment of fees and charges due to federal or state laws or regulations. Refunds such as these are not included in the maximum cash back limitation, provided that

- the settlement statement clearly identifies the refund, and
- the loan file includes documentation to support the amount and reason for the refund.

This applies to standard limited cash-out refinance transactions and DU Refi Plus and Refi Plus transactions.

**Note:** These refunds may also be applied as a principal balance curtailment in accordance with [B2-1.4-05, Principal Curtailments](#).

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### Documentation Requirements

To treat a transaction as a limited cash-out refinance transaction, the lender must document that all proceeds of the existing subordinate lien were used to fund part of the subject property

purchase price or pay for permissible energy-related expenses. Written confirmation must be maintained in the mortgage file.

The following are acceptable forms of documentation:

- a copy of the settlement statement for the purchase of the property;
  - a copy of the title policy from the purchase transaction that identifies the subordinate financing;
  - other documentation from the purchase transaction that indicates that a subordinate lien was used to purchase the subject property; or
  - for energy-related expenses, copies of invoices or receipts to evidence funds were used for energy improvements. A copy of an energy report is required in many cases. See [B5-3.3-01, HomeStyle Energy for Energy Improvements on Existing Properties](#), for additional information.
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### **Existing Subordinate Liens That Will Not Be Paid Off**

When a new limited cash-out refinance transaction will not satisfy existing subordinate liens, the existing liens must be clearly subordinate to the new refinance mortgage. The refinance mortgage must meet Fannie Mae's eligibility criteria for mortgages that are subject to subordinate financing.

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### **New Subordinate Financing**

When a borrower obtains new subordinate financing with the refinancing of a first mortgage loan, Fannie Mae treats the transaction as a limited cash-out refinance provided the first mortgage loan meets the eligibility criteria for a limited cash-out refinance transaction.

**Note:** It is acceptable for borrowers to obtain cash from the proceeds of the new subordinate mortgage.

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### **Refinances to Buy Out An Owner's Interest**

A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited

cash-out refinance if the secured property was jointly owned for at least 12 months preceding the disbursement date of the new mortgage loan.

All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction. Except in the case of recent inheritance of the subject property, documentation must be provided to indicate that the security property was jointly owned by all parties for at least 12 months preceding the disbursement date of the new mortgage loan.

Borrowers who acquire sole ownership of the property may not receive any of the proceeds from the refinancing. The party buying out the other party's interest must be able to qualify for the mortgage pursuant to Fannie Mae's underwriting guidelines.

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#### **Exceptions to Limited Cash-Out Refinance Requirements for DU Refi Plus and Refi Plus**

Certain exceptions to the standard limited cash-out refinance requirements exist for DU Refi Plus and Refi Plus mortgage loans. These exceptions include:

- the borrower is not permitted to pay off any existing subordinate liens with the proceeds from a new DU Refi Plus or Refi Plus transaction,
- the borrower may only receive up to \$250 cash back at closing,
- the borrower is not required to establish an escrow account if real estate taxes (regardless of due date) for the subject property are financed in the loan amount of the DU Refi Plus or Refi Plus mortgage loan, and
- the subject property may be listed for sale at the time of application or on the disbursement date. See [B5-5.2-01, DU Refi Plus and Refi Plus Eligibility](#), and [B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations](#) for additional exceptions.



## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b>  |
|---|--------------------|
| <a href="#"><u>Announcement SEL-2016-08</u></a> | October 24, 2016   |
| <a href="#"><u>Announcement SEL-2016-07</u></a> | August 30, 2016    |
| <a href="#"><u>Announcement SEL-2016-05</u></a> | June 28, 2016      |
| <a href="#"><u>Announcement SEL-2016-03</u></a> | March 29, 2016     |
| <a href="#"><u>Announcement SEL-2016-02</u></a> | February 23, 2016  |
| <a href="#"><u>Announcement SEL-2015-10</u></a> | September 29, 2015 |
| <a href="#"><u>Announcement SEL-2015-07</u></a> | June 30, 2015      |
| <a href="#"><u>Announcement SEL-2015-03</u></a> | March 31, 2015     |
| <a href="#"><u>Announcement SEL-2015-01</u></a> | January 27, 2015   |
| <a href="#"><u>Announcement SEL-2014-13</u></a> | November 10, 2014  |
| <a href="#"><u>Announcement SEL-2013-04</u></a> | May 28, 2013       |
| <a href="#"><u>Announcement SEL-2013-01</u></a> | January 17, 2013   |
| <a href="#"><u>Announcement SEL-2012-14</u></a> | December 18, 2012  |
| <a href="#"><u>Announcement SEL-2012-13</u></a> | November 13, 2012  |
| <a href="#"><u>Announcement SEL-2012-04</u></a> | May 15, 2012       |
| <a href="#"><u>Announcement SEL-2012-01</u></a> | January 31, 2012   |
| <a href="#"><u>Announcement SEL-2011-06</u></a> | July 26, 2011      |
| <a href="#"><u>Announcement SEL-2010-16</u></a> | December 1, 2010   |
| <a href="#"><u>Announcement SEL-2010-12</u></a> | August 31, 2010    |
| <a href="#"><u>Announcement 09-32</u></a>       | October 30, 2009   |
| <a href="#"><u>Announcement 09-04</u></a>       | March 4, 2009      |



## B2-1.2-03, Cash-Out Refinance Transactions (06/28/2016)

### Introduction

This topic contains information on cash-out refinance transactions, including:

- [Eligibility Requirements](#)
- [Ineligible Transactions](#)
- [Acceptable Uses](#)
- [Delayed Financing Exception](#)
- [Loan-Level Price Adjustments](#)

### Eligibility Requirements

Cash-out refinance transactions must meet the following requirements:

- The transaction must be used to pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have a mortgage lien against it.
- Properties listed for sale in the six months preceding the disbursement date of the new mortgage loan are limited to 70% LTV, CLTV, and HCLTV ratios (or less if mandated by the specific product, occupancy, or property type – for example, 65% for manufactured homes).

**Note:** Properties that were listed for sale must have been taken off the market on or before the disbursement date of the new mortgage loan.

- The property must have been purchased (or acquired) by the borrower at least six months prior to the disbursement date of the new mortgage loan except for the following:
  - There is no waiting period if the lender documents that the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).
  - The delayed financing requirements are met. See Delayed Financing Exception below.

For the maximum allowable LTV, CLTV, and HCLTV ratios and credit score requirements for cash-out refinances, see the [Eligibility Matrix](#).

### Ineligible Transactions

The following transaction types are not eligible as cash-out refinances:

- 
- The mortgage is subject to a temporary interest rate buydown.
  - The subject property was purchased by the borrower within the six months preceding the disbursement date of the new mortgage loan except if delayed financing guidelines are met. See Delayed Financing Exception below.
  - For certain transactions on properties that have a Property Assessed Clean Energy (PACE) loan, borrowers who refinance the first mortgage loan and have sufficient equity to pay off the PACE loan but choose not to do so will be ineligible for a cash-out refinance. See [B5-3.4-01, Property Assessed Clean Energy Loans](#) for additional information.
  - Transactions in which a portion of the proceeds of the refinance is used to pay off the outstanding balance on an installment land contract, regardless of the date the installment land contract was executed.
  - The new loan amount includes the financing of real estate taxes that are more than 60 days delinquent and an escrow account is not established, unless requiring an escrow account is not permitted by applicable law or regulation. For example, if a particular state law does not allow a lender to require an escrow account under certain circumstances, the loan would be eligible for sale to Fannie Mae without an escrow account.

The transaction is not eligible for delivery to Fannie Mae when the subject property is listed for sale at the time of disbursement of the new mortgage loan.

See also [B2-1.2-04, Prohibited Refinancing Practices](#).

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### Acceptable Uses

The following are acceptable uses for cash-out refinance transactions:

- paying off the unpaid principal balance of the existing first mortgage;
- financing the payment of closing costs, points, and prepaid items. The borrower can include real estate taxes in the new loan amount. Delinquent real estate taxes (taxes past due by more than 60 days) can also be included in the new loan amount, but if they are, an escrow account must be established, subject to applicable law or regulation;
- paying off any outstanding subordinate mortgage liens of any age;
- taking equity out of the subject property that may be used for any purpose;
- financing a short-term refinance mortgage loan that combines a first mortgage and a non-purchase-money subordinate mortgage into a new first mortgage or a refinance of the short-term refinance loan within six months.

### Delayed Financing Exception

Borrowers who purchased the subject property within the past six months (measured from the date on which the property was purchased to the disbursement date of the new mortgage loan) are eligible for a cash-out refinance if all of the following requirements are met.

| ✓ | <b>Requirements for a Delayed Financing Exception</b>   |
|---|---|
|   | The original purchase transaction was an arms-length transaction.   |
|   | For this refinance transaction, the borrower(s) must meet Fannie Mae’s borrower eligibility requirements as described in <a href="#">B2-2-01, General Borrower Eligibility Requirements</a> . The borrower(s) may have initially purchased the property as one of the following: <ul style="list-style-type: none"> <li>• a natural person;</li> <li>• an eligible <i>inter vivos</i> revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust;</li> <li>• an eligible land trust when the borrower is the beneficiary of the land trust; or</li> <li>• an LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%.</li> </ul> |
|   | The original purchase transaction is documented by a settlement statement, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed (or similar alternative) confirming the amount paid by the grantee to trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at time of sale.)<br><br>The preliminary title search or report must confirm that there are no existing liens on the subject property.   |
|   | The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).  |
|   | If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the settlement statement for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction.   |

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|   |   |
|---|---|
| ✓ | <b>Requirements for a Delayed Financing Exception</b>   |
|   | <b>Note:</b> Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.  |
|   | The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV, CLTV, and HCLTV ratios for the cash-out transaction based on the current appraised value). |
|   | All other cash-out refinance eligibility requirements are met. Cash-out pricing is applicable.  |

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### Loan-Level Price Adjustments

An LLPA applies to certain cash-out refinance transactions based on the LTV ratio and credit score. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. See the [Loan-Level Price Adjustment \(LLPA\) Matrix](#).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-05</a> | June 28, 2016     |
| <a href="#">Announcement SEL-2016-03</a> | March 29, 2016    |
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2014-06</a> | May 27, 2014      |
| <a href="#">Announcement SEL-2013-04</a> | May 28, 2013      |
| <a href="#">Announcement SEL-2012-14</a> | December 18, 2012 |
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012 |
| <a href="#">Announcement SEL-2012-01</a> | January 31, 2012  |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011     |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011     |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011    |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010  |
| <a href="#">Announcement SEL-2010-11</a> | August 31, 2010   |
| <a href="#">Announcement 09-32</a>       | October 30, 2009  |



## **B2-1.2-04, Prohibited Refinancing Practices (11/13/2012)**

### Introduction

This topic contains information on prohibited refinancing practices, including:

- [Overview](#)
- [Lender Solicitation for Refinancing](#)
- [Prearranged Refinancing Agreements](#)
- [Agreements to Advance Borrower Payments](#)

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### Overview

Fannie Mae restricts refinancing practices that might inappropriately affect the prepayment pattern for Fannie Mae mortgages, whether delivered for whole loan or MBS.

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Lenders may not deliver a mortgage that is in the process of being refinanced.

Fannie Mae analyzes MBS pools that have high levels of prepayments. If such analysis raises concerns about a lender's practices, Fannie Mae may review the lender's origination and refinancing activities to ensure compliance with Fannie Mae requirements. With respect to any mortgage loan that pays off within 120 days from the whole loan purchase date or the MBS issue date, Fannie Mae in its sole discretion may require reimbursement by the lender for any premium paid or buyup proceeds paid in connection with the purchase of the mortgage loan. (For mortgage loans repurchased by a lender, Fannie Mae may require reimbursement in its sole discretion, without regard to the 120-day limitation.) See [C1-1-01, Execution Options](#) and [C3-3-02, Accessing Buyup and Buydown Ratios and Calculating Payments or Charges](#) for specific requirements.

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### **Lender Solicitation for Refinancing**

With the exception of certain Refi Plus and DU Refi Plus mortgage loans, lenders may not specifically target Fannie Mae borrowers for offers to refinance. Lenders may advertise refinancing opportunities generally, or to a specific type of mortgage (for example, ARMs or FHA mortgages).

Lenders may not treat mortgages they hold in their own portfolios and those sold to another investor or Fannie Mae as separate classes of mortgages for purposes of promoting refinancing.

Lenders may not, as a means of making a mortgage loan eligible for repurchase from an MBS pool, encourage a borrower to refrain from making payments on his or her mortgage loan.

**Note:** See [B5-5.2-01, DU Refi Plus and Refi Plus Eligibility](#) for additional information regarding permissible solicitation practices for Refi Plus and DU Refi Plus mortgage loans.

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### **Prearranged Refinancing Agreements**

A lender may not deliver a mortgage to Fannie Mae if the lender (or any affiliate or third-party originator) and the borrower have entered into an arrangement for special terms (such as reduced fees) for a future refinance of the mortgage. If the lender believes that there might be such a refinance agreement, the lender should contact its lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)) to determine whether the mortgage is eligible for delivery.

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## Agreements to Advance Borrower Payments

Refinancing arrangements that call for the lender to advance a number of payments on the borrower's behalf and then to refinance the mortgage once the agreed-upon payments have been advanced are not permitted.

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012 |
| <a href="#">Announcement SEL-2012-02</a> | February 28, 2012 |
| <a href="#">Announcement SEL-2011-13</a> | December 20, 2011 |
| <a href="#">Announcement SEL-2011-12</a> | November 15, 2011 |



## **B2-1.2-05, Payoff of Installment Land Contract Requirements (11/13/2012)**

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### Introduction

This topic contains requirements for the payoff of installment land contracts.

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### Payoff of Installment Land Contract Requirements

When the proceeds of a mortgage loan are used to pay off the outstanding balance on an installment land contract (also known as contract or bond for deed) that was executed within the 12 months preceding the date of the loan application, Fannie Mae will consider the mortgage loan to be a purchase money mortgage loan.

The LTV ratio for the mortgage loan must be determined by dividing the new loan amount by the lesser of the total acquisition cost (defined as the purchase price indicated in the land contract, plus any costs the purchaser incurs for rehabilitation, renovation, or energy conservation improvements) or the appraised value of the property at the time the new mortgage loan is



closed. The expenditures included in the total acquisition cost must be fully documented by the borrower.

When the installment land contract was executed more than 12 months before the date of the loan application, Fannie Mae will consider the mortgage loan to be a limited cash-out refinance. In this case, the LTV ratio for the mortgage loan must be determined by dividing the new loan amount by the appraised value of the property at the time the new mortgage loan is closed.

Cash-out refinance transactions involving installment land contracts are not eligible for delivery.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued and that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012 |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011    |

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## Section B2-1.3, Loan Amortization Types



### B2-1.3-01, Fixed-Rate Mortgages (08/20/2013)

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#### Introduction

This topic contains general information on fixed-rate mortgages.

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#### Fixed-Rate Mortgage Eligibility

The eligibility requirements described in this topic apply to first mortgages. Eligibility criteria for second mortgages are determined when the lender requests a Master Agreement to cover second mortgage deliveries (see [B2-1.4-01, Mortgage Loan Limits](#)).

Fannie Mae purchases or securitizes conventional, fully amortizing, fixed-rate first mortgages. The mortgage can be subject to a temporary interest rate buydown plan, provided that the subject property is secured by a principal residence or a second home property. (See [B2-1.3-05, Temporary Interest Rate Buydowns](#).)

The payments must be structured as follows:

- level monthly installments of principal and interest (P&I),
- due on the first day of each month, and
- payment of interest in arrears.

For credit score requirements in association with products and LTV/CLTV/HCLTV limitations, see the [Eligibility Matrix](#).

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#### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013    |
| <a href="#">Announcement 09-29</a>       | September 22, 2009 |



## **B2-1.3-02, Adjustable-Rate Mortgages (ARMs) (06/30/2015)**

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### **Introduction**

This topic contains information on ARMs, including:

- [Adjustable-Rate Mortgages](#)
- [Acceptable ARM Characteristics](#)
- [ARMs and Temporary Interest Rate Buydowns](#)
- [Acceptable ARM Plan Buydown Structures](#)
- [ARM Plan Indexes](#)
- [Standard Conventional ARM Plans](#)
- [ARM Committing and Delivery Restrictions](#)
- [Initial Note Rate Limitations](#)
- [Calculating the Fully Indexed Rate](#)
- [Determining ARM Acceptability](#)
- [Mortgage Margin](#)
- [Interest Accrual Rate Calculation](#)
- [ARMs and MBS Pools](#)
- [Pooling Standard Fannie Mae ARM Plans Without Special Disclosure](#)
- [ARM Disclosures](#)
- [Disclosures Regarding Availability of Index Values](#)
- [Disclosures Regarding Below-Market Interest Rates](#)
- [Disclosures Regarding Conversions](#)
- [Borrower Disclosures Regarding Assumption of ARMs](#)
- [Requirements Regarding Interest Rate and Monthly Payment Adjustments](#)
- [ARM Payment Shock](#)
- [DU Generic ARM Plans](#)
- [Generic ARM Underwriting Guidelines](#)
- [Loan-Level Price Adjustments](#)

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### **Adjustable-Rate Mortgages**

Fannie Mae purchases or securitizes fully amortizing ARMs that are originated under its standard or negotiated plans. For maximum LTV/CLTV/HCLTV ratios and representative credit score requirements for ARMs, see the [Eligibility Matrix](#).

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### **Acceptable ARM Characteristics**

The following table describes standard conventional Fannie Mae ARM requirements.

| ✓ | <b>Standard Conventional ARM Requirements</b>  |
|---|--|
|   | Fannie Mae does not set a minimum remaining term requirement.  |
|   | Each ARM plan must offer lifetime and per-adjustment interest rate change limitations. <ul style="list-style-type: none"> <li>• Lifetime interest rate change limitations apply to interest rate increases only.</li> <li>• Per-adjustment interest rate change limitations apply to interest rate increases and decreases.</li> </ul> |
|   | Mortgage interest rates may never decrease to less than the ARM's margin, regardless of any downward interest rate cap.  |
|   | Fannie Mae restricts purchase or securitization of seasoned ARMs to those that are delivered as negotiated transactions.   |

### **ARMs and Temporary Interest Rate Buydowns**

The following table provides parameters pertaining to ARMs subject to temporary interest rate buydowns.

| ✓ | <b>ARMs Subject to Interest Rate Buydowns</b>  |
|---|--|
|   | Must be secured by principal residences or second homes only. <p style="text-align: center;"><b>Note:</b> ARM Plans 649, 650, 651, 652, 2722, and 2723 must be secured by a one- or two-unit property if there is a temporary buydown.</p> |
|   | Are only permitted under an ARM plan that has an initial interest rate period of three years or more.  |

### **Acceptable ARM Plan Buydown Structures**

The following ARM plans can be structured as either 3-2-1 or 2-1 buydowns (or other allowable structures per [B2-1.3-05, Temporary Interest Rate Buydowns](#)):

- ARM Plans 659, 660, 661
- ARM Plans 750 and 751
- ARM Plan 1423
- ARM Plan 1437

- ARM Plans 2724, 2725, 2726, 2727, 2728, 2729
- ARM Plan 3252

The following ARM plans must be structured as 2-1 buydowns with buydown periods that are not greater than 24 months.

- ARM Plans 649, 650, 651, 652
- ARM Plans 2722 and 2723

---

### ARM Plan Indexes

A Fannie Mae ARM plan may be tied to one of the following common indexes described below. Other indexes may be used in connection with negotiated ARM plans.

Among the most common indexes are Treasury-related indexes, which are defined by the U.S. Treasury. These indexes are based on the following:

| Index  | Description   |
|--|---|
| One-year constant maturity Treasury (CMT) securities   | The weekly average yield on U.S. Treasury securities adjusted to a constant maturity of one year as made available by the Federal Reserve Board.    |
| Three-year constant maturity Treasury (CMT) securities | The weekly average yield on U.S. Treasury securities adjusted to a constant maturity of three years as made available by the Federal Reserve Board. |
| Ten-year constant maturity Treasury (CMT) securities   | The weekly average yield on U.S. Treasury securities adjusted to a constant maturity of ten years, as made available by the Federal Reserve Board.  |

In addition to the Treasury-related indexes, Fannie Mae also has plans tied to the following indexes:

| Index                                 | Description  |
|---------------------------------------|--|
| London Interbank Offered Rate (LIBOR) | The average rate for U.S. dollar-denominated deposits in the London market based on quotations of major banks. |

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| Index                        | Description   |
|------------------------------|---|
|                              | <b>Note:</b> Fannie Mae uses a 1-year LIBOR index as published in <i>The Wall Street Journal</i> .  |
| “Cost of funds index” (COFI) | The monthly weighted-average cost of savings, borrowings, and advances of the 11th District members of the Federal Home Loan Bank of San Francisco. |

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### Standard Conventional ARM Plans

To qualify as a Fannie Mae standard conventional ARM, the ARM must have *all* of the characteristics specified in the *Standard ARM Plan Matrix* for the specific ARM plan. The characteristics related to standard ARMs include but are not limited to:

- the index used for determining each interest rate adjustment;
- the initial fixed period during which the interest rate will not change, after which the interest rate will adjust with a specified frequency;
- the periodic interest rate change limits, which include the limitations on interest rate increases and decreases, first from the initial interest rate and, thereafter, from each immediately preceding interest rate;
- the lifetime interest rate cap;
- the look-back period for determining the index value for interest rate adjustments;
- assumability — either assumable during the entire term of the mortgage or due-on-sale during the initial fixed-rate period and assumable thereafter; and
- for a convertible ARM, the terms by which the adjustable rate can convert to a fixed rate and the timing of such conversion option. If an ARM offers a conversion feature, the converted rate may not exceed the maximum rate stated in the note.

Lenders must refer to the *Standard ARM Plan Matrix* for specific requirements related to the above characteristics. The *Standard ARM Plan Matrix* is available on Fannie Mae's website and is incorporated by reference into this *Guide*.

---

### ARM Committing and Delivery Restrictions

ARM plans must meet the following committing and delivery restrictions:

| Committing and Delivery Restrictions   | ARM Plans   |
|--|---|
| Certain ARMs are available for whole loan committing only on a negotiated basis.   | See the <i>Standard ARM Plan Matrix</i> .             |
| Eligible for MBS pool delivery, but only if the lender selects the “market rate” post-conversion disposition option.   | 650, 652, 661, 721, 751, 1437, 2722, 2724, 2726, 2728 |
| Eligible for MBS pool delivery only as stated-structure ARM MBS pools and pursuant to specified pooling parameters as described in <a href="#">C3-5-01, Creating Stated-Structure ARM MBS</a> . Contact the lead Fannie Mae regional office (see <a href="#">E-1-03, List of Contacts</a> for additional details). | 3252  |

### Initial Note Rate Limitations

Fannie Mae limits the initial note rate for ARMs with initial interest rate periods of less than five years.

The limitation requires comparison of the initial note rate to the fully indexed rate that is applicable at the time the mortgage is originated.

### Calculating the Fully Indexed Rate

The fully indexed rate is the sum of the value of the applicable index and the mortgage margin, which is then rounded to the nearest one-eighth percent.

**Note:** Unless specific product terms provide otherwise, if the index plus gross margin equals a number that is equidistant between the higher and lower one-eighth percent, Fannie Mae rounds down to the nearest one-eighth percent.

The applicable index value that determines the fully indexed rate is the lowest value in effect during the 90 days that precede the date of the mortgage or deed of trust note.

The maximum yield difference may be restricted for certain ARM plans submitted as whole loan deliveries. The maximum yield difference is the amount by which the net note rate in effect for the mortgage at the time the loan is delivered to Fannie Mae can be less than Fannie Mae’s required yield.

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**Note:** Limitations can change at any time without prior notice.

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### **Determining ARM Acceptability**

Lenders must determine whether an ARM loan is acceptable for delivery to Fannie Mae in accordance with the following calculation:

| ✓ | Requirement  |
|---|--|
|   | Subtract the initial note rate of the mortgage from the fully indexed rate in effect when the mortgage was originated. |
|   | The difference may not exceed 3%.  |

---

### **Mortgage Margin**

The mortgage margin is the “spread” that is added to the index value to develop the interest accrual rate for the mortgage. The maximum mortgage margin may be no more than 300 basis points.

When lenders offer a deeply discounted “teaser” rate for the mortgage, the margin is generally not used in determining the initial interest rate, but will be used to determine the interest rate for all future interest rate changes.

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### **Interest Accrual Rate Calculation**

ARM instruments provide for each new interest accrual rate to be calculated by adding the mortgage margin to the most recent index figure available 45 days before the interest change date (although a few ARM plans may specify a different look-back period). Fannie Mae uniform instruments for all standard ARM plans provide for rounding to the nearest one-eighth.

**Note:** If a mortgage instrument provides otherwise, lenders must check with their lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)) as there may be pooling and/or disclosure impact.

Interest rate calculations are subject to the applicable per-adjustment and lifetime interest rate change limitations.



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## **ARMs and MBS Pools**

MBS pools cannot contain ARMs with provisions that allow or require the servicer/lender to change the minimum or maximum interest rate or the mortgage margin following an assumption, unless those provisions are waived prior to pooling such mortgage loans. Since this is not a feature contained in standard Fannie Mae ARM instruments, the lender must check with its lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)) to determine acceptability of the nonstandard form.

If such a unilateral waiver is legally precluded because the note provision would be beneficial to the borrower and therefore requires borrower consent to waive, Fannie Mae will require evidence of a prior, duly written and executed bilateral waiver between the lender and the related borrower before allowing the mortgage loan to be pooled.

For more information on pooling ARMs, see [Pooling Loans into ARM MBS](#).

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## **Pooling Standard Fannie Mae ARM Plans Without Special Disclosure**

To be pooled as a standard Fannie Mae ARM plan without a special disclosure, the ARM must meet all of the standard plan characteristics and must

- have a monthly payment that is due on the first day of the month;
- have an original maturity no longer than 30 years; and
- be originated on the applicable Fannie Mae standard forms, with no modifications, which cover all other pooling requirements.

See the *Standard ARM Plan Matrix* for additional information.

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## **ARM Disclosures**

Lenders must provide borrowers with disclosures in compliance with all applicable laws.

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## **Disclosures Regarding Availability of Index Values**

In addition to any disclosures required by applicable law, lenders must inform borrowers that the movement in the index on which the mortgage interest rate is based can be monitored and where the value for the index can be obtained. A number of periodicals publish current index values. Lenders may refer borrowers to any of the periodicals.

Lenders should advise borrowers that alternative published indexes will be selected (consistent with the provisions of the mortgage note) should the original index for a specific ARM plan no longer be available or published.

Fannie Mae relies on the following “official” sources for the indexes used for Fannie Mae ARM plans:

- Most Treasury indexes are published in the Federal Reserve Board’s Statistical Release H. 15 (519). The most recent index figure available as of the date 45 days before each change date is called the “current index.”
- The “cost of funds” index generally is published in the Federal Home Loan Bank of San Francisco’s *Information Bulletin* on the last business day of every month. The most recent index figure available as of the date 45 days before each change date is called the “current index.”
- The LIBOR index, as printed in *The Wall Street Journal*, goes into effect when it is published and the “most recently available index” is the latest one available on the day that is 45 days (for the 1-year index) before the interest rate change date.

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### Disclosures Regarding Below-Market Interest Rates

Lenders must notify borrowers of current index values and mortgage margins if the borrower’s initial interest rate is below-market.

Unless the lender is already required by regulation to make a comparable disclosure, the lender must show by example what the interest rate would be if the mortgage had been adjusted at the time of origination.

Lenders must ensure that borrowers are aware of, and prepared for, the possibility of both an interest rate increase and a payment increase on the first interest rate adjustment date.

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### Disclosures Regarding Conversions

Disclosures regarding conversions must include the following:

| ✓ | <b>Requirement: Conversion Disclosures Must Include</b>           |
|---|---|
|   | The instances when the conversion option may be exercised.        |
|   | The time frame within which conversion requests must be received. |

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| ✓ | <b>Requirement: Conversion Disclosures Must Include</b>   |
|---|---|
|   | The time frame within which the borrower must return executed conversion documents.   |
|   | Any fees that will be charged for processing the conversion.<br><br><b>Note:</b> Fannie Mae allows a \$250 fee for ARM plans that have a monthly conversion option and a \$100 fee for other ARM plans. |
|   | Once the ARM plan converts to a fixed-rate mortgage, the mortgage is no longer assumable.   |
|   | Any other special conditions.   |

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### **Borrower Disclosures Regarding Assumption of ARMs**

Although Fannie Mae ARMs are usually assumable, some plans do restrict assumability.

When assumptions are permitted, the lender must inform the borrower about the method for determining the yield on which the new fixed rate will be based. When assumptions are restricted, the lender must advise the borrower of the exact nature of the restriction(s).

**Note:** Lenders must disclose to borrowers that any ARM plan that includes an option to convert to a fixed-rate mortgage cannot be assumed once the conversion option is exercised.

See the *Standard ARM Plan Matrix* for information about the assumability provisions of Fannie Mae's various ARM plans.

---

### **Requirements Regarding Interest Rate and Monthly Payment Adjustments**

The following requirements apply to interest rate and monthly payment adjustments for ARM loans:

- The mortgage being delivered must not be subject to any current litigation with respect to the manner in which the interest rate and/or payment adjustments were calculated or implemented, and
- The lender must not be servicing other ARMs that include interest rate and payment adjustment provisions similar to those of the mortgage being sold to Fannie Mae that are the subject of current litigation related to the manner in which adjustments were made.

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## ARM Payment Shock

ARMs that provide for low initial payments based on fixed introductory rates that expire after a short period of time and then adjust to a variable rate for the remaining term of the mortgage loan have the potential for payment shock. “Payment shock” refers to the impact on the borrower’s ability to continue making the mortgage payments once the introductory rate expires. After the rate and payment increase, the borrower is subsequently faced with a large increase in monthly PITIA.

Lenders must limit the impact of any potential payment shock on an ARM with an initial fixed-rate period of five years or less by qualifying borrowers based on the greater of either:

- the note rate plus 2%, or
- the fully indexed rate with a fully amortizing repayment schedule (including taxes and insurance). The fully indexed rate equals the sum of the value of the applicable index and the mortgage margin.

See [B3-6-04, Qualifying Payment Requirements](#), for additional information.

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## DU Generic ARM Plans

Generic ARM plans are provided for loan casefiles underwritten through DU. These generic ARM plans are available:

- as tools for underwriting with DU, and
- to assist lenders in underwriting negotiated ARMs and standard ARM plans that are not specifically identified in the ARM plan field in the DO/DU user interface.

The following generic ARM plans are listed in the DO/DU user interface:

- FM GENERIC, 6 MONTH
- FM GENERIC, 1 YR, 1% ANNUAL Cap
- FM GENERIC, 1 YR, 2% ANNUAL Cap
- FM GENERIC, 3 YR
- FM-GENERIC, 5 YR

- FM-GENERIC, 7 YR
- FM-GENERIC, 10 YR

**Note:** Generic plan names, such as FM GENERIC, 6 MONTH, can be used to submit loan casefiles to DU. However, lenders must identify the applicable Fannie Mae ARM plan number in closing documents and at delivery of the mortgage loan to Fannie Mae.

### Generic ARM Underwriting Guidelines

DU applies standard Fannie Mae ARM underwriting and eligibility guidelines to the generic ARM plan equivalent based on the initial interest rate adjustment period.

| ✓ | For generic ARM plans, DU will ...   |
|---|--|
|   | apply standard ARM eligibility guidelines.   |
|   | qualify borrowers based on standard ARM qualifying guidelines.                               |
|   | allow temporary buydowns based on standard ARM guidelines.                                   |
|   | allow generic ARM plans equivalent to standard ARM plans on special mortgage products.       |
|   | return a message stating that the lender must ensure that the loan is eligible for delivery. |

### Loan-Level Price Adjustments

An LLPA applies to certain ARM loans. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. See the [Loan-Level Price Adjustment \(LLPA\) Matrix](#).

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015      |
| <a href="#">Announcement SEL-2015-03</a> | March 31, 2015     |
| <a href="#">Announcement SEL-2014-11</a> | August 26, 2014    |
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014     |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013    |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013      |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">DU Version 9.0</a>           | July 24, 2012      |
| <a href="#">Announcement SEL-2011-13</a> | December 20, 2011  |
| <a href="#">Announcement SEL-2011-09</a> | August 30, 2011    |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">Announcement SEL-2010-06</a> | April 30, 2010     |
| <a href="#">Announcement SEL-2010-02</a> | March 2, 2010      |
| <a href="#">Announcement 09-38</a>       | December 24, 2009  |
| <a href="#">Announcement 09-37</a>       | December 30, 2009  |
| <a href="#">Announcement 09-32</a>       | October 30, 2009   |
| <a href="#">DU Version 8.0</a>           | September 22, 2009 |
| <a href="#">Announcement 09-02</a>       | February 6, 2009   |
| <a href="#">DU User Interface</a>        | January 28, 2009   |



## **B2-1.3-03, Convertible ARMs (02/23/2016)**

### **Introduction**

This topic contains information on convertible ARMs, including:

- [General Information](#)
- [Converted ARMs Removed from ARM MBS Pools](#)
- [Borrower Requalification Considerations for Fixed-Rate Mortgages Converted from ARMs and Redelivered Under “Market Rate” Post-Conversion Options](#)
- [Eligibility Requirements for Converted ARMs](#)
- [Delivery Requirements and Security Instruments for ARMs Converted to Fixed-Rate Mortgages](#)
- [Mortgage Documents for Fixed-Rate Conversion Option](#)

### **General Information**

Fannie Mae accepts delivery of fixed-rate mortgages that were converted from ARMs either by a legally executed modification agreement or under the provisions of the mortgage instrument.

Although the ARM does not have to have been originated on Fannie Mae uniform instruments or in accordance with Fannie Mae eligibility requirements for ARMs, the new fixed-rate mortgage that results from the conversion must meet Fannie Mae’s general eligibility and underwriting requirements for newly originated fixed-rate mortgages.

### **Converted ARMs Removed from ARM MBS Pools**

This topic describes the circumstances under which a converted ARM that is removed from an ARM MBS pool as the result of its conversion to a fixed-rate mortgages may be redelivered to Fannie Mae.

If the mortgage is more than 12 months old at the time of the redelivery, and the lender specified a “market rate” post-conversion disposition option when the MBS pool was delivered to Fannie Mae, the mortgage must meet the same eligibility criteria as other converted ARMs (as discussed in “Eligibility Requirements for Converted ARMs” later in this topic).

If the lender specified a take-out post-conversion disposition option when the MBS pool was delivered to Fannie Mae, the lender does not need to requalify the borrower or verify that the mortgage satisfies Fannie Mae eligibility criteria.

### **Borrower Requalification Considerations for Fixed-Rate Mortgages Converted from ARMs and Redelivered Under “Market Rate” Post-Conversion Options**

To qualify a borrower, lenders may use the original in-file documentation to evaluate the borrower’s financial ability, as long as the borrower is able to qualify for the mortgage based on either of the following:

- The mortgage interest rate in effect following the conversion and Fannie Mae’s current underwriting guidelines for a conventional fixed-rate mortgage, or
- The mortgage interest rate in effect for the ARM when it was originated and the underwriting guidelines Fannie Mae used for ARMs at that time.

If the lender is unable to qualify a borrower under the previous options, the lender must requalify the borrower under Fannie Mae’s standard guidelines, including

- obtaining a new loan application,
- obtaining up-to-date credit reports,
- obtaining new employment and income verifications using the acceptable documentation,
- evaluating the borrower’s financial ability based on
  - the mortgage interest rate in effect for the converted mortgage, and
  - Fannie Mae’s current underwriting guidelines for a conventional fixed-rate mortgage.

### **Eligibility Requirements for Converted ARMs**

The following specific eligibility requirements apply to converted ARMs that are delivered as either whole loans or MBS pool deliveries under the “market rate” post-conversion disposition option that were removed from an ARM MBS pool as the result of the conversion:

| ✓ | <b>Requirements</b>  |
|---|--|
|   | The ARM must have been at least 12 months old when the conversion occurred.  |
|   | The converted mortgage must meet all of the eligibility criteria specified for mortgages that are more than one year old, unless Fannie Mae has specified that those criteria do not apply.<br><br><p style="text-align: center;"><b>Note:</b> The age of the mortgage is calculated from the date the ARM was originated. These specific eligibility criteria appear in <a href="#">B2-1.4-02, Mortgage Loan Eligibility</a>.</p> |
|   | The mortgage loan must be current at the time of delivery.   |



| ✓ | Requirements  |
|---|---|
|   | <p><b>Note:</b> To minimize processing delays, Fannie Mae considers a mortgage current if no more than 45 days have elapsed since the last paid installment date.</p>   |
|   | <p>The total of all interest rate increases or payment adjustments (including any combination of scheduled ARM interest rate changes and the increases scheduled under an interest rate buydown plan) that occurred after the ARM was originated must not have exceeded 2% (for the interest rate adjustment) or 15% (for the payment adjustment) if the lender qualifies the borrower on the basis of the mortgage interest rate that was in effect for the ARM when it was originated and the ARM underwriting guidelines Fannie Mae used at that time.</p>   |
|   | <p>The modified mortgage must provide for a fixed-interest rate, level monthly payments, and amortization within the term of the original mortgage.</p>   |
|   | <p>The title insurance policy or any endorsements to it are not impaired because of the option to convert to a fixed-rate mortgage or the actual conversion.</p>  |
|   | <p>If the original title policy did not include the ARM endorsements currently required, the lender must indemnify Fannie Mae (as described in <a href="#">A2-1-03, Indemnification for Losses</a>) against Fannie Mae losses that arise out of future title disputes related to the years in which the mortgage was an ARM.</p>  |
|   | <p>The original loan amount of the ARM did not exceed Fannie Mae's current maximum mortgage amount limitation at the time Fannie Mae originally securitized the mortgage in an ARM MBS pool.</p>  |
|   | <p>The greater of the original mortgage amount (at origination of the ARM, pre-conversion) or the current unpaid principal balance must be used to determine that the modified mortgage meets Fannie Mae requirements for maximum mortgage amount, LTV ratios, mortgage insurance coverage, and title insurance.</p> <p>EXCEPTION: For the delivery of a converted ARM that Fannie Mae initially securitized in an ARM MBS pool,</p> <p>if Fannie Mae's loan limits decreased between the time Fannie Mae initially securitized the ARM and the time the converted mortgage is redelivered to Fannie Mae after it is removed from the pool, the mortgage will still be acceptable to Fannie Mae even if the original mortgage balance exceeds the maximum mortgage amount that is in effect at the time of the redelivery.</p> <p>BACKGROUND</p> <p>This recognizes and acknowledges, respectively, the fact that</p> <ul style="list-style-type: none"> <li>the loan satisfied Fannie Mae requirements when it was securitized, and</li> </ul> |

| ✓ | <b>Requirements</b>  |
|---|--|
|   | <ul style="list-style-type: none"> <li>the redelivery is a function of an administrative requirement Fannie Mae imposed for mortgage-backed security transactions, rather than the delivery of a different mortgage.</li> </ul>  |
|   | <p>The LTV, CLTV, and HCLTV ratios at the time of conversion must not exceed the maximum allowable limits for fixed-rate mortgages, see the <a href="#">Standard ARM Plan Matrix</a>.</p> <p>If the ARM had negatively amortized, the LTV ratio (and the CLTV ratio and the HCLTV ratio) requirement must be satisfied as a result of</p> <ul style="list-style-type: none"> <li>Subsequent normal amortization</li> <li>The application of funds contributed by the borrower, or</li> <li>An increase in the value of the property.</li> </ul> <p><b>Note:</b> Increase in property value must be supported by a current appraisal.</p> |

### **Delivery Requirements and Security Instruments for ARMs Converted to Fixed-Rate Mortgages**

Lenders must identify each converted ARM that was repurchased from an MBS pool because the conversion to fixed-rate option was exercised and subsequently redelivered to Fannie Mae as a whole loan delivery of a fixed-rate mortgage with SFC 036.

Lenders must include in the delivery package a *Loan Modification Agreement* ([Form 3179](#)) as evidence of the conversion to a fixed-rate mortgage.

**Note:** A different (but substantially equivalent) modification agreement is also acceptable, as long as it includes an enforceable due-on-sale clause.

| ✓ | <b>Modification Agreement Requirements</b>   |
|---|--|
|   | Lenders must determine whether a modification agreement has to be recorded in each particular jurisdiction in order to preserve the lien position of the mortgage. |
|   | If recordation is required, lenders must submit the recorded instrument when it delivers the mortgage for purchase or securitization.                              |
|   | Lenders must obtain a title bring-down through the date of the recordation.  |

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## Mortgage Documents for Fixed-Rate Conversion Option

Execution of Fannie Mae’s standard riders or addenda that provide the terms for conversion to a fixed-rate mortgage or any other conversion option instrument is not required if:

- a convertibility provision was included in the adjustable-rate note, or
- the lender previously agreed to a conversion modification despite the fact that the loan documents did not give the borrower an option to convert. In this instance, lenders must provide a modification agreement to document the conversion and obtain a title bring-down through the date of the recordation.

See [Riders & Addenda](#) for current standard riders or addenda.

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## Related Announcements

The table below provides references to the Announcements that have been issued and that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014     |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011     |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011    |
| <a href="#">Announcement 09-37</a>       | December 30, 2009 |



## B2-1.3-04, Refinanced Balloon Mortgages (12/15/2015)

### Introduction

This topic contains information on refinanced balloon mortgages, including:

- [Refinanced Balloon Mortgages — Original Balloon Mortgage Owned by Fannie Mae](#)
- [Pricing](#)
- [MBS Eligibility](#)
- [Loan Delivery Data](#)

### Refinanced Balloon Mortgages — Original Balloon Mortgage Owned by Fannie Mae

The table below provides the conditions under which the lender may redeliver a balloon mortgage loan previously owned or securitized by Fannie Mae after the conditional right to refinance has been executed.

**Note:** For any balloon mortgage that has reached the end of the balloon period and has been refinanced or modified by the lender, and that was not owned by Fannie Mae prior to the refinance or modification, refer to [B2-1.4-02, Mortgage Loan Eligibility](#), for eligibility and delivery requirements.

| ✓ | Requirements   |
|---|--|
|   | The balloon mortgage must have contained a conditional refinancing option that the borrower could exercise when the balloon maturity date was reached.   |
|   | All of the requirements of the balloon documents that relate to the refinancing must be met.   |
|   | The LTV ratio and CLTV ratio for the original balloon mortgage did not exceed 95%.   |
|   | All eligibility requirements (with respect to mortgage interest rate, borrower payment history, property ownership, occupancy status, and lien status) at the time of the balloon maturity date must be met, as outlined in the <i>Servicing Guide</i> . |
|   | The new refinance mortgage must have a term of 23 years.   |
|   | The new refinance mortgage must be closed on the special balloon refinancing documents Fannie Mae developed for use in certain states.   |
|   | When a new refinance mortgage that was approved under one or more of Fannie Mae's eligibility criteria for approving a conditional refinance is included in an MBS pool, no more than one payment was 30 days late in the past 12 months.                |

A refinance mortgage that results from a borrower's decision to exercise the refinance option of a Fannie Mae-owned or Fannie Mae-securitized balloon mortgage does not need to satisfy Fannie Mae eligibility criteria for mortgages that are more than one year old if the interest rate for the refinanced mortgage is not more than 5% higher than the interest rate for the balloon mortgage.

If the difference in the old and new interest rates is more than 5%, lenders must re-underwrite both the borrower and the property to ensure that eligibility criteria for seasoned mortgages (mortgages that are more than one year old) are satisfied.

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## Pricing

Mortgage loans secured by investment properties will be subject to the applicable LLPA. Refer to the *Servicing Guide* for permissible changes in occupancy and to the [Loan-Level Price Adjustment \(LLPA\) Matrix](#) for applicable investment property LLPAs. No other LLPAs will be assessed for refinanced balloon mortgages.

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## MBS Eligibility

A balloon mortgage that has been refinanced into a 23-year fixed-rate loan may be included in an MBS pool using the TBA-eligible prefix CL, provided that all requirements related to the conditional right to refinance have been met.

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## Loan Delivery Data

All applicable loan delivery data must be provided at the time a refinanced balloon loan is redelivered to Fannie Mae. Refer to the [Loan Delivery Data Requirements](#) for a full list of data fields and additional information.

The table below highlights specific fields and identifies whether the delivery data should be provided based on the original balloon mortgage transaction, or must reflect the terms of the refinanced balloon after the conditional right to refinance has been executed.

| Loan Delivery Field Name | Source of the Delivery Data Upon Redelivery |
|--------------------------|---|
| Type of Amortization     | Refinanced balloon loan                     |
| Mortgage Type            | Refinanced balloon loan                     |
| Original Term            | Refinanced balloon loan                     |
| Note Rate                | Refinanced balloon loan                     |
| Original Loan Amount     | Refinanced balloon loan                     |
| Constant P&I             | Refinanced balloon loan                     |
| Maximum Term             | Refinanced balloon loan                     |
| Amortization Term        | Refinanced balloon loan                     |
| Original Note Rate       | Refinanced balloon loan                     |
| Monthly Housing Expense  | Original balloon loan                       |

| <b>Loan Delivery Field Name</b>  | <b>Source of the Delivery Data Upon Redelivery</b> |
|--|--|
| Monthly Debt Expense   | Original balloon loan                              |
| Monthly Income   | Original balloon loan                              |
| Appraisal Amount   | Original balloon loan                              |
| Date of Mortgage Note  | Original balloon loan                              |
| Borrower Credit Repository Source Indicator/Co-Borrower Credit Repository Source Indicator | Original balloon loan                              |
| Borrower Credit Score Source/Co-Borrower Credit Score Source                               | Original balloon loan                              |
| Borrower Credit Score/Co-Borrower Credit Score   | Original balloon loan                              |
| Appraisal Amount   | Original balloon loan                              |
| First Payment Date   | Refinanced balloon loan                            |
| Last Paid Installment Date   | Refinanced balloon loan                            |
| LTV Ratio  | Original balloon loan                              |

The new refinance mortgage loan must also be delivered with Special Feature Codes 007 and 236 (in addition to any other special feature codes that may also be applicable to the transaction).

### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2015-13</a> | December 15, 2015 |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011     |
| <a href="#">Announcement SEL-2010-06</a> | April 30, 2010    |
| <a href="#">Announcement SEL-2010-02</a> | March 2, 2010     |
| <a href="#">Announcement 09-32</a>       | October 30, 2009  |



## **B2-1.3-05, Temporary Interest Rate Buydowns (07/29/2014)**

### **Introduction**

This topic contains information on temporary interest rate buydowns, including:

- [Provisions for Temporary Interest Rate Buydown Plans](#)
- [Buydown Funds Provided by Interested Parties to the Transaction](#)
- [Lender-Funded Buydowns](#)
- [Buydown Agreements](#)
- [Eligible Transaction Types](#)
- [Qualifying the Borrower](#)
- [Terms of the Buydown](#)
- [Buydown Funds](#)
- [Disposing of Buydown Funds](#)
- [MBS Pool Considerations](#)
- [Delivery Requirements](#)

### **Provisions for Temporary Interest Rate Buydown Plans**

The table below provides the general requirements under which Fannie Mae purchases or securitizes mortgage loans subject to temporary interest rate buydown plans.

| ✓ | <b>General Requirements for Mortgage Loans with Temporary Interest Rate Buydown Plans</b>  |
|---|--|
|   | Temporary interest rate buydowns are allowed on fixed-rate mortgages and certain ARM plans for principal residences or second homes provided the rate reduction does not exceed 3%, and the rate increase will not exceed 1% per year. |
|   | The buydown plan must be a written agreement between the party providing the buydown funds and the borrower.   |
|   | All of the terms of the buydown plan must be disclosed to Fannie Mae, the mortgage insurer, and the property appraiser.  |
|   | The mortgage instruments must reflect the permanent payment terms rather than the terms of the buydown plan. In no event may the buydown plan change the terms of the mortgage note.   |

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## Buydown Funds Provided by Interested Parties to the Transaction

When the source of the buydown funds is an interested party to the property sale or purchase transaction, Fannie Mae's interested-party contribution limits apply. (See [B3-4.1-02, Interested Party Contributions \(IPCs\)](#).)

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## Lender-Funded Buydowns

When the lender funds the buydown, the buydown agreement must require that the funds in the buydown account be transferred to the new servicer if the mortgage is included as part of a subsequent transfer of servicing.

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## Buydown Agreements

The buydown agreement must provide that the borrower is not relieved of his or her obligation to make the mortgage payments required by the terms of the mortgage note if, for any reason, the buydown funds are not available.

The buydown agreement may include an option for the buydown funds to be returned to the borrower or to the lender, if it funded the buydown, if the mortgage is paid off before all of the funds have been applied.

A copy of the buydown agreement must be included in the delivery documentation for the mortgage.

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## Eligible Transaction Types

The following table lists the transaction types that are eligible and ineligible for temporary buydowns:

| Transaction Type                | Eligibility |
|---------------------------------|-------------|
| Principal residence             | Eligible    |
| Second homes                    | Eligible    |
| Investor properties             | Ineligible  |
| Cash-out refinance transactions | Ineligible  |
| ARMs                            | Restricted  |



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For specific ARM plan restrictions, refer to the following:

- [B2-1.3-02, Adjustable-Rate Mortgages \(ARMs\)](#), and
- [B5-4.1-02, Texas Section 50\(a\)\(6\) Mortgage Loan Eligibility](#).

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### Qualifying the Borrower

When underwriting mortgage loans that have a temporary interest rate buydown, the lender must qualify the borrower based on the note rate without consideration of the bought-down rate.

For qualifying requirements, see [B3-6-04, Qualifying Payment Requirements](#).

---

### Terms of the Buydown

Fannie Mae does not place a limit on the total dollar amount of an interest rate buydown.

The total dollar amount of an interest rate buydown must be consistent with the terms of the buydown period.

An interest rate buydown plan must provide for:

- a buydown period not greater than 36 months, and
- increases of not more than 1% in the portion of the interest rate paid by the borrower in each 12-month interval.

More frequent changes are permitted as long as the total annual increase does not exceed 1%.

---

### Buydown Funds

The table below provides Fannie Mae requirements for treatment of buydown funds.

| ✓ | Requirement  |
|---|--|
|   | Buydown accounts must be established and fully funded by the time the lender submits the mortgage to Fannie Mae for purchase or securitization.                                      |
|   | Funds for buydown accounts must be deposited into custodial bank accounts.<br><br><b>Note:</b> Buydown funds cannot be included in accounts with the lender's other corporate funds. |

| ✓ | Requirement  |
|---|--|
|   | The borrower's only interest in buydown funds is to have them applied toward payments as they come due under the note. |
|   | Buydown funds are not refundable unless the mortgage is paid off before all the funds have been applied.               |
|   | Buydown funds cannot be used to pay past-due payments.   |
|   | Buydown funds cannot be used to reduce the mortgage amount for purposes of determining the LTV ratio.                  |

### Disposing of Buydown Funds

If the mortgage is liquidated or the property is sold during the buydown period, the lender should dispose of the buydown funds in the following manner:

| Status of Mortgage   | Disposition of Funds   |
|--|--|
| The mortgage is paid in full.                                      | The funds should be credited to the total amount required to pay off the mortgage, or they may be returned to either the borrower or the lender as specified in the buydown agreement. |
| The mortgage is foreclosed.  | The funds are used to reduce the mortgage debt.  |
| The property is sold and the mortgage is assumed by the purchaser. | The funds may continue to be used to reduce the mortgage payments under the original terms of the buydown plan.  |

### MBS Pool Considerations

When a lender includes a mortgage with a significant interest rate buydown—such as a 3-2-1 temporary interest rate buydown—in an MBS pool, there are restrictions on the maximum amount of mortgage loans that can have a significant temporary buydown. See [C3-2-01, Determining Eligibility for Loans Pooled into MBS](#), for additional information.

### Delivery Requirements

The following special feature codes must be delivered, depending on the type of interest-rate buydown:

| If the temporary interest-rate buydown provides for  | Then the mortgage loan must be identified with |
|--|--|
| <ul style="list-style-type: none"> <li>• a difference of 2 percentage points or less between the actual note rate and the “bought-down” interest rate, or</li> <li>• a buydown period of 2 years or less,</li> </ul> | SFC 009  |
| <ul style="list-style-type: none"> <li>• a difference of more than 2 percentage points between the actual note rate and the “bought-down” rate, or</li> <li>• a buydown period greater than 2 years,</li> </ul>      | SFC 014  |

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014     |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012   |
| <a href="#">Announcement SEL-2011-09</a> | August 30, 2011   |
| <a href="#">Announcement 09-37</a>       | December 30, 2009 |
| <a href="#">Announcement 09-19</a>       | June 8, 2009      |

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## Section B2-1.4, Other Loan Attributes and Related Policies



### B2-1.4-01, Mortgage Loan Limits (03/31/2011)

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#### Introduction

This topic contains information on mortgage loan limits, including:

- [Mortgage Loan Limits Overview](#)
  - [First Mortgage Loan Limits](#)
  - [Second Mortgage Loan Limits](#)
  - [Loan Limits and Modified Mortgages](#)
- 

#### Mortgage Loan Limits Overview

Fannie Mae can only purchase loans up to a certain dollar amount. This dollar amount is known as the loan limit. Fannie Mae's loan limits are imposed under its federal charter as amended by law.

The loan limits apply to all conventional mortgage loans delivered to Fannie Mae for whole loan purchase or MBS pool issuance and are based on the original loan amount of the loan (irrespective of the origination date). The limits are subject to change annually and vary, depending upon the number of units in the property, the property's location, and whether the loan is a first or second mortgage. The [Loan Limits for Conventional Mortgages](#) are posted on Fannie Mae's website.

Lenders are responsible for ensuring that the original loan amount of each mortgage loan does not exceed the applicable maximum loan limit for the specific area in which the property is located at the time the loan is delivered to Fannie Mae.

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#### First Mortgage Loan Limits

Fannie Mae's first mortgage loan limits are defined in terms of general loan limits and high-cost area loan limits:

- 
- The general limits apply to the majority of the mortgage loans that Fannie Mae purchases.
  - The high-cost area loan limits apply to mortgage loans secured by properties in designated high-cost areas, as determined by Fannie Mae's regulator. The high-cost area loan limits vary across the country.

In addition, Fannie Mae's eligibility and delivery requirements may vary for high-balance mortgage loans. See [High-Balance Loan Feature](#).

If the mortgage is a first mortgage securing an ownership interest in a co-op corporation, the amount of the first mortgage and prorated share of the co-op corporation blanket mortgage cannot exceed Fannie Mae's loan limits.

Fannie Mae has no minimum original loan amount requirement for either whole loan mortgages or MBS mortgages.

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## Second Mortgage Loan Limits

Fannie Mae can purchase or securitize a second mortgage, provided the property is the borrower's principal residence. Unlike first mortgage loan limits, Fannie Mae's second mortgage loan limits are not dependent on the number of units in the property. The second mortgage loan limits apply whether or not Fannie Mae owns or has an interest in the first mortgage loan.

When a second mortgage is sold to Fannie Mae, the sum of the original loan amounts of the first and second mortgage loans may not exceed the applicable loan limit for first mortgage loans based on the location and number of units of the subject property. This combined loan limit requirement does not apply in cases in which Fannie Mae is acquiring a first mortgage that has a second (subordinate) mortgage that is not being acquired by Fannie Mae.

See [B2-1.3-01, Fixed-Rate Mortgages](#), for additional information regarding second mortgages.

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## Loan Limits and Modified Mortgages

Loan limits for modified mortgage loans are based on the original loan amount of the mortgage loan and not on the unpaid principal balance of the mortgage loan at the time of modification or acquisition by Fannie Mae. A modified mortgage loan with an original loan amount exceeding the current loan limit is not eligible for purchase by Fannie Mae, even though the balance at the time of the modification may be at or below the current applicable loan limit.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date     |
|--|----------------|
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011 |



## B2-1.4-02, Mortgage Loan Eligibility (06/28/2016)

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### Introduction

This topic contains information on mortgage loan eligibility requirements, including:

- [Ability to Repay Loan Eligibility Requirements](#)
- [HOEPA and State Higher-Priced Mortgage Loans](#)
- [Acceptable Mortgage Loan Terms](#)
- [Impact of Special Assessments on Maximum Mortgage Loan Amount](#)
- [Private Transfer Fee Covenants](#)
- [Property Value for Loans Sold More than Four Months from Note Date](#)
- [Seasoned Mortgages](#)
- [Modified Mortgages](#)
- [Nonstandard Payment Collection Options](#)

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### Ability to Repay Loan Eligibility Requirements

The following provisions apply to loans with application dates on or after January 10, 2014.

**Note:** As to any mortgage loan for which the original application was made before January 10, 2014, but which was assumed on or after January 10, 2014, and subsequently purchased or securitized by Fannie Mae, then, for eligibility purposes, the application date is considered to be the date on which Truth in Lending Act disclosure requirements were triggered with respect to such assumption.

**ATR Covered Loans.** An ATR Covered Loan is a mortgage loan that is subject to the TILA's ability to repay requirements under Regulation Z and is otherwise not an ATR Exempt Loan (defined below). An ATR Covered Loan must meet the following requirements in addition to the other underwriting and eligibility requirements in the *Selling Guide*:

- 
- have a loan term not exceeding 30 years;
  - be a fully amortizing loan, as defined in Regulation Z:
    - the loan must have regular periodic payments that are substantially equal that do not result in an increase in the principal balance or allow the borrower to defer repayment of principal; and
  - have total points and fees not in excess of 3% of the total loan amount (or such different amount as provided in Regulation Z) as described below under Points and Fees Limitations.

*Exception:* The only exception to these requirements is for single-closing construction-to-permanent loans, which may have a loan term that exceeds 30 years including the construction period. See [B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions](#), for additional information.

The ATR Covered Loan requirements apply to acquisitions of newly originated loans (including government mortgage loans). These new requirements do not apply to assumptions or modifications of existing Fannie Mae mortgage loans regardless of the dates on which the loans being assumed or modified were originally closed.

**ATR Exempt Loans.** An ATR Exempt Loan is, with certain exceptions, a loan that either is not subject to TILA or is exempt from the ability to repay requirements in Regulation Z (12 CFR § 1026.43(a) or (d)). For purposes of determining whether a loan is an ATR Exempt Loan, lenders must follow the TILA and Regulation Z definitions.

**Note:** The classification of certain transactions for TILA purposes and for eligibility and underwriting purposes by Fannie Mae do not always align. For example, Fannie Mae defines a four-unit property where the borrower occupies one of the units as a “principal residence.” If under TILA such a loan is considered to be for commercial or business purposes, it will be exempt from TILA and therefore considered an ATR Exempt Loan by Fannie Mae.

*Exception:* A “non-standard mortgage” to “standard mortgage” refinance transaction as defined in Regulation Z (other than a loan secured by an investment property that fits within the “business purpose” definition for an exempt loan under TILA) shall be treated as an ATR Covered Loan.

Fannie Mae purchases or securitizes ATR Exempt Loans as long as such loans meet the other eligibility and underwriting requirements described in this Guide.

**Points and Fees Limitations.** For purposes of these requirements, “total points and fees” and “total loan amount” must be calculated in accordance with Regulation Z (12 CFR § 1026.32).

- **ATR Covered Loans:** Total points and fees may not exceed 3% of the total loan amount or such different amount in accordance with the qualified mortgage provisions of Regulation Z (12 CFR § 1026.43(e)(3)(i)). If a lender makes a cure payment in the amount and by the time required by 12 CFR § 1026.43(e)(3)(iii), such loan satisfies this requirement.
- **ATR Exempt Loans:** Total points and fees may not exceed 5% of the total loan amount. This determination may take into account either of the following adjustments:
  - permitted reduction of total points and fees pursuant to 12 CFR § 1026.31(h); or
  - in the case of loans not subject to TILA, restitution to the borrower of at least that portion of total points and fees that exceeded 5% at the time of loan closing.

### HOEPA and State Higher-Priced Mortgage Loans

A mortgage loan that is subject to the Home Ownership and Equity Protection Act of 1994 (HOEPA), as described in Section 32 of Regulation Z, is not eligible for delivery to Fannie Mae.

In addition, Fannie Mae does not purchase or securitize mortgage loans that meet the definitions under the following laws of the state in which the property is located (“state higher-priced loans”), regardless of whether any provision of such state law is preempted by federal law with respect to a particular loan or for a particular originator:

| State    | Loan Type           | Description   |
|----------|---------------------|---|
| Arkansas | High-cost home loan | Loans delivered on or after September 1, 2003 that meet the definition of “high-cost home loan” under the Arkansas Home Loan Protection Act (Ark. Code Ann. §§ 23-53-101 et seq.), notwithstanding the “safe harbor” language contained in § 23-53-103(5)(B). |
| Georgia  | Home Loan           | Loans originated between October 1, 2002 and March 7, 2003 that are governed by the Georgia Fair Lending Act (Ga. Code Ann. §§ 7-6A-1 et seq.).   |
| Georgia  | High-cost home loan | Loans delivered on or after January 1, 2003 that meet the   |



| State         | Loan Type                    | Description   |
|---------------|------------------------------|---|
|               |                              | definition of “high-cost home loan” under the Georgia Fair Lending Act (Ga. Code Ann. §§ 7-6A-1 et seq.), as amended effective March 7, 2003.   |
| Illinois      | High risk home loan          | Loans delivered on or after January 1, 2004 that meet the definition of “high risk home loan” under the Illinois High Risk Home Loan Act (§ 815 Ill. Comp. Stat. 137/1 et seq.).  |
| Indiana       | High cost home loan          | Loans delivered on or after January 1, 2005 that meet the definition of “high cost home loan” under the Indiana Home Loan Practices Act (Ind. Code Ann. §§ 24-9-1 et seq.), notwithstanding the “safe harbor” language contained in § 24-9-1-1. |
| Kentucky      | High-cost home loan          | Loans delivered on or after September 1, 2003 that meet the definition of “high-cost home loan” under the Kentucky high-cost home loan statute (Ky. Rev. Stat. § 360.100).  |
| Maine         | High-rate, high-fee mortgage | Loans delivered on or after January 1, 2008 that meet the definition of “high-rate, high-fee mortgage” under the Maine Consumer Credit Code – Truth in Lending (Me. Rev. Stat. Tit. 9-A §§ 8-101 et seq.).                                      |
| Massachusetts | High-cost home mortgage loan | Loans delivered on or after November 7, 2004 that meet the definition of “high cost home mortgage loan” under   |

| State        | Loan Type           | Description  |
|--------------|---------------------|--|
|              |                     | the Massachusetts Predatory Home Loan Practices Act (Mass. Gen. Laws Ann. ch.183C).  |
| New Jersey   | High-cost home loan | Loans delivered on or after November 27, 2003 that meet the definition of “high-cost home loan” under the New Jersey Home Ownership Security Act of 2002 (N.J. Rev. Stat. §§ 46:10B-22 et seq.).                                     |
| New Mexico   | High-cost home loan | Loans delivered on or after January 1, 2004 that meet the definition of “high-cost home loans” under the New Mexico Home Loan Protection Act (N.M. Stat. Ann. §§ 58-21A-1 et seq.).  |
| New York     | High-cost home loan | Loans delivered on or after April 1, 2003 that meet the definition of “high-cost home loan” under the New York Banking Law § 6-1.  |
| New York     | Subprime home loan  | Loans delivered on or after September 1, 2008 that meet the definition of “subprime home loan” under New York Banking Law § 6-m.   |
| Rhode Island | High-cost home loan | Loans delivered on or after December 31, 2006 that meet the definition of “high-cost home loan” under the Rhode Island Home Loan Protection Act (R.I. Gen. Laws §§ 34-25.2-1 et seq.), notwithstanding the exemptions contained in § |

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| State     | Loan Type           | Description  |
|-----------|---------------------|--|
|           |                     | 34-25.2-11 of the Rhode Island law.  |
| Tennessee | High-cost home loan | Loans delivered on or after January 1, 2007 that meet the definition of “high-cost home loan” under the Tennessee Home Loan Protection Act (Tenn. Code Ann. §§ 45-20-101 et seq.), notwithstanding the preemption provision contained in § 45-20-111 of the Tennessee law. |

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### Acceptable Mortgage Loan Terms

Fannie Mae purchases or securitizes mortgage loans that have original terms up to 30 years. The term of a first mortgage may not extend more than 30 years beyond the date that is one month prior to the date of the first payment.

*Exception:* The only exception to these requirements is for single-closing construction-to-permanent loans, which may have a loan term that exceeds 30 years including the construction period. See [B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions](#).

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### Impact of Special Assessments on Maximum Mortgage Loan Amount

If special assessments have been levied against the property and they are not paid before or at closing, the maximum mortgage amount otherwise available must be reduced by the amount of the unpaid special assessments (unless sufficient deposits to pay them will be collected as part of the mortgage payment).

If the security property may be subject to liens for taxes and special assessments and the liens are not yet due and payable, Fannie Mae does not consider these conditions, restrictions, and encumbrances material and does not require a reduction in the maximum mortgage amount.

The lender must provide documentation to show that the current installments of taxes and assessments (or future installments of special assessments that have been levied) - including

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those which may have been attached as prior liens, but which are not now in arrears - have been paid or that sufficient deposits are being collected to pay them.

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### **Private Transfer Fee Covenants**

In accordance with a regulation issued by the Federal Housing Finance Agency on March 16, 2012, and codified at 12 CFR Part 1228 (the “Private Transfer Fee Regulation”), Fannie Mae will not purchase or securitize mortgages on properties encumbered by private transfer fee covenants if those covenants were created on or after February 8, 2011, unless permitted by the Private Transfer Fee Regulation.

The lender must establish policies and/or procedures to ensure that the loans it delivers to Fannie Mae, whether or not the loans were originated by the lender, are not secured by properties encumbered with a private transfer fee that is unacceptable under the Private Transfer Fee Regulation. The policies and/or procedures will be reviewed by Fannie Mae as part of the lender’s operational review process.

As with all other federal, state, and local laws, the lender (and any third-party originator it uses) must be aware of, and in full compliance with, the Private Transfer Fee Regulation. (Refer to the Private Transfer Regulation for further detail concerning acceptable and unacceptable private transfer fee covenants, as well as the definitions of “private transfer fee” and “private transfer fee covenant.”)

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### **Property Value for Loans Sold More than Four Months from Note Date**

For mortgage loans that are more than four months old from the date of the note and mortgage to the date the loan is sold to Fannie Mae, the current value of the property cannot be less than the original value. If the lender is unable to warrant that the current value of the property is not less than the original value of the property, the loan is not eligible for delivery to Fannie Mae by the lender except on a negotiated basis. In these instances, the loan must be submitted as part of a bulk transaction, which is subject to additional review by Fannie Mae to ensure the loan is eligible for sale.

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### **Seasoned Mortgages**

Seasoned mortgages are mortgages that are more than one year old from the first payment date to:

- the loan purchase date for whole mortgage loans, or
- the pool issue date for MBS mortgage loans.

**Note:** Fannie Mae restricts purchase or securitization of seasoned adjustable-rate mortgage loans to those that are delivered as a negotiated transaction. See [B2-1.3-02, Adjustable-Rate Mortgages \(ARMs\)](#).

The table below provides the requirements for seasoned mortgages.

| ✓ | <b>Seasoned Mortgage Loan Requirements</b>  |
|---|---|
|   | Seasoned mortgages may not be included in Fannie Majors MBS pools. See Chapter C3–6, Pooling Loans into Fannie Majors.  |
|   | The lender’s underwriting of the borrower’s credit and the security property for a seasoned mortgage loan must meet the current requirements set out in this Guide.   |
|   | The borrower has not had a 30-day delinquency in the 12-month period that precedes the lender’s delivery of the mortgage to Fannie Mae.   |
|   | If the current borrower assumed the mortgage and has owned the property for less than 12 months, he or she must have had no 30-day delinquency since purchasing the property.   |
|   | The borrower’s ability to pay must not have changed adversely.<br><br><b>Note:</b> If the mortgage has been assumed, the new borrower’s credit must be fully documented and underwritten in accordance with the same standards used for new mortgages, unless the transfer of ownership was one of the exempt transactions that legally prohibit a credit review. See the <i>Servicing Guide</i> for an explanation of exempt transactions. |
|   | The current value of the property cannot be less than the original value. If the lender is unable to provide this warranty, the loan is not eligible for delivery to Fannie Mae by the lender except on a negotiated basis.   |
|   | The status of the title to the property must not have been affected adversely.  |
|   | The mortgage must satisfy Fannie Mae’s current applicable mortgage eligibility requirements.  |
|   | If the mortgage loan is secured by a unit in a condo, co-op, or PUD project, the project must satisfy Fannie Mae’s current applicable project eligibility requirements.   |
|   | If the mortgage loan was modified prior to delivery to Fannie Mae, it must be a modification that is eligible for delivery in accordance with the requirements of this Guide as described below under Modified Mortgages.   |
|   | Except to the extent otherwise expressly permitted in the <i>Selling Guide</i> ( <a href="#">A2-3.2-01, Loan Repurchases and Make Whole Payments Requested by Fannie</a>  |

| ✓ | <b>Seasoned Mortgage Loan Requirements</b>   |
|---|--|
|   | <p><a href="#">Mae</a>), or <i>Servicing Guide</i> with respect to the redelivery of mortgages to Fannie Mae, the mortgage being delivered cannot be a mortgage that was required to be repurchased by a secondary market investor, government-sponsored enterprise, or private institutional investor other than Fannie Mae for any documentation, underwriting, property valuation, or other deficiencies and/or issues with the property (including project eligibility if the property is in a condo, co-op, or PUD project), borrower credit or other deficiencies or for any other reason.</p> |

### Modified Mortgages

A modified mortgage is a loan that was legally modified after loan closing in a way that changed any of the loan terms or attributes reflected in the original note. In general, mortgage loans with material modifications, such as changes to the original loan amount, interest rate, final maturity, or product structure, are not eligible for delivery to Fannie Mae.

A mortgage that was modified to effect technical or typographical corrections is permitted for delivery, provided that all of the changes correct errors in the executed documents, which reflect the terms of the original loan transaction. None of the changes can be the result of a subsequent modification or amendment to the original loan amount, interest rate, or other material loan term. The correction may not result in a change to, or create any inconsistencies with, other legal documents.

Fannie Mae permits the delivery of certain other modified loans based primarily on whether the loan was owned or securitized by Fannie Mae prior to the modification, or the modification of the loan was done in accordance with a standard product or is common and customary in a certain area.

The table below provides a comprehensive overview of Fannie Mae requirements applicable to the delivery of modified loans. If the loan is not eligible in accordance with standard *Selling Guide* provisions, it may be eligible in accordance with a variance. Such variances may be subject to additional terms and conditions.

| <b>Category of Modification</b> | <b>Owned or Securitized by Fannie Mae Prior to or at Time of Modification?</b> | <b>Eligible for Delivery to Fannie Mae After Modification?</b> | <b><i>Selling Guide</i> or <i>Servicing Guide</i> Reference</b>  |
|---------------------------------|--|--|--|
| Converted ARMs                  | Yes  | Yes  | <i>Selling Guide</i> : See <a href="#">B2-1.3-03, Convertible ARMs</a> , for convertible ARMs that are |

| <b>Category of Modification</b>  | <b>Owned or Securitized by Fannie Mae Prior to or at Time of Modification?</b> | <b>Eligible for Delivery to Fannie Mae After Modification?</b> | <b><i>Selling Guide</i> or <i>Servicing Guide</i> Reference</b>   |
|--|--|--|---|
|  |  |  | redelivered to Fannie Mae after their removal from an MBS pool  |
|  | No   | No   | N/A   |
| Maturing Balloon with Conditional Right to Refinance                               | Yes  | Yes  | <i>Selling Guide</i> : See <a href="#">B2-1.3-04, Refinanced Balloon Mortgages</a> , for refinanced balloon mortgages owned or securitized by Fannie Mae that have a conditional refinance option |
|  | No   | No   | N/A   |
| Maturing Balloon with Conditional Right to Modify                                  | Yes or No  | No   | N/A   |
| Borrower Principal Curtailment and Recast Over Remaining Term                      | Yes  | N/A — No redelivery required                                   | <i>Servicing Guide</i> : See Chapter C-1, Processing Mortgage Loan Payments   |
|  | No   | No   | N/A   |
| Changes to Borrowers Due to Death, Marriage, or Other Allowable Property Transfers | Yes  | N/A — No redelivery required                                   | <i>Servicing Guide</i> : See Chapter D1-4, Transfers of Ownership   |
|  | No   | No   | N/A   |
| Single-Closing Construction-to-Permanent Financing                                 | No   | Yes  | <i>Selling Guide</i> : See <a href="#">B5-3.1-02, Conversion of Construction-to-Permanent Financing</a> :   |

| <b>Category of Modification</b>                             | <b>Owned or Securitized by Fannie Mae Prior to or at Time of Modification?</b> | <b>Eligible for Delivery to Fannie Mae After Modification?</b> | <b><i>Selling Guide</i> or <i>Servicing Guide</i> Reference</b>                          |
|---|--|--|--|
|   |  |  | <a href="#">Single-Closing Transactions</a>  |
| New York Consolidation, Extension, and Modification         | No   | Yes  | <i>Selling Guide</i> : See <a href="#">B8-2-02, Special-Purpose Security Instruments</a> |
| Modifications that Result in Material Changes to Loan Terms | No   | No   | <i>Selling Guide</i> : See Modified Mortgages, above                                     |

For information on subsequent refinances of modified mortgages for DU Refi Plus and Refi Plus, refer to [B5-5.2-01, DU Refi Plus and Refi Plus Eligibility](#).

### **Nonstandard Payment Collection Options**

A nonstandard payment collection option is a payment option that permits the borrower to make mortgage loan payments on a schedule other than a monthly basis. If the nonstandard payment collection option terms are included in the loan documents, then the mortgage loan is ineligible for delivery to Fannie Mae.

Lenders may offer nonstandard payment collection plans as part of a separate agreement; however, the mortgage loan is eligible for delivery to Fannie Mae only under the following conditions:

- the agreement must not impact the terms and conditions of the mortgage note, nor the reporting or remittance of payments to Fannie Mae;
- the agreement must be cancelable by the borrower without cost; and
- the mortgage loan must be identifiable by the lender such that the information can be provided to Fannie Mae upon request.



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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-05</a> | June 28, 2016      |
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015   |
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015      |
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015   |
| <a href="#">Announcement SEL-2014-16</a> | December 16, 2014  |
| <a href="#">Announcement SEL-2014-12</a> | September 30, 2014 |
| <a href="#">Announcement SEL-2014-11</a> | August 26, 2014    |
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014     |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013    |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013      |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012      |
| <a href="#">Announcement SEL-2012-04</a> | May 15, 2012       |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011      |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011     |
| <a href="#">Announcement SEL-2011-01</a> | January 27, 2011   |
| <a href="#">Announcement SEL-2010-10</a> | August 12, 2010    |
| <a href="#">Announcement SEL-2010-06</a> | April 30, 2010     |
| <a href="#">Announcement 09-32</a>       | October 30, 2009   |
| <a href="#">Announcement 09-19</a>       | June 8, 2009       |



## **B2-1.4-03, Legal Requirements (08/20/2013)**

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### **Introduction**

This topic contains information on legal requirements, including:

- [First Mortgage Lien Position](#)
  - [Personal Property](#)
  - [Rental Property Leases](#)
  - [Mortgages with a Capitalization Option](#)
  - [Mortgages Permitting Open-end Advances](#)
- 

### **First Mortgage Lien Position**

If the mortgage being delivered to Fannie Mae is a first mortgage, the lien of the security instrument must be a first and paramount lien on the borrower's estate in the real property.

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### **Personal Property**

Personal property may not be included as additional security for any mortgage on a one-unit property unless otherwise specified by Fannie Mae. For example, certain personal property is pledged when the *Multistate Rider and Addenda* ([Form 3170](#)) is used.

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### **Rental Property Leases**

When the property that secures a first mortgage is rented, the rental agreement or lease cannot include provisions that could affect significantly Fannie Mae's position as mortgagee.

In some jurisdictions, leases that predate the mortgage have a superior claim to the mortgage even if they have not been recorded. Normally, a tenant's rights under a pre-existing lease remain intact on the sale of the leased premises.

Accordingly, if the lease is not subordinate to the mortgage, the lender must review each lease to ensure that any tenant's rights to purchase the property and any other rights that could affect adversely Fannie Mae's mortgagee interest have been waived formally by the tenant or tenants.

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### **Mortgages with a Capitalization Option**

Some mortgage instruments permit the note holder to capitalize delinquent interest or sums advanced to pay insurance premiums, property taxes, or other expenses required to protect

the value of the security property by adding them to the outstanding principal balance of the mortgage.

Fannie Mae will not purchase or securitize mortgages where any such funds have been capitalized or advanced by the note holder prior to delivery to Fannie Mae.

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### Mortgages Permitting Open-end Advances

Fannie Mae purchases or securitizes a mortgage that includes an open-end advance provision only if the provision gives Fannie Mae the option not to make any advances. If funds were advanced prior to delivery, the transaction is considered a modified mortgage that is not eligible for delivery. See [B2-1.4-02, Mortgage Loan Eligibility](#).

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date      |
|--|-----------------|
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013 |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011   |
| <a href="#">Announcement 09-24</a>       | July 10, 2009   |



## **B2-1.4-04, Escrow Accounts (06/30/2015)**

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### Introduction

This topic contains information on escrow accounts, including:

- [Escrow Accounts](#)
- [Escrow Waivers](#)

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### Escrow Accounts

First mortgages generally must provide for the deposit of escrow funds to pay as they come due, including taxes, ground rents, premiums for property insurance, and premiums for flood insurance. However, escrow deposits for the payment of premiums for borrower-purchased mortgage insurance (if applicable) are mandatory.

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Fannie Mae does not require an escrow deposit for property or flood insurance premiums for an individual unit in a condo, co-op, or PUD when the project in which the unit is located is covered by a blanket insurance policy purchased by the homeowners' association or co-op corporation.

If a special assessment levied against the property was not paid at loan closing, the borrower's payment must include appropriate accruals to ensure that any estimated annual payment toward the assessment will be accumulated by the time it comes due.

With the exception of DU Refi Plus and Refi Plus transactions, for certain refinance transactions where the borrower is financing real estate taxes in the loan amount, an escrow account is required, subject to applicable law or regulation. Refer to [B2-1.2-02, Limited Cash-Out Refinance Transactions](#), and [B2-1.2-03, Cash-Out Refinance Transactions](#).

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### Escrow Waivers

Fannie Mae advocates the establishment of an escrow account for the payment of taxes and insurance, particularly for borrowers with blemished credit histories or first-time homeowners.

Unless required by law, lenders may waive escrow account requirements for an individual first mortgage, provided the standard escrow provision remains in the mortgage loan legal documents. Lenders cannot waive an escrow account for certain refinance transactions (see above) or for the payment of premiums for borrower-purchased mortgage insurance (if applicable). When the requirement for an escrow account is waived, the lender must retain Fannie Mae's right to enforce the requirement in appropriate circumstances.

Lenders must have a written policy governing the circumstances under which escrow accounts may be waived. When a lender permits escrow waivers, subject to the mortgage documents and applicable law, the lender's written policies must provide that the waiver not be based solely on the LTV ratio of a loan, but also on whether the borrower has the financial ability to handle the lump sum payments of taxes, insurance, and other items described above.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015     |
| <a href="#">Announcement SEL-2012-14</a> | December 18, 2012 |
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012 |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010  |



## **B2-1.4-05, Principal Curtailments (06/30/2015)**

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### **Introduction**

This topic contains information on principal curtailments, including:

- [Overview](#)
  - [Acceptable Curtailments](#)
  - [Documentation](#)
  - [Delivery Instructions](#)
- 

### **Overview**

A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the mortgage loan. Fannie Mae permits certain curtailments prior to loan delivery provided that the delivery data reflects the curtailment as described below.

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### **Acceptable Curtailments**

Fannie Mae permits curtailments for the following reasons:

- The lender may apply a curtailment to refund the overpayment of fees or charges paid by the borrower, in any amount, in accordance with applicable regulatory requirements.
- If the borrower receives more cash back than is permitted for limited cash-out refinances, the lender can apply a curtailment to reduce the amount of cash back to the borrower to bring the loan into compliance with the maximum cash-back requirement. The maximum amount of the curtailment cannot exceed the lesser of \$2,500 or 2% of the original loan amount for the subject loan. For example, if the borrower received \$3,500 cash back at closing on a loan amount of \$200,000, the lender could apply a \$1,500 curtailment prior to delivery to Fannie Mae. This would result in “net cash back” to the borrower of \$2,000, thus meeting Fannie Mae’s limited cash-out refinance requirement.

Lenders must apply these curtailments prior to delivery of the loan to Fannie Mae. Such curtailments may not be held until after whole loan delivery or for application in the month subsequent to issuance of an MBS.

Fannie Mae also allows additional principal payments remitted by a borrower to prepay the mortgage loan as permitted by the loan documents. All borrower-remitted curtailments received by the lender prior to delivery of the loan to Fannie Mae (or MBS issuance) must be applied

prior to delivery and may not be held until after loan delivery or MBS issuance. Curtailments received after loan delivery must be applied in accordance with the *Servicing Guide*.

### Documentation

If the curtailment is made at the time of closing, the amount must be clearly documented on the settlement statement. If the curtailment is applied after closing, but before delivery, the mortgage loan file (or servicing file) must be documented with the amount of the curtailment and the reason or source of the curtailment (for example, lender refund or borrower).

### Delivery Instructions

The following table describes the requirements for the delivery of certain data elements that may (or may not) be impacted by a curtailment applied prior to the delivery of the loan to Fannie Mae:

| Loan Delivery Field Name   | Delivery Requirements Due to Curtailment   |
|--|--|
| Original Loan Amount (Sort ID 319)                                 | The loan amount as disclosed on the note (without reduction for any principal curtailment).  |
| P & I (Fixed-rate) (Sort ID 268)<br><br>P & I (ARMs) (Sort ID 436) | The principal and interest amount as reflected on the note without reduction for any principal curtailment.<br><br><b>Note:</b> If a principal curtailment has been applied and the loan has been recast over the remaining term prior to delivery to Fannie Mae, the loan is not eligible for delivery. |
| Issue Date UPB (Sort ID 385)                                       | The scheduled unpaid principal balance including reductions for any principal curtailment applied prior to delivery.   |
| Last Paid Installment Date (Sort ID 440)                           | Do not advance the last paid installment date to account for the application of a principal curtailment.   |
| Current UPB (Sort ID 442)  | The current unpaid principal amount including reductions for any principal curtailment applied prior to delivery.  |

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| <b>Loan Delivery Field Name</b>            | <b>Delivery Requirements Due to Curtailment</b>   |
|--|---|
| Maturity Date (Sort ID 256)                | The maturity date as reflected on the note without regard to the effect of any principal curtailment that has been applied. |
| Aggregate Curtailment Amount (Sort ID 438) | The dollar amount of any principal curtailment applied to the loan prior to loan delivery.                                  |

Refer to [C1-2-02, Loan Data and Documentation Delivery Requirements](#), for additional information and resources regarding loan delivery.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015     |
| <a href="#">Announcement SEL-2013-01</a> | January 17, 2013  |

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# Chapter B2-2, Borrower Eligibility



## Borrower Eligibility

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### Introduction

This chapter explains the requirements related to borrower eligibility.

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### In This Chapter

This chapter contains the following topics:

|  |     |
|--|-----|
| B2-2-01, General Borrower Eligibility Requirements (07/28/2015) . . . . .          | 278 |
| B2-2-02, Non-U.S. Citizen Borrower Eligibility Requirements (07/28/2015) . . . . . | 281 |
| B2-2-03, Multiple Financed Properties for the Same Borrower (03/29/2016) . . . . . | 282 |
| B2-2-04, Guarantors, Co-Signers, or Non-Occupant Borrowers (08/30/2016) . . . . .  | 287 |
| B2-2-05, Inter Vivos Revocable Trusts (01/17/2013) . . . . .                       | 289 |
| B2-2-06, Homeownership Education and Housing Counseling (10/24/2016) . . . . .     | 292 |

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## B2-2-01, General Borrower Eligibility Requirements (07/28/2015)

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### Introduction

This topic contains information on general borrower eligibility requirements, including:

- [General Borrower Eligibility Requirements](#)
  - [General Borrower Identity Criteria](#)
  - [Tax Identification Numbers](#)
  - [Establishing Borrower Ownership Interest](#)
- 

### General Borrower Eligibility Requirements

Fannie Mae purchases or securitizes mortgages made to borrowers who are natural persons and have reached the age at which the mortgage note can be enforced in the jurisdiction where the property is located. There is no maximum age limit for a borrower.



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Exceptions to the requirement that borrowers be natural persons are:

- *inter vivos* revocable trusts,
- HomeStyle Renovation mortgages, and
- land trusts in those states where the beneficiary is an individual. (Note: Fannie Mae permits land trusts on a negotiated basis for states where land trusts are widely accepted.)

See the following for additional information:

- [B2-1.2-04, Prohibited Refinancing Practices](#),
- [B2-2-05, Inter Vivos Revocable Trusts](#),
- [B5-3.2-02, HomeStyle Renovation Mortgages: Loan and Borrower Eligibility](#), and
- [B5-5.1-04, Community Land Trusts](#).

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### General Borrower Identity Criteria

A borrower is any applicant (e.g., individually or jointly) whose credit is used for qualifying purposes to determine ability to meet Fannie Mae's underwriting and eligibility standards. "Co-borrower" is a term used to describe any borrower other than the borrower whose name appears first on the note.

Lenders must confirm each borrower's identity prior to the extension of credit. Fannie Mae's requirements for borrower identity verification are intended to align with lenders' existing federal obligations under laws requiring information and document verification, including the Department of Treasury's Office of Foreign Assets Control (OFAC) regulations and the U.S. Patriot Act. See [A3-2-01, Compliance With Laws](#), for additional information concerning borrower identity verification.

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### Tax Identification Numbers

Fannie Mae requires that each borrower has a valid Social Security number or Individual Taxpayer Identification Number (ITIN) (in addition to meeting existing legal residency and documentation requirements). For additional information, see [B2-2-02, Non-U.S. Citizen Borrower Eligibility Requirements](#).

DU and Loan Delivery may identify data integrity issues pertaining to the borrower's Social Security number. Lenders must take steps to resolve any issues, including numbers not issued,

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borrower age/issue date discrepancies, or Social Security numbers associated with deceased individuals. If a lender cannot resolve any Social Security number inconsistencies:

- The lender must validate the Social Security number with the Social Security Administration (SSA). Direct validation with SSA by a third party is acceptable. SSA-89 (Authorization for the Social Security Administration to Release Social Security Number [SSN] Verification) must be used for this purpose. If using a third-party vendor, the lender must ensure that the vendor goes directly to the SSA to validate the Social Security numbers. It is important to note that most standard vendor reports are not direct SSA validations and, therefore, do not satisfy Fannie Mae's requirements.
- Upon positive validation of the Social Security number with the SSA, the lender must deliver the loan with SFC 162. SFC 162 should only be used if there is a discrepancy identified with the Social Security number (for example, identified via Loan Delivery edits), and the Social Security number was validated through the SSA.
- If the Social Security number cannot be validated with the SSA, the loan is not eligible for delivery to Fannie Mae.

If the borrower's Social Security number format is invalid and the borrower cannot provide a valid Social Security number, the loan is not eligible for delivery to Fannie Mae.

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### **Establishing Borrower Ownership Interest**

A borrower must establish ownership interest in the security property and become liable for the note (whether individually or jointly) by:

- signing the security instrument,
- signing the mortgage or deed of trust note,
- taking title to the property in the name of the individual borrower(s).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2015-08</a> | July 28, 2015     |
| <a href="#">Announcement SEL-2015-06</a> | May 26, 2015      |
| <a href="#">Announcement SEL-2013-01</a> | January 17, 2013  |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |
| <a href="#">Announcement SEL-2012-01</a> | January 31, 2012  |
| <a href="#">Announcement SEL-2010-04</a> | March 29, 2010    |
| <a href="#">Announcement SEL-2010-01</a> | March 2, 2010     |



## **B2-2-02, Non-U.S. Citizen Borrower Eligibility Requirements (07/28/2015)**

### **Introduction**

This topic contains information on non-U.S. citizen borrower eligibility requirements.

### **Non-U.S. Citizen Borrower Eligibility Requirements**

Fannie Mae purchases and securitizes mortgages made to non-U.S. citizens who are lawful permanent or non-permanent residents of the United States under the same terms that are available to U.S. citizens. Fannie Mae does not specify the precise documentation the lender must obtain to verify that a non-U.S. citizen borrower is legally present in the United States. The lender must make a determination of the non-U.S. citizen's status based on the circumstances of the individual case, using documentation it deems appropriate. By delivering the mortgage to Fannie Mae, the lender represents and warrants that the non-U.S. citizen borrower is legally present in this country.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date    |
|--|---------------|
| <a href="#">Announcement SEL-2015-08</a> | July 28, 2015 |
| <a href="#">Announcement SEL-2010-01</a> | March 2, 2010 |



## B2-2-03, Multiple Financed Properties for the Same Borrower (03/29/2016)

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### Introduction

This topic contains information on multiple financed properties for the same borrower, including:

- [Limits on the Number of Financed Properties](#)
- [Reserve Requirements](#)
- [Applying the Multiple Financed Property Policy to Manually Underwritten Loans](#)
- [Applying the Multiple Financed Property Policy to DU Loan Casefiles](#)
- [Exception](#)

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### Limits on the Number of Financed Properties

If the mortgage loan being delivered to Fannie Mae is secured by the borrower's principal residence, there are no limitations on the number of other properties that the borrower will have financed. If the mortgage is secured by a second home or an investment property, the multiple financed properties policy applies. The maximum number of financed properties that are permitted is based on the underwriting method, as described later in this topic.

The financed property limit

- applies to the number of one- to four-unit residential properties where the borrower is personally obligated on the mortgage(s);
- applies to the total number of properties financed, not to the number of mortgages on the property or the number of mortgages sold to Fannie Mae;

- includes the borrower's principal residence if it is financed; and
- is cumulative for all borrowers (though jointly financed properties are only counted once).

The following property types are not subject to these limitations, even if the borrower is personally obligated on a mortgage on the property:

- commercial real estate,
- multifamily property consisting of more than four units,
- ownership in a timeshare,
- ownership of a vacant lot (residential or commercial), or
- ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home).

#### **Examples — Counting Financed Properties**

- The borrower is personally obligated on mortgages securing two investment properties and the co-borrower is personally obligated on mortgages securing three other investment properties, and they are jointly obligated on their principal residence mortgage. The borrower is refinancing the mortgage on one of the two investment properties. Thus, the borrowers have six financed properties.
- The borrower and co-borrower are purchasing an investment property and they are already jointly obligated on the mortgages securing five other investment properties. In addition, they each own their own principal residence and are personally obligated on the mortgages. The new property being purchased is considered the borrowers' eighth financed property.
- The borrower is purchasing a second home and is personally obligated on his or her principal residence mortgage. Additionally, the borrower owns four two-unit investment properties that are financed in the name of a limited liability company (LLC) of which he or she has a 50% ownership. Because the borrower is not personally obligated on the mortgages securing the investment properties, they would not be included in the property count and the result is only two financed properties.
- The borrower is purchasing and financing two investment properties simultaneously. The borrower does not have a mortgage lien against his or her principal residence but does have a financed second home and is personally obligated on the mortgage, two existing financed investment properties and is personally obligated on both mortgages, and a financed building lot. In this instance, the borrower will have five financed properties because the financed building lot does not need to be included in the property count.

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## Reserve Requirements

Additional reserve requirements apply based on the number of financed properties the borrower will have. The borrower must have sufficient assets to close after meeting the minimum reserve requirements. See [B3-4.1-01, Minimum Reserve Requirements](#), for the financed properties requirements.

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## Applying the Multiple Financed Property Policy to Manually Underwritten Loans

If the borrower is financing a second home or investment property that is manually underwritten, the maximum number of financed properties the borrower can have is six. Fannie Mae's standard eligibility policies apply (for example, LTV ratios and minimum credit scores). The lender must determine that the borrower meets the minimum reserve requirements that apply to multiple financed properties.

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## Applying the Multiple Financed Property Policy to DU Loan Casefiles

If the borrower is financing a second home or investment property that is underwritten through DU, the maximum number of financed properties the borrower can have is ten. If the borrower will have one to six financed properties, Fannie Mae's standard eligibility policies apply (for example, LTV ratios and minimum credit scores). If the borrower will have seven to ten financed properties, the mortgage loan must have a minimum representative credit score of 720; all other standard eligibility policies apply.

DU will determine the number of financed properties for the loan casefile based on the following approach:

- If the Number of Financed Properties field is completed, DU will use that as the number of financed properties. The lender must complete this field with the number of financed one- to four-unit residential properties (including the subject transaction) for which the borrower(s) are personally obligated.
- If the Number of Financed Properties field is not provided, DU will use the number of residential properties in the Real Estate Owned (REO) section that include a mortgage payment, or that are associated with a mortgage or HELOC in the liabilities section of the loan application, as the number of financed properties.
- If the Number of Financed Properties field and the REO information was not provided, DU will use the number of mortgages and HELOCs disclosed in the liabilities section of the loan application as the number of financed properties.

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- When none of the information above is provided on the loan application, DU will use the number of mortgages and HELOCs disclosed on the credit report as the number of financed properties.

**Note:** In order to account for the subject property, DU will add “1” to the number of financed properties on purchase and construction transactions when the REO section, number of mortgages on the application, or number of mortgages on the credit report are used as the number of financed properties.

After determining the number of financed properties, DU will use that value to assess the eligibility of the loan, including the minimum credit score requirement for seven to ten financed properties, and the minimum required reserves the lender must verify.

DU will issue a message informing the lender of the number of financed properties that DU used and where that information was obtained (Number of Financed Properties field, REO section, number of mortgages on application, or number of mortgages on credit report). If DU used the information provided in the Number of Financed Properties field or in the REO section as the number of financed properties, and that information is inaccurate, the lender must update the data and resubmit the loan casefile to DU. If DU used the number of mortgages and HELOCs on the loan application or credit report as the number of financed properties, and that number is inaccurate, the lender must provide the correct number in the Number of Financed Properties field, or complete the Real Estate Owned section of the loan application and resubmit the loan casefile to DU.

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### Exception

DU Refi Plus and Refi Plus mortgage loans are exempt from the multiple financed property policies. See [B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations](#), for additional information.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b>  |
|---|--------------------|
| <a href="#"><u>Announcement SEL-2016-03</u></a> | March 29, 2016     |
| <a href="#"><u>Announcement SEL-2015-10</u></a> | September 29, 2015 |
| <a href="#"><u>Announcement SEL-2015-02</u></a> | February 24, 2015  |
| <a href="#"><u>Announcement SEL-2015-01</u></a> | January 27, 2015   |
| <a href="#"><u>Announcement SEL-2014-13</u></a> | November 10, 2014  |
| <a href="#"><u>Announcement SEL-2014-07</u></a> | June 24, 2014      |
| <a href="#"><u>Announcement SEL-2014-06</u></a> | May 27, 2014       |
| <a href="#"><u>Announcement SEL-2012-13</u></a> | November 13, 2012  |
| <a href="#"><u>Announcement SEL-2012-07</u></a> | August 21, 2012    |
| <a href="#"><u>Announcement SEL-2012-06</u></a> | June 26, 2012      |
| <a href="#"><u>Announcement SEL-2012-04</u></a> | May 15, 2012       |
| <a href="#"><u>Announcement SEL-2011-13</u></a> | December 20, 2011  |
| <a href="#"><u>Announcement SEL-2011-09</u></a> | August 30, 2011    |
| <a href="#"><u>Announcement SEL-2011-05</u></a> | June 28, 2011      |
| <a href="#"><u>Announcement SEL-2010-06</u></a> | April 30, 2010     |
| <a href="#"><u>Announcement SEL-2010-02</u></a> | March 2, 2010      |
| <a href="#"><u>Announcement 09-02</u></a>       | February 6, 2009   |
| <a href="#"><u>Announcement 08-35</u></a>       | December 18, 2008  |





## **B2-2-04, Guarantors, Co-Signers, or Non-Occupant Borrowers (08/30/2016)**

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### **Introduction**

This topic contains information on guarantors, co-signers, or non-occupant borrowers, including:

- [Definitions](#)
  - [Down Payment and Qualifying Ratio Requirements for Manually Underwritten Loans](#)
  - [LTV Ratio Requirements for Manually Underwritten Loans](#)
  - [LTV Ratio Requirements for Loan Casefiles Underwritten through DU](#)
- 

### **Definitions**

Guarantors and co-signers are credit applicants who

- do not have ownership interest in the subject property as indicated on the title;
- sign the mortgage or deed of trust note;
- have joint liability for the note with the borrower; and
- do not have an interest in the property sales transaction, such as the property seller, the builder, or the real estate broker.

Non-occupant borrowers are credit applicants on a principal residence transaction who

- do not occupy the subject property;
  - may or may not have an ownership interest in the subject property as indicated on the title;
  - sign the mortgage or deed of trust note;
  - have joint liability for the note with the borrower(s); and
  - do not have an interest in the property sales transaction, such as the property seller, the builder, or the real estate broker.
- 

### **Down Payment and Qualifying Ratio Requirements for Manually Underwritten Loans**

For manually underwritten loans, if the income of a guarantor, co-signer, or non-occupant borrower is used for qualifying purposes, the occupying borrower(s) must make the first 5% of the down payment from their own funds unless:

- 
- the LTV or CLTV ratio is less than or equal to 80%; or
  - the occupying borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution. See [B3-4.3-04, Personal Gifts](#); [B3-4.3-06, Donations From Entities](#); and [B3-4.3-08, Employer Assistance](#), for additional information.

Using only the income of the occupying borrower(s) to calculate the DTI ratio, the maximum allowable DTI ratio is 43%.

**Note:** This policy applies even if the combined qualifying ratios for the borrower and the guarantor, co-signer, or non-occupant borrower are well below Fannie Mae's standard qualifying ratio benchmark. Minimum credit score and reserve requirements based on the LTV ratio and combined qualifying ratios of all borrowers must be met per the *Eligibility Matrix*. See Section B3-5.4, Nontraditional Credit History, for additional requirements that apply when the transaction includes a borrower who does not have a credit score.

For additional information, see [B3-6-02, Debt-to-Income Ratios](#).

---

### **LTV Ratio Requirements for Manually Underwritten Loans**

For manually underwritten loans, if the income of a guarantor, co-signer, or co-borrower is used for qualifying purposes, and that guarantor, co-signer, or co-borrower will not occupy the subject property, the maximum LTV, CLTV, and HCLTV ratio may not exceed 90% (unless a Community Seconds is part of the transaction, in which case the CLTV ratio may not exceed 105% or the maximum stated in the *Eligibility Matrix* for ARM loans and loans secured by manufactured housing).

---

### **LTV Ratio Requirements for Loan Casefiles Underwritten through DU**

DU analyzes the risk factors in the loan casefile for all borrowers on the mortgage loan. Regardless of whether an individual borrower will be occupying the property as his or her principal residence, DU will consider the income, assets, liabilities, and credit of that borrower.

For DU loan casefiles, if the income of a guarantor, co-signer, or co-borrower is used for qualifying purposes, and that guarantor, co-signer, or co-borrower will not occupy the subject property, the maximum LTV, CLTV, and HCLTV ratio may not exceed 95% (unless a Community Seconds is part of the transaction, in which case the CLTV ratio may not exceed 105% or the maximum stated in the *Eligibility Matrix* for ARM loans and loans secured by manufactured housing).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016    |
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2014-07</a> | June 24, 2014      |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011      |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |



## B2-2-05, Inter Vivos Revocable Trusts (01/17/2013)

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### Introduction

This topic contains information on *inter vivos* revocable trusts, including:

- [Inter Vivos Revocable Trust as Eligible Borrower](#)
- [Lender Requirements](#)
- [Trust Requirements](#)
- [Eligible Property and Occupancy Types](#)
- [Underwriting Considerations](#)
- [Title and Title Insurance Requirements](#)
- [Loan Delivery Data](#)

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### Inter Vivos Revocable Trust as Eligible Borrower

An *inter vivos* revocable trust is a trust that

- an individual creates during his or her lifetime;
- becomes effective during its creator's lifetime; and
- can be changed or canceled by its creator at any time, for any reason, during that individual's lifetime.

---

Fannie Mae will accept an *inter vivos* revocable trust that has an ownership interest in the security property as an eligible borrower for a mortgage for all transaction types.

**Note:** A trust must meet Fannie Mae's revocability and other eligibility requirements at the time the loan is delivered. Trust eligibility is not affected if the trust documents contain a provision that the trust will, in the future, become irrevocable upon the death of one of the settlors. However, such a change in the trust structure after delivery of the mortgage loan may affect the eligibility of the trust as a borrower in a subsequent loan transaction.

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### Lender Requirements

A lender delivering a loan that has an *inter vivos* revocable trust borrower is responsible for:

- determining that both the trust and the mortgage satisfy Fannie Mae eligibility criteria and documentation requirements;
- determining under the laws of the states in which it does business that it can originate mortgages to validly created *inter vivos* revocable trusts that meet the terms and conditions specified by Fannie Mae; and
- completing a review of the mortgage documentation, applicable state law, and the trust documents to ensure that title insurers provide full title insurance coverage without exceptions for the trust or the trustees for *inter vivos* revocable trusts in that state. (See Title and Title Insurance Requirements below for additional information.)

**Note:** Required legal document requirements are described in [B8-5-02, Inter Vivos Revocable Trust Mortgage Documentation and Signature Requirements](#).

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### Trust Requirements

The *inter vivos* revocable trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) establishing the trust. If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.

The trustee(s) must include either:

- the individual establishing the trust (or at least one of the individuals, if there are two or more); or

- 
- an institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.

The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the borrower(s) under the mortgage or deed of trust note.

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### **Eligible Property and Occupancy Types**

All property and occupancy types are eligible. For properties that are the borrower's principal residence, at least one individual establishing the trust must occupy the security property and sign the loan documents.

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### **Underwriting Considerations**

The mortgage must be underwritten as if the individual establishing the trust (or at least one of the individuals, if there are two or more) were the borrower (or a co-borrower, if there are additional individuals whose income or assets will be used to qualify for the mortgage).

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### **Title and Title Insurance Requirements**

The lender must retain in the individual mortgage file a copy of any trust documents that the title insurance company required in making its determination on the title insurance coverage.

The following requirements apply to title and title insurance:

- Title held in the trust does not in any way diminish Fannie Mae's rights as a creditor, including the right to have full title to the property vested in Fannie Mae should foreclosure proceedings have to be initiated to cure a default under the terms of the mortgage.
- The title insurance policy ensures full title protection to Fannie Mae.
- The title insurance policy states that title to the security property is vested in the trustee(s) of the *inter vivos* revocable trust.
- The title insurance policy does not list any exceptions with respect to the trustee(s) holding title to the security property or to the trust.
- Title to the security property is vested solely in the trustee(s) of the *inter vivos* revocable trust, jointly in the trustee(s) of the *inter vivos* revocable trust and in the name(s) of the individual borrower(s), or in the trustee(s) of more than one *inter vivos* revocable trust.

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## Loan Delivery Data

Only the information related to the individual(s) establishing the *inter vivos* revocable trust whose income and assets are used to qualify for the mortgage should be provided at the time of loan delivery, such as the borrower name and Social Security number. The name of the *inter vivos* revocable trust cannot be included within the loan delivery data.

A mortgage that has an *inter vivos* revocable trust as the borrower must be delivered with Special Feature Code 168 (in addition to any other special feature codes that may also be applicable to the transaction).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2013-01</a> | January 17, 2013 |



## B2-2-06, Homeownership Education and Housing Counseling (10/24/2016)

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### Introduction

This topic contains information on homeownership education and housing counseling, including:

- [Overview](#)
- [Compliance with Law](#)
- [Definitions](#)
- [Transactions that Require Pre-purchase Homeownership Education](#)
- [Options for Meeting the Pre-purchase Homeownership Education Requirements](#)
- [Evidence of Completion](#)
- [Additional Resources](#)

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### Overview

Fannie Mae recognizes that credit and underwriting guidelines alone are not always enough to assess a borrower's readiness for homeownership. Fannie Mae believes that high-quality homeownership education and housing counseling can provide the borrower with the additional

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information and resources to make informed decisions that support long-term homeownership sustainability.

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### **Compliance with Law**

All education, collection, and counseling efforts must comply with the requirements of applicable federal and state laws, including the Equal Credit Opportunity Act, the Fair Debt Collections Practices Act, and the Fair Credit Reporting Act.

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### **Definitions**

The following definitions, based on those developed by the U.S. Department of Housing and Urban Development (HUD), apply to these requirements:

- **Homeownership Education:** Education with an established curriculum and instructional goals, provided in a group or classroom setting or via other formats, that covers such homeownership topics as the home-buying process, how to maintain a home, budgeting, and the importance of good credit.
- **Housing Counseling:** Counselor-to-client assistance that addresses unique financial circumstances and housing issues, and focuses on overcoming specific obstacles to achieve housing goals such as
  - repairing credit,
  - locating cash for a down payment,
  - recognizing predatory lending practices,
  - understanding fair lending and fair housing requirements,
  - avoiding foreclosure, and
  - resolving a financial crisis.

All housing counseling involves the creation of a budget and a written action plan. Housing counseling must be provided by a HUD-approved counseling agency.

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### **Transactions that Require Pre-purchase Homeownership Education**

For the following transactions, at least one borrower on the mortgage loan must complete pre-purchase homeownership education prior to loan closing:

- 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; or
- for HomeReady purchase transactions.

### Options for Meeting the Pre-purchase Homeownership Education Requirements

There are three options for borrowers to meet the pre-purchase homeownership education requirements as described below.

| Options   | Description   | Evidence of Completion                      |
|---|---|---|
| Complete the Framework Homeownership LLC (Framework®) online education program. | <p>The Framework homeownership education program is available in both English and Spanish and meets the standards defined by both the National Industry Standards for Homeownership Education and Counseling and by HUD.</p> <p>Framework will offer borrowers a referral to a HUD-approved counseling agency for additional assistance. Borrowers who complete the Framework program also have the option of consulting a counselor from any HUD-approved agency of their choice</p> <p><b>Note:</b> Online education may not be appropriate for all potential home buyers. The presence of a disability, lack of Internet access, and other issues may indicate that a consumer is better</p> | Framework certificate of course completion. |



| Options  | Description   | Evidence of Completion  |
|--|---|---|
|  | <p>served through other education modes (for example, in-person classroom education or via a telephone conference call). In these situations, consumers should be directed to Framework’s toll-free customer service line, from which they can be directed to a HUD-approved counseling agency that can meet their needs. The counseling agency that handles the referral must provide a certificate of completion, and the lender must retain a copy of the certificate in the loan file. Lenders may contact Fannie Mae for guidance in other situations not addressed above.</p> |   |
| <p>Receive pre-purchase housing counseling and complete homeownership education from a HUD-approved nonprofit housing counseling agency.</p> | <p>The counseling recipient must receive pre-purchase housing counseling and homeownership education that meets HUD’s definitions, as evidenced by a <i>Certificate of Completion of Pre-purchase Housing Counseling</i> (<a href="#">Form 1017</a>), signed by both the counseling recipient and the HUD counselor.</p>  | <p><i>Certificate of Completion of Pre-purchase Housing Counseling</i> (Form 1017) signed by both the counseling recipient and the HUD counselor.</p> |

| Options  | Description  | Evidence of Completion  |
|--|--|---|
| Complete a homeownership education course required by a Community Seconds or Down Payment Assistance Program by a HUD-approved agency. | <p>If the mortgage loan involves a Community Seconds or Down Payment Assistance Program and that program requires its own homeownership education course provided by a HUD-approved counseling agency, the borrower is not required to enroll in the Framework program.</p> <p><b>Note:</b> Housing counseling or a referral to a housing counselor is not required.</p> | Certificate issued by HUD-approved agency that provided the course. |

**Note:** References to the use of a HUD-approved agency include affiliated agencies (as defined in the HUD Counseling Program Handbook) participating in a HUD program through a HUD-approved intermediary or State Housing Finance Agency.

### Evidence of Completion

The lender must provide documentation in the loan file that the borrower(s) complied with one of the three options described in the table above.

### Additional Resources

Fannie Mae provides additional resources to lenders, borrowers, and nonprofit agencies in support of homeownership education and housing counseling:

- [Home Counselor Online](#) is a free web-based application available to counseling providers that assesses the borrower’s financial readiness for homeownership, compares loan products, and identifies options more quickly by populating approvable loan products, and moves newly mortgage-ready clients from counseling to loan origination with automated referrals.
- *Frequently Asked Questions* (FAQs) on the homeownership education and housing counseling policies are available on [Fannie Mae’s website](#).

- 
- Two options for locating HUD-approved agencies are posted on [Fannie Mae's website](#).
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### Related Announcements

The table below provides references to the Announcements that have been issued and that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016   |
| <a href="#">Announcement SEL-2016-06</a> | July 26, 2016      |
| <a href="#">Announcement SEL-2015-13</a> | December 15, 2015  |
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015   |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013      |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011     |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010   |

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# Chapter B2-3, Property Eligibility



## Property Eligibility

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### Introduction

This chapter includes information on property eligibility requirements.

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### In This Chapter

This chapter contains the following topics:

|   |     |
|---|-----|
| B2-3-01, General Property Eligibility (04/15/2014) .....  | 298 |
| B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing (04/15/2014) ..... | 302 |
| B2-3-03, Special Property Eligibility and Underwriting Considerations: Leasehold Estates (03/31/2015) .....     | 306 |
| B2-3-04, Special Property Eligibility Considerations (02/23/2016) .....   | 310 |
| B2-3-05, Properties Affected by a Disaster (04/15/2014) .....   | 314 |

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## B2-3-01, General Property Eligibility (04/15/2014)

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### Introduction

This topic contains information on Fannie Mae's property eligibility requirements, including:

- [Overview](#)
- [Number of Units](#)
- [Property Location](#)
- [Property Requirements](#)
- [Acceptable Forms of Property Ownership](#)
- [Acceptable Dwelling Types](#)
- [Ineligible Properties](#)
- [Loan-Level Price Adjustments](#)

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## Overview

Fannie Mae purchases or securitizes eligible mortgages in all markets across a broad geographic range. This topic describes Fannie Mae's property eligibility requirements. The requirements are designed to address a wide range of property types with varying characteristics; however, there may be instances when the unique nature of a particular property may require special consideration. In those cases, Fannie Mae encourages lenders to contact their lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)).

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## Number of Units

Fannie Mae purchases or securitizes first-lien mortgages that are secured by residential properties when the dwelling consists of one to four units. Under some circumstances, Fannie Mae limits the number of dwelling units for certain types of mortgages or transactions. For the maximum allowable LTV, CLTV, and HCLTV ratios and credit score requirements based on the property type and number of units, see the [Eligibility Matrix](#).

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## Property Location

The security property must be located in

- the United States (including the District of Columbia),
- Puerto Rico,
- the U.S. Virgin Islands, or
- Guam (the delivery of mortgages secured by these properties must be specifically negotiated).

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## Property Requirements

The mortgaged premises must be

- residential in nature as defined by the characteristics of the property and surrounding market area (see [B4-1.3-03, Neighborhood Section of the Appraisal Report](#));
- safe, sound, and structurally secure (see [B4-1.3-06, Property Condition and Quality of Construction of the Improvements](#));

- 
- adequately insured per Fannie Mae guidelines for property and flood insurance (see B7-3, Property and Flood Insurance);
  - the highest and best use of the property as improved (or as proposed per plans and specifications), and the use of the property must be legal or legal non-conforming use (see [B4-1.3-04, Site Section of the Appraisal Report](#));
  - readily accessible by roads that meet local standards (see B4-1.3-04, Site Section of the Appraisal Report);
  - served by utilities that meet community standards (see B4-1.3-04, Site Section of the Appraisal Report); and
  - suitable for year-round use.

**Note:** Certain aspects of the location of a property will require special consideration. For example, properties in resort areas that attract people for seasonal or vacation use are acceptable only if they are suitable for year-round use.

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### Acceptable Forms of Property Ownership

Title to the property must be held as fee simple, leasehold estate, or as a co-op form of ownership. (See [B2-3-03, Special Property Eligibility and Underwriting Considerations: Leasehold Estates](#); and [B4-2.3-04, Loan Eligibility for Co-op Share Loans](#), for additional information.)

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### Acceptable Dwelling Types

Dwelling units for security properties may be detached, attached, or semi-detached.

Properties may be located

- on an individual lot,
- in a condo project (see [B4-2.1-01, General Information on Project Standards](#)),
- in a co-op project (see [B4-2.3-04, Loan Eligibility for Co-op Share Loans](#)), or
- in a planned unit development (PUD) or subdivision project.

Properties located in a condo, co-op, or PUD project must meet Fannie Mae's project standards requirements (see Chapter B4-2, Project Standards).

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## Ineligible Properties

Fannie Mae does not purchase or securitize mortgages on

- vacant land or land development properties;
- properties that are not readily accessible by roads that meet local standards;
- agricultural properties, such as farms or ranches;
- on-frame modular construction (see [B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing](#));
- units in condo or co-op hotels (see [B4-2.1-02, Ineligible Projects](#), for a complete list of ineligible projects);
- boarding houses;
- bed and breakfast properties; or
- properties that are not suitable for year-round occupancy regardless of location.

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## Loan-Level Price Adjustments

A Loan-Level Price Adjustment (LLPA) applies to certain property types, including multiple-unit properties and units in an attached condo project. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. For the current LLPAs, see the [Loan-Level Price Adjustment \(LLPA\) Matrix](#).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |
| <a href="#">Announcement SEL-2011-09</a> | August 30, 2011   |
| <a href="#">Announcement 09-32</a>       | October 30, 2009  |



## **B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing (04/15/2014)**

### **Introduction**

This topic contains information on factory-built housing, including:

- [Manufactured Home Property Eligibility Requirements](#)
- [Modular, Prefabricated, Panelized, or Sectional Housing Eligibility](#)
- [Modular, Prefabricated, Panelized, or Sectional Housing Requirements](#)

### **Manufactured Home Property Eligibility Requirements**

Fannie Mae defines a “manufactured home” as any dwelling unit built on a permanent chassis and attached to a permanent foundation system. (For additional information, see [B5-2-02, Manufactured Housing Loan Eligibility](#).)

The table below provides additional manufactured housing property eligibility requirements. For manufactured housing appraisal requirements, see [B4-1.4-01, Factory-Built Housing: Manufactured Housing](#).

| ✓ | <b>Requirements</b>   |
|---|---|
|   | <p>The manufactured home must be built in compliance with</p> <ul style="list-style-type: none"><li>• the Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976, as amended and in force at the time the home is manufactured; and</li><li>• additional requirements that appear in HUD regulations at 24 C.F.R. Part 3280.</li></ul> <p>Compliance with these standards will be evidenced by the presence of both a HUD Data Plate and the HUD Certification Label. If the original or alternative documentation cannot be obtained for both the Data Plate/Compliance Certificate and the HUD Certification Label, the loan is not eligible for delivery to Fannie Mae.</p> <p>The HUD Data Plate/Compliance Certificate is a paper document located on the interior of the subject property that contains, among other things, the manufacturer’s name and trade/model number. In addition to the data required by Fannie Mae, the Data Plate includes pertinent information about the unit, including a list of factory-installed equipment. The HUD Certification Label, sometimes</p> |



| ✓ | <b>Requirements</b>   |
|---|---|
|   | <p>referred to as a HUD “seal” or “tag,” is a metal plate located on the exterior of each section of the home. The <i>Manufactured Home Appraisal Report</i> (Form 1004C) must show evidence of both the HUD Data Plate/Compliance Certificate and the HUD Certification Label.</p> <p>As an alternative to the original HUD Certification Label, the lender may be able to obtain a verification letter with the same information contained on the HUD Certification Label from the Institute for Building Technology and Safety (<a href="#">IBTS</a>). A duplicate HUD Data Plate/Compliance Certificate may be available from IBTS or by contacting the In-Plant Primary Inspection Agency (IPIA) or the manufacturer. (A list of IPIA offices is posted on HUD’s website.)</p> |
|   | The unit must not have been previously installed or occupied at any other site or location, except from the manufacturer or the dealer’s lot as a new unit.   |
|   | The manufactured home must be a one-unit dwelling unit that is legally classified as real property.   |
|   | The towing hitch, wheels, and axles must be removed. The dwelling must assume the characteristics of site-built housing.  |
|   | <p>The borrower must own the land on which the manufactured home is situated in fee simple, unless the manufactured home is located in a co-op or condo project.</p> <ul style="list-style-type: none"> <li>• For co-ops, both the land and dwelling must be owned by the co-op.</li> <li>• For condos, both the land and dwelling must be subject to the condo regime.</li> <li>• Mortgages secured by manufactured homes located on leasehold estates are not eligible.</li> </ul>  |
|   | <p>Multi-width manufactured homes may be located either on an individual lot or in a project development.</p> <p>Project approval for mortgage loans secured by multi-width manufactured homes located on individual lots in subdivisions or in PUDs is generally not required, but Fannie Mae may choose to require project approval. For further information about project approval requirements, see Chapter B4-2, Project Standards.</p> <p>Co-op or condo project developments must be Fannie Mae-approved.</p>  |
|   | Single-width manufactured homes must be located in a Fannie Mae-approved subdivision, co-op, condo, or PUD project development.   |

| ✓ | <b>Requirements</b>  |
|---|--|
|   | <p>The manufactured home must be at least 12 feet wide and have a minimum of 600 square feet of gross living area.</p> <p>Fannie Mae does not specify other minimum requirements for size, roof pitch, or any other specific construction details for HUD-coded manufactured homes.</p>  |
|   | <p>Site preparation for delivery of the manufactured home must be completed.</p>   |
|   | <p>The manufactured home must be attached to a permanent foundation system in accordance with the manufacturer’s requirements for anchoring, support, stability, and maintenance.</p> <p>The foundation system must be appropriate for the soil conditions for the site and meet local and state codes.</p>  |
|   | <p>The manufactured home must be permanently connected to a septic tank or sewage system, and to other utilities in accordance with local and state requirements.</p>  |
|   | <p>If the property is not situated on a publicly dedicated and maintained street, then it must be situated on a street that is community owned and maintained, or privately owned and maintained.</p> <p>There must be adequate vehicular access and there must be an adequate and legally enforceable agreement for vehicular access and maintenance. See <a href="#">B4-1.3-04, Site Section of the Appraisal Report</a>, for additional information about privately maintained streets.</p>   |
|   | <p>Mortgages secured by existing manufactured homes that have incomplete items, such as a partially completed addition or renovation, or defects or needed repairs that affect safety, soundness, or structural integrity, are not eligible for purchase until the necessary work is completed.</p> <p>Exceptions to the foregoing may be made only for minor items that do not affect the ability to obtain an occupancy permit — such as landscaping, a driveway, or a walkway – subject to all requirements and warranties for new or proposed construction provided in <a href="#">B4-1.2-03, Requirements for Postponed Improvements</a>.</p> |
|   | <p>Manufactured homes that have an addition or have had a structural modification are eligible under certain conditions. If the state in which the property is located requires inspection by a state agency to approve modifications to the property, then the lender is required to confirm that the property has met the requirement. However, if the state does not have this requirement, then the property must be inspected by a licensed professional engineer who can certify that the addition or structural changes were completed in accordance with the HUD Manufactured</p>  |

---

| ✓ | Requirements   |
|---|--|
|   | Home Construction Safety Standards. In all cases, the satisfactory inspection report must be retained in the mortgage loan file. |

---

### **Modular, Prefabricated, Panelized, or Sectional Housing Eligibility**

**Modular Homes.** Fannie Mae purchases loans secured by modular homes built in accordance with the Uniform Building Code administered by state agencies responsible for adopting and administering building code requirements for the state in which the modular home is installed. Loans secured by on-frame modular construction are not eligible for sale to Fannie Mae. On-frame modular construction is defined as having a permanent chassis, but no evidence of compliance with the June 15, 1976, Federal Manufactured Home Construction and Safety Standards.

**Prefabricated, Panelized, and Sectional Homes.** Loans secured by prefabricated, panelized, or sectional housing are eligible for purchase. These properties do not have to satisfy HUD's Federal Manufactured Home Construction and Safety Standards or the Uniform Building Codes that are adopted and administered by the state in which the home is installed. The home must conform to local building codes in the area in which it will be located.

---

### **Modular, Prefabricated, Panelized, or Sectional Housing Requirements**

Factory-built housing not built on a permanent chassis such as modular, prefabricated, panelized, or sectional housing is not considered manufactured housing and is eligible under the guidelines for one-unit properties. These types of properties

- must assume the characteristics of site-built housing,
- must be legally classified as real property, and
- must conform to all local building codes in the jurisdiction in which they are permanently located.

The purchase, conveyance, and financing (or refinancing) must be evidenced by a valid and enforceable first-lien mortgage or deed of trust that is recorded in the land records, and must represent a single real estate transaction under applicable state law.

Fannie Mae affords modular, prefabricated, panelized, or sectional housing homes the same treatment as site-built housing. Therefore, Fannie Mae does not have minimum requirements for width, size, roof pitch, or any other specific construction details.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date     |
|--|----------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014 |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011  |



## B2-3-03, Special Property Eligibility and Underwriting Considerations: Leasehold Estates (03/31/2015)

---

### Introduction

This topic contains information on leasehold estates, including:

- [Leasehold Estates](#)
- [Lease Requirements](#)
- [Additional Eligibility Requirements](#)
- [Option to Purchase Fee Interest](#)
- [Exception to Leasehold Requirements for DU Refi Plus and Refi Plus Mortgage Loans](#)

---

### Leasehold Estates

Fannie Mae purchases or securitizes fixed-rate and adjustable-rate first-lien mortgages that are secured by properties on leasehold estates in areas in which this type of property ownership has received market acceptance. Mortgages secured by manufactured homes located on leasehold estates are not eligible. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land.

The leasehold estate and the improvements must

- constitute real property,
- be subject to the mortgage lien, and
- be insured by the lender's title policy.

The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee. In the event the mortgage is secured by a sublease of a leasehold estate, the documents must provide that a default under the leasehold estate will not by such default result in the termination of the sublease.

For leasehold appraisal requirements, see [B4-1.4-05, Leasehold Interests Appraisal Requirements](#).

### Lease Requirements

The lender must ensure compliance with the following requirements for leases associated with leasehold estate mortgage loans.

| ✓ | <b>Lease and Lender Requirements</b>   |
|---|--|
|   | The term of the leasehold estate must run for at least five years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower.  |
|   | The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor. The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee. |
|   | The lease must provide for the borrower to retain voting rights in any homeowners' association.  |
|   | The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), related to the land in addition to those he or she is paying on the improvements.  |
|   | The lease must be valid, in good standing, and in full force and effect in all respects.   |
|   | The lease must not include any default provisions that could give rise to forfeiture or termination of the lease, except for nonpayment of the lease rents.  |
|   | The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.  |
|   | The lease must be serviced by either the lender that delivers the mortgage to Fannie Mae or the servicer it designates to service the mortgage. Refer to the leasehold servicing requirements in the <i>Servicing Guide</i> .  |
|   | The lease must provide lenders with  |

|   |  |
|---|--|
| ✓ | <b>Lease and Lender Requirements</b>   |
|   | <ul style="list-style-type: none"> <li>the right to receive a minimum of 30 days' notice of any default by the borrower, and</li> <li>the option to either cure the default or take over the borrower's rights under the lease.</li> </ul> |

### Additional Eligibility Requirements

The following requirements must be met before a lender can deliver leasehold estate mortgages to Fannie Mae for purchase or securitization:

- All lease rents, other payments, or assessments that have become due must be paid.
- The borrower must not be in default under any other provision of the lease nor may such a default have been claimed by the lessor.

### Option to Purchase Fee Interest

The lease may, but is not required to, include an option for the borrower to purchase the fee interest in the land. If the option is included, the purchase must be at the borrower's sole option, and there can be no time limit within which the option must be exercised. If the option to purchase the fee title is exercised, the mortgage must become a lien on the fee title with the same degree of priority that it had on the leasehold. Both the lease and the option to purchase must be assignable.

The table below provides the requirements for establishing the purchase price of the land.

| <b>Status of Property Improvements</b>   | <b>Purchase Price of Land</b>  |
|--|--|
| Already constructed at the time the lease is executed.   | The initial purchase price should be established as the appraised value of the land on the date the lease is executed.   |
| Already constructed at the time the lease is executed, and the lease is tied to an external index, such as the Consumer Price Index (CPI). | <p>The initial land rent should be established as a percentage of the appraised value of the land on the date that the lease is executed.</p> <p>The purchase price may be adjusted annually during the term of the lease to reflect the</p> |

|   |  |
|---|--|
|   | <p>percentage increase or decrease in the index from the preceding year.</p> <p>Leases may be offered with or without a limitation on increases or decreases in the rent payments.</p>   |
| <p>Will be constructed after the lease is executed.</p> | <p>The purchase price of the land should be the lower of the following:</p> <ul style="list-style-type: none"> <li>• the current appraised value of the land, or</li> <li>• the amount that results when the percentage of the total original appraised value that represented the land alone is applied to the current appraised value of the land and improvements.</li> </ul> <p>For example, assume that the total original appraised value for a property was \$160,000, and the land alone was valued at \$40,000 (thus representing 25% of the total appraised value). If the current appraised value is \$225,000, \$50,000 for land and \$175,000 for improvements, the purchase price would be \$50,000 (the current appraised value of the land, because it is less than 25% of \$225,000).</p> <p>Note: If the lease is tied to an external index, the initial land value may not exceed 40% of the combined appraised value of the land and improvements.</p> |

**Exception to Leasehold Requirements for DU Refi Plus and Refi Plus Mortgage Loans**

DU Refi Plus and Refi Plus mortgage loans that are secured by leasehold estates are not subject to all of the requirements in this topic. See [B5-5.2-01, DU Refi Plus and Refi Plus Eligibility](#), for specific requirements.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2015-03</a> | March 31, 2015    |
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015  |
| <a href="#">Announcement SEL-2014-16</a> | December 16, 2014 |
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |
| <a href="#">Announcement SEL-2012-04</a> | May 15, 2012      |
| <a href="#">Announcement SEL-2010-10</a> | August 12, 2010   |



## **B2-3-04, Special Property Eligibility Considerations (02/23/2016)**

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### Introduction

This topic contains information on Fannie Mae's unique property eligibility requirements, including:

- [Multiple Parcels](#)
- [Mixed-Use Properties](#)
- [Hawaiian Lava Zones](#)
- [Properties with Solar Panels](#)

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### Multiple Parcels

The table below provides the requirements when the security property consists of more than one parcel of real estate.

| ✓ | Multiple Parcels Requirements                 |
|---|---|
|   | Each parcel must be conveyed in its entirety. |



| ✓ | <b>Multiple Parcels Requirements</b>   |
|---|--|
|   | Parcels must be adjoined to the other, unless they comply with the following exception. Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot (for example, waterfront properties where the parcel without the residence provides access to the water). Evidence that the lot is non-buildable must be included in the loan file. |
|   | Each parcel must have the same basic zoning (for example, residential, agricultural).  |
|   | The entire property may contain only one dwelling unit. Limited additional non-residential improvements, such as a garage, are acceptable. For example, the adjoining parcel may not have an additional dwelling unit. An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable.                            |
|   | The mortgage must be a valid first lien that covers each parcel.   |

### **Mixed-Use Properties**

Fannie Mae purchases or securitizes mortgages that are secured by properties that have a business use in addition to their residential use, such as a property with space set aside for a day care facility, a beauty or barber shop, or a doctor’s office.

The following special eligibility criteria must be met:

- The property must be a one-unit dwelling that the borrower occupies as a principal residence.
- The borrower must be both the owner and the operator of the business.
- The property must be primarily residential in nature.
- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property.

See [B4-1.4-07, Mixed-Use Property Appraisal Requirements](#), for appraisal considerations for mixed-use properties.

### **Hawaiian Lava Zones**

Fannie Mae will only purchase or securitize mortgage loans secured by properties that are located within lava zones 3 through 9 on the island of Hawaii. Properties in lava zones 1 and 2

are not eligible due to the increased risk of property destruction from lava flows within these areas.

Hawaiian lava flow maps and other information are available online at the U.S. Geological Survey Hawaiian Volcano Observatory website.

### Properties with Solar Panels

Fannie Mae will purchase or securitize a mortgage loan on a property with solar panels. If the property owner is the owner of the solar panels, standard eligibility requirements apply (for example, appraisal, insurance, and title).

If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar arrangement, the following requirements apply (whether to the original agreement or as subsequently amended).

| ✓ | <b>Requirements for Properties with Solar Panels that are Leased or Covered by a Power Purchase Agreement</b>  |
|---|--|
|   | The solar panels may not be included in the appraised value of the property.   |
|   | The property must maintain access to an alternate source of electric power that meets community standards.   |
|   | <p>The monthly lease payment must be included in the debt-to-income (DTI) ratio calculation unless the lease is structured to</p> <ul style="list-style-type: none"> <li>• provide delivery of a specific amount of energy at a fixed payment during a given period, and</li> <li>• have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.</li> </ul> <p>Payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.</p> |
|   | <p>The lease or power purchase agreement must indicate that</p> <ul style="list-style-type: none"> <li>• any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home);</li> </ul>  |

|   |  |
|---|--|
| ✓ | <b>Requirements for Properties with Solar Panels that are Leased or Covered by a Power Purchase Agreement</b>  |
|   | <ul style="list-style-type: none"> <li>• the owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner’s property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner’s property insurance policy; and</li> <li>• in the event of foreclosure, the lender or assignee has the discretion to             <ul style="list-style-type: none"> <li>– terminate the lease/agreement and require the third-party owner to remove the equipment;</li> <li>– become, without payment of any transfer or similar fee, the beneficiary of the borrower’s lease/agreement with the third party; or</li> <li>– enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.</li> </ul> </li> </ul> |
|   | Any exceptions to coverage on the title insurance policy for recorded instruments relating to the solar panels must comply with <a href="#">B7-2-05, Title Exceptions and Impediments</a> .  |

**Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2015-13</a> | December 15, 2015 |
| <a href="#">Announcement SEL-2015-08</a> | July 28, 2015     |
| <a href="#">Announcement SEL-2014-16</a> | December 16, 2014 |
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |
| <a href="#">Announcement 09-32</a>       | October 30, 2009  |
| <a href="#">Announcement 09-19</a>       | June 8, 2009      |

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## **B2-3-05, Properties Affected by a Disaster (04/15/2014)**

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### **Introduction**

This topic contains information on properties affected by a disaster, including:

- [Overview](#)
  - [Eligibility Requirements](#)
- 

### **Overview**

The *Mortgage Selling and Servicing Contract* requires the lender to warrant for each mortgage loan it delivers to Fannie Mae that the property is not damaged by fire, wind, or other cause of loss and that there are no proceedings pending for the partial or total condemnation of the property. The lender also warrants that the mortgage conforms to all applicable requirements in the *Selling Guide*, including the requirement that the mortgage is an acceptable investment. Finally, the lender represents and warrants that it knows of nothing involving the mortgage or the property that can reasonably be expected to cause the mortgage to become delinquent or adversely affect the mortgage's value or marketability.

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### **Eligibility Requirements**

The lender must be able to make the warranties that are described above. Therefore, before delivery of a mortgage loan to Fannie Mae where the property may have been damaged by a disaster, the lender is expected to take prudent and reasonable actions to determine whether the condition of the property may have materially changed since the effective date of the appraisal report. The lender is responsible for determining if an inspection of the property and/or new appraisal is necessary to support this warranty.

Lenders should use the following criteria when determining if the mortgage loan can be delivered to Fannie Mae:

- If the property has been damaged and the damage does not affect the safety, soundness, or structural integrity of the property and the repair items are covered by insurance, the lender may deliver the mortgage to Fannie Mae. In these circumstances, the lender must obtain documentation of the professional estimates of the repair costs and must ensure that sufficient insurance proceeds are available for the borrower's benefit to guarantee the completion of the repairs.
- If the property was damaged and the damage is uninsured or the damage affects the safety, soundness, or structural integrity of the property, the property must be repaired before the mortgage loan is delivered to Fannie Mae.

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See [B5-4-02, Disaster-Related Limited Cash-Out Refinance Flexibilities](#), for information related to certain flexibilities offered for a disaster related limited cash-out transaction. Additionally, see [B5-5.2-01, DU Refi Plus and Refi Plus Eligibility](#), for eligibility requirements with respect to DU Refi Plus and Refi Plus mortgage loans.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |
| <a href="#">Announcement SEL-2012-14</a> | December 18, 2012 |

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# Subpart B3, Underwriting Borrowers



## Underwriting Borrowers

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### Introduction

This subpart contains borrower underwriting policies for conventional mortgage loans that are sold to Fannie Mae. These policies include an evaluation of the borrower’s (or spouse’s to the extent required by applicable law in Wisconsin) equity investment, credit history, liquid reserves, reliable and recurring income, and the cumulative effect that these and other risk factors have on mortgage loan performance. Fannie Mae’s underwriting policies enable the lender to consider various scenarios in evaluating a borrower’s willingness and capacity to repay the mortgage loan. The lender must confirm that information provided by the borrower during the loan application process is accurate and complete; include documentation in the loan file that supports the lender’s assessment of the borrower’s credit history, employment and income, assets, and other financial information used for qualifying; conduct a comprehensive risk assessment of each mortgage loan application; and render a decision to either approve or decline the mortgage loan application. Fannie Mae offers lenders two options for conducting a comprehensive risk assessment—automated underwriting through DU or manual underwriting. Both methods include an evaluation of the borrower’s equity investment, credit history, liquid reserves, reliable and recurring income, and the cumulative effect that these and other risk factors have on mortgage loan performance.

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### In This Subpart

This subpart contains the following chapters:

|  |     |
|--|-----|
| B3-1, Manual Underwriting . . . . .      | 317 |
| B3-2, Desktop Underwriter (DU) . . . . . | 320 |
| B3-3, Income Assessment . . . . .        | 354 |
| B3-4, Asset Assessment . . . . .         | 450 |
| B3-5, Credit Assessment . . . . .        | 506 |
| B3-6, Liability Assessment . . . . .     | 559 |

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# Chapter B3-1, Manual Underwriting



## Manual Underwriting

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### Introduction

This chapter provides lenders with information on the comprehensive risk assessment approach to manual underwriting.

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### In This Chapter

This chapter contains the following topics:

[B3-1-01, Comprehensive Risk Assessment \(08/20/2013\)](#) ..... 317

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## B3-1-01, Comprehensive Risk Assessment (08/20/2013)

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### Introduction

This topic contains information on the comprehensive risk assessment approach to underwriting, including:

- [Overview](#)
  - [Comprehensive Risk Assessment](#)
- 

### Overview

Lenders that choose to manually underwrite a mortgage application are expected to follow the comprehensive risk assessment approach. Under this approach, lenders evaluate certain key risk elements to assess the overall level of delinquency risk.

Lenders are fully responsible for:

- evaluating the delinquency risk of each loan;

- 
- reviewing the credit report, as well as all other credit information, to determine that the credit report meets Fannie Mae's requirements, that the data evaluated was accurate, and that the borrower has the capacity to repay the mortgage loan;
  - assessing the adequacy of the property as collateral for the mortgage requested;
  - determining whether or not the loan meets Fannie Mae's eligibility requirements as fully described in this Guide;
  - determining whether or not it is appropriate to deliver the mortgage loan to Fannie Mae; and
  - fully documenting the assessment and the documentation on which the assessment was based.
- 

### Comprehensive Risk Assessment

Lenders must evaluate the overall level of serious delinquency risk that is present in each mortgage application by taking into consideration any layering of risk factors, the significance of risk factors, and the overall risks present in the mortgage application. The [Eligibility Matrix](#) provides a solid foundation for assessing the risk of a manually underwritten loan, and identifies the risk elements to evaluate for each transaction type, including:

- LTV, CLTV, and HCLTV ratios (“LTV ratios”);
- credit score;
- occupancy;
- loan purpose;
- loan amortization type;
- property type and number of units;
- product type (if applicable);
- debt-to-income (DTI) ratio; and
- financial reserves.

For example, the purchase of a single unit principal residence must have LTV ratios no higher than 95%, a credit score of at least 680, and a DTI ratio no greater than 36%. If the DTI ratio is greater than 36% but less than 45%, a higher credit score is required. But if the LTV ratios are less than 75%, a credit score as low as 620 is permitted.



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The lender's determination of the mortgage delinquency risk, the assessment of the adequacy of the property as security for the mortgage, the determination of whether the mortgage satisfies Fannie Mae's mortgage eligibility criteria, and the acceptability of the documentation in the mortgage file should all enter into the decision on whether to deliver the mortgage to Fannie Mae.

The lender must fully document the results of its comprehensive risk assessment and final underwriting decision, and ensure that the information used to reach its comprehensive risk assessment is valid, accurate, and substantiated.

For a more precise or definitive recommendation for determining whether to deliver a given mortgage to Fannie Mae, the lender should submit the mortgage application to DU. DU evaluates the probability of future serious delinquency and arrives at an underwriting recommendation by relying on a comprehensive examination of risk factors in a mortgage application. Furthermore, DU is the standard by which Fannie Mae assesses the delinquency risk on all mortgages sold to Fannie Mae.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcement</b>                      | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013   |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012   |
| <a href="#">Announcement 09-32</a>       | October 30, 2009  |
| <a href="#">Announcement 09-12</a>       | May 4, 2009       |

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# Chapter B3-2, Desktop Underwriter (DU)



## Desktop Underwriter (DU)

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### Introduction

This chapter describes DU considerations and requirements.

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### In This Chapter

This chapter contains the following topics:

|  |     |
|--|-----|
| B3-2-01, General Information on DU (05/31/2016) .....  | 321 |
| B3-2-02, DU Validation Service (12/06/2016) .....  | 326 |
| B3-2-03, Risk Factors Evaluated by DU (08/30/2016) .....   | 334 |
| B3-2-04, DU Documentation Requirements (03/31/2015) .....  | 340 |
| B3-2-05, Approve/Eligible Recommendations (01/27/2015) .....                                       | 341 |
| B3-2-06, Approve/Ineligible Recommendations (01/27/2015) .....                                     | 342 |
| B3-2-07, Refer with Caution (01/27/2015) .....   | 343 |
| B3-2-08, Out of Scope Recommendations (04/01/2009) .....   | 345 |
| B3-2-09, Erroneous Credit Report Data (01/27/2015) .....   | 345 |
| B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report<br>(08/21/2012) ..... | 347 |
| B3-2-11, DU Underwriting Findings Report (10/24/2016) .....  | 351 |

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## **B3-2-01, General Information on DU (05/31/2016)**

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### **Introduction**

This topic contains general information on DU, including:

- [Overview](#)
  - [Underwriting with DU](#)
  - [DU Underwriting Reports](#)
  - [Loan Casefile Archival Policy](#)
  - [Loan Application Sections](#)
  - [DU Underwriting Recommendations](#)
  - [General Lender Requirements](#)
- 

### **Overview**

Fannie Mae's automated underwriting system, Desktop Underwriter (DU), evaluates mortgage delinquency risk and arrives at an underwriting recommendation by relying on a comprehensive examination of the primary and contributory risk factors in a mortgage application. (See [B3-2-03, Risk Factors Evaluated by DU](#).) It analyzes the information in the loan casefile to reach an overall credit risk assessment to determine eligibility for delivery to Fannie Mae.

No one factor determines a borrower's ability or willingness to make his or her mortgage payments. DU identifies low-risk factors that can offset high-risk factors. When several high-risk factors are present in a loan casefile without sufficient offsets, the likelihood of serious delinquency increases.

DU conducts its analysis uniformly, and without regard to race, gender, or other prohibited factors. DU uses validated, statistically significant variables that have been shown to be predictive of mortgage delinquency across all groups.

DU does not evaluate a loan's compliance with federal and state laws and regulations including, without limitation, a loan's potential status as a qualified mortgage under applicable laws and regulations. Lenders bear sole responsibility for complying with applicable laws and regulations, and these compliance obligations may not be imposed upon or shared by Fannie Mae.

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### **Underwriting with DU**

Loans may be submitted to DU before or after the closing of the mortgage loan; however, the first submission to DU for underwriting purposes must occur before closing of the mortgage loan.

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When the mortgage loan or borrower information changes and it no longer matches the information used when the loan casefile was last underwritten with DU, the lender must update the data and resubmit the loan casefile to DU. Exceptions are specified in [B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report](#).

When the loan casefile is resubmitted to DU after closing and prior to delivery to Fannie Mae, the lender is responsible for ensuring that:

- all information provided in the final submission to DU matches the terms of the closed loan;
- the loan complies with the requirements specified in [A2-2.1-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU](#);
- the loan delivery data matches both the closed loan and the final data submitted to DU; and
- the loan casefile receives an eligible recommendation from DU on the final submission.

The lender may request a new credit report after closing when the loan casefile is resubmitted and, as with all loan casefiles, must comply with the Fair Credit Reporting Act with regard to the purpose and nature of the inquiry. If the new credit report contains information that is different than the information used to prepare the final loan application that was signed by the borrower at closing, the loan application must be updated. (Borrower signature(s) are not required due to the update occurring post-closing.) The lender must include both the final signed and the updated unsigned loan applications in the loan file.

**Note:** The credit report must meet the allowable age of documents as of the note date. If the credit report expired prior to the note date and the loan casefile is being resubmitted to DU, a new credit report must be requested.

In certain instances, the lender may not be able to access the original DU loan casefile for resubmission purposes. Lenders may create a new loan casefile in DU after closing to ensure that all information in the final DU submission matches the terms of the closed loan, provided all of the following conditions are met:

- the above lender responsibilities are met, including the updating of the final loan application, if applicable;
- the loan has not yet been delivered to Fannie Mae;
- the loan has the same information (for example, the same borrower(s) and property) as had previously been underwritten through DU prior to closing using another loan casefile, and that loan casefile received an eligible recommendation from DU;

- 
- the lender retains the DU Underwriting Findings Report from the original loan casefile ID in the loan file;
  - the DU submission using the new loan casefile occurs no more than 60 days after closing (based on the note date) or 12 months after initial closing for single-closing construction-to-permanent loans (described in [B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions](#)); and
  - as stated above, when a new credit report is requested, the lender complies with the Fair Credit Reporting Act.

If the resubmission to DU results in an “ineligible” recommendation, the mortgage loan may not be delivered to Fannie Mae.

**Note:** If the quality control function is performed before delivery, the above requirements apply. If quality control is performed after delivery, refer to [D1-3-03, Lender Post-Closing Quality Control Review of Data Integrity](#).

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## DU Underwriting Reports

DU issues two types of reports:

- The DU Underwriting Findings report summarizes the overall underwriting recommendation and lists the steps necessary for the lender to complete the processing of the loan file. This is typically the first report viewed by an underwriter or a loan officer after the loan casefile has been underwritten with DU. This report is described in [B3-2-11, DU Underwriting Findings Report](#).
- The Underwriting Analysis report contains much of the same information requested on the *Uniform Underwriting and Transmittal Summary* ([Form 1008](#)).

Each time a loan casefile is resubmitted to DU, the information in these reports is updated with information from the most recent submission. The date and time of each submission are recorded on each report, along with the unique loan casefile ID.

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## Loan Casefile Archival Policy

DU loan casefiles are archived and no longer retained in DU from the earlier of

- 270 days from the date on which the loan casefile was last updated, or

- 
- 540 days from the date on which the loan casefile was created.

These time frames are intended to ensure that the total volume of loans in the system is at a manageable level, reducing the time required by DU to search for and retrieve loan casefiles.

After a loan casefile is archived from DU, it cannot be restored. If a loan casefile that has been archived must be re-underwritten, a new loan casefile must be created and submitted to DU. The loan casefile will be subject to the policies in effect for the current version of DU.

In any event, Fannie Mae will not be responsible for retaining loan casefiles for the lender.

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### **Loan Application Sections**

The items listed below describe screens of the online loan application in the DU user interface and correspond to sections in the *Uniform Residential Loan Application* ([Form 1003](#)):

- Section I, Type of Mortgage and Terms of Loan
- Section II, Subject Property Address and Purpose of Loan
- Section III, Borrower Information
- Section IV, Employment Information
- Section V, Monthly Income and Combined Housing Expense
- Section VI A, Assets
- Section VI R, Real Estate Owned
- Section VI L, Liabilities
- Section VII, Details of Transaction
- Section VIII, Declarations

For guidance in data entry with DU, see the [DU Job Aids](#) available on Fannie Mae's website.

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### **DU Underwriting Recommendations**

The following topics describe the underwriting recommendations returned by DU:

- 
- [B3-2-05, Approve/Eligible Recommendations.](#)
  - [B3-2-06, Approve/Ineligible Recommendations.](#)
  - [B3-2-07, Refer with Caution.](#)
  - [B3-2-08, Out of Scope Recommendations.](#)
- 

### **General Lender Requirements**

When underwriting loans with DU, the lender must:

- employ prudent underwriting judgment in assessing whether a loan casefile should be approved and delivered to Fannie Mae;
- confirm the accuracy of the data it submits, making sure that it did not fail to submit any data that might have affected the DU recommendation had it been known;
- ensure that the loan complies with all of the verification messages and approval conditions specified in the DU Underwriting Findings report;
- apply due diligence when reviewing the documentation in the loan file;
- review the credit report to confirm that the data that DU evaluated with respect to the borrower's credit history was accurate and complete;
- determine if there is any potentially derogatory or contradictory information that is not part of the data analyzed by DU; and
- take action when erroneous data in the credit report or contradictory or derogatory information in the loan file would justify additional investigation or would provide grounds for a decision that is different from the recommendation that DU delivered.

For example, if a foreclosure was reported in the credit report but was not detected by DU (that is, it was not referenced in any verification messages), the lender must determine if the loan complies with the applicable guidelines (see [B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit](#)).

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-04</a> | May 31, 2016       |
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015   |
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014  |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013    |
| <a href="#">Announcement SEL-2012-14</a> | December 18, 2012  |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">DU Version 9.0</a>           | July 24, 2012      |
| <a href="#">Announcement SEL-2011-09</a> | August 30, 2011    |
| <a href="#">Announcement SEL-2011-04</a> | May 24, 2011       |



## **B3-2-02, DU Validation Service (12/06/2016)**

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### Introduction

This topic contains information on the DU validation service, including:

- [General Information](#)
- [Lender Requirements](#)
- [Validation Results](#)
- [Income Validation](#)
- [Employment Validation](#)
- [Asset Validation](#)

---

### General Information

The DU validation service offers lenders an opportunity to deliver loans with more certainty. Certain components of the loan file – income, employment, and assets – are eligible for validation by DU using electronic vendor reports obtained from designated vendors. When a component of the loan is validated by DU, the loan may be eligible for representation and



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warranty enforcement relief related to that component. Different lender quality control and documentation requirements may also apply. See the following for additional information:

- [A2-2-01, Contractual Representations and Warranties](#),
- [A2-2.1-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU](#),
- [A3-4-02, Data Quality and Integrity](#),
- [B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns](#),
- [B3-3.1-01, General Income Information](#),
- [B3-3.1-02, Standards for Employment Documentation](#),
- [B3-3.1-06, Requirements and Uses of IRS Form 4506-T](#),
- [B3-3.1-09, Other Sources of Income](#),
- [B3-3.1-07, Verbal Verification of Employment](#),
- [B3-3.3-01, Income and Employment Documentation for DU](#),
- [B3-4.2-01, Verification of Deposits and Assets](#),
- [B3-4.2-02, Depository Accounts](#),
- [B3-4.4-02, Documentation Requirements](#),
- [D1-2-01, Lender Prefunding Quality Control Review Process](#), and
- [D1-3-02, Lender Post-Closing Quality Control Review of Approval Conditions, Underwriting Decisions, and Documentation](#).

The validation service is an optional service available only for conventional loans underwritten through DU. Lenders are not required to participate in the DU validation service in order for a loan to be underwritten through DU.

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## Lender Requirements

No special approval is required from Fannie Mae to use this service; however, the lender must “opt-in” to participate in each component of the DU validation service (income and employment, and assets). When a lender opts in, all future loans that are submitted to DU will automatically be assessed through the service for that component.

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In order to participate in the DU validation service, the lender must

- have a relationship with, and have entered into a contract for the services provided by, a designated vendor(s);
- have an agreement with the vendor that allows for the information contained within the vendor report (obtained by the lender) to be shared with Fannie Mae electronically for use by the DU validation service; and
- establish controls to manage and monitor the vendors in accordance with its own regulatory requirements.

For loans assessed by the DU validation service, the lender must

- obtain borrower authorization to receive the information from the vendor;
- confirm that the vendor report matches the borrower;
- ensure information entered by the lender in DU is properly documented;
- investigate and resolve any conflicting or contradictory information;
- retain a copy of all vendor reports in the loan file, in addition to any other documentation required by DU; and
- ensure that the most current version of the vendor report is used by the DU validation service. If the lender obtains an updated vendor report, the lender must resubmit the loan to DU and receive a message that the component has been validated in order for the representation and warranty enforcement relief to apply.

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## Validation Results

When a component of the loan file, such as income, is assessed by the DU validation service, three results are possible: validated, not validated, or unable to be validated. DU will issue a message providing the validation results.

### Validated

DU has determined that the information provided on the vendor report supports the information entered into DU for the component being validated.

The DU message(s) will indicate that the vendor report is acceptable documentation to support the component that has been validated.

### Not Validated

DU has determined that the information provided on the vendor report does not fully support the information entered into DU for the component of the loan file eligible for validation.

The DU message(s) will indicate what documentation, in addition to the vendor report, is required.

### Unable to Validate

DU is unable to validate the information entered into DU for the component eligible for validation. This could be due to an inability to access the vendor report, or due to the information obtained from the vendor report not being sufficient for DU to validate the component.

The DU message(s) will indicate what documentation is required.

Regardless of the validation result, DU will continue to use the information provided by the lender in determining the DU underwriting recommendation. The results of the validation service do not override, impact, or alter any information submitted by the lender.

### Income Validation

The following table lists the designated vendors participating in the DU validation service for income, the components that can be validated from each vendor, and identifies the documentation that DU will require, which may be different than the standard documentation required in the *Selling Guide*.

| Vendor                                      | Component Eligible for Income Validation    | Acceptable Documentation When the Component is Validated   |
|---|---|--|
| The Work Number® from Equifax®              | Income Type                                 | The Work Number Report (Employment & Income Verification)  |
|   | Base  |  |
|   | Bonus                                       |  |
|   | Overtime                                    |  |
|   | Commission < 25% of borrower's total income | <ul style="list-style-type: none"> <li>The Work Number Report (Employment &amp; Income Verification), and</li> </ul> |
| Commission ≥ 25% of borrower's total income |   |  |

| Vendor   | Component Eligible for Income Validation  | Acceptable Documentation When the Component is Validated  |
|--|---|---|
|  |   | <ul style="list-style-type: none"> <li>• Tax Return Transcripts (Taxpayer Tax Return Summary Report)</li> </ul>   |
| <b>Equifax (The Equifax 4506–T Tax Transcript Service)</b> | Commission $\geq$ 25% of borrower’s total income                                | <ul style="list-style-type: none"> <li>• The Work Number Report (Employment &amp; Income Verification), and</li> <li>• Tax Return Transcripts (Taxpayer Tax Return Summary Report)</li> </ul>               |
|  | Retirement (annuities and pension)  | Tax Return Transcript (Taxpayer Tax Return Summary Report)  |
|  | Social Security (retirement, disability, supplemental, survivor benefits)       | Tax Return Transcript (Taxpayer Tax Return Summary Report)<br><br><p style="text-align: center;"><b>Note:</b> Additional documentation may be required depending on the type of Social Security income.</p> |
|  | Self-employed (IRS Form 1040 Schedules C or C-EZ for sole proprietorships only) | Tax Return Transcript (Taxpayer Tax Return Summary Report)  |

**Income—Additional Information**

The following additional information applies to income validated by DU:

- The Work Number offers two options for lenders to obtain income information. Both of the following methods are acceptable for use with the DU validation service:
  - data obtained from its existing database of employer-provided information, and
  - data developed from a manual request from the lender for The Work Number to contact the employer directly to obtain the information

- When DU validates income, the lender is not required to determine if the borrower is employed by a family member or interested parties to the property sale or purchase
- When DU validates income, the lender must continue to obtain employment verification as described in [B3-3.1-07, Verbal Verification of Employment](#) . However, the vendor report may contain sufficient information to satisfy the verification of employment. See Employment—Additional Information below.

### Age of Income Document Requirements

**The Work Number Report:** The date of the report must comply with Fannie Mae’s standard age of credit document requirements as outlined in [B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns](#).

**Equifax Tax Transcripts:** In order to ensure that the income validation is completed using the most recent tax transcripts, the following will be used to determine if the transcript contains the most recent tax return information. Lenders are not required to comply with the age of credit documents as outlined in [B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns](#), when DU issues the message that income has been validated.

- For loan casefiles created on or before April 30, the most recent tax transcript must be provided. The most recent tax transcript would be for the prior year (current year minus 1). If the prior year tax return has not yet been filed or the transcript is not yet available, the most recent tax transcript will be the current year minus 2.
- For loan casefiles created after April 30, the most recent year tax transcript must be provided for validation to be completed. The most recent tax transcript will be for the prior year (current year minus 1).

### Employment Validation

The following table lists the designated vendor(s) participating in the DU validation service for employment, the components that can be validated, and the documentation that DU will require, which may be different than the standard documentation required in this Guide.

| <b>Vendor</b>          | <b>Component Eligible for Employment Validation</b>   | <b>Acceptable Documentation When the Component is Validated</b>                         |
|------------------------|---|---|
| <b>The Work Number</b> | Employment related to the following (non-military) income types: <ul style="list-style-type: none"> <li>• Base</li> </ul> | The Work Number Report (Employment & Income Verification or Verification of Employment) |

| Vendor | Component Eligible for Employment Validation   | Acceptable Documentation When the Component is Validated |
|--------|--|--|
|        | <ul style="list-style-type: none"> <li>• Bonus</li> <li>• Overtime</li> <li>• Commission income</li> </ul> |  |

### Employment—Additional Information

The following additional information applies to employment validated by DU:

- The Work Number offers two options for lenders to obtain employment information. Both of the following methods are acceptable for use with the DU validation service:
  - data obtained from its existing database of employer-provided information, and
  - data developed from a manual request from the lender for The Work Number to contact the employer directly to obtain the information.
- Lenders using The Work Number to obtain income validation through DU will automatically be eligible to be assessed for employment validation through DU. Income and employment are assessed independently; however, the results of the employment validation may impact income validation (for example, if employment is not able to be validated, the associated income will not be validated). When employment is validated by DU, the validation satisfies the requirement for verbal verification of employment described in [B3-3.1-07, Verbal Verification of Employment](#). Lenders must comply with all DU messages, including ensuring the loan closes by the “Close By Date” stated in the DU employment validation message.

### Asset Validation

The following table lists the designated vendor(s) participating in the DU validation service for assets, the components that can be validated, and the documentation that DU will require, which may be different than the standard documentation required in this Guide.

| Vendor                  | Component Eligible for Asset Validation                | Acceptable Documentation When the Component is Validated |
|-------------------------|--|--|
| AccountChek™by FormFree | Total funds to be verified as required by DU, based on | AccountChek Asset Report                                 |

| Vendor | Component Eligible for Asset Validation  | Acceptable Documentation When the Component is Validated  |
|--------|--|---|
|        | assets held in the following accounts:<br><br>Checking<br><br>Savings<br><br>Certificates of Deposit<br><br>Stocks<br><br>Money Market<br><br>Mutual funds<br><br>Retirement | <p><b>Note:</b> Additional documentation may be required depending on the type of asset account and the assessment conducted by DU for validation purposes.</p> |

**Asset—Additional Information**

The following additional information applies to asset validation.

- The account statements obtained from the vendor must cover the most recent:
  - 30 days of account activity for refinance transactions
  - 60 days of account activity for purchase transactions
  - The most recent quarter, if account information is reported on a quarterly basis
- The DU validation service automates the assessment of large deposits on purchase transactions required in [B3-4.2-02, Depository Accounts](#). When a large deposit needs to be documented, DU will issue a message specifying the amount of the large deposit, as well as the institution name and account number of the account that includes the large deposit. If no message is issued by DU, then no documentation of any large deposit appearing on the asset report is required when assets have been validated.
- If the actual amount of funds required to complete the transaction is greater than the Funds Required to Close specified in DU, the lender must document liquid assets to cover the additional amount. See [B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report](#) for additional details on whether the loan must be resubmitted to DU.

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 6, 2016 |
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016 |
| <a href="#">DU Version 10</a>            | October 24, 2016 |



## B3-2-03, Risk Factors Evaluated by DU (08/30/2016)

### Introduction

This topic contains information on the risk factors evaluated by DU, including:

- [Risk Factors Evaluated by DU](#)
- [Credit History](#)
- [Delinquent Accounts](#)
- [Installment Loans](#)
- [Revolving Credit Utilization](#)
- [Public Records, Foreclosures, and Collection Accounts](#)
- [Inquiries](#)
- [Borrower's Equity and LTV](#)
- [Liquid Reserves](#)
- [Loan Purpose](#)
- [Loan Term](#)
- [Loan Amortization Type](#)
- [Occupancy Type](#)
- [Debt-to-Income Ratio](#)
- [Property Type](#)
- [Co-borrowers](#)
- [Self-Employment](#)
- [Risk Factors for Loans Where No Borrower Has a Credit Score](#)

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### Risk Factors Evaluated by DU

DU considers the following characteristics in the credit report to assess the creditworthiness of borrowers who have traditional credit histories: credit history, delinquent accounts, installment



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accounts, revolving credit utilization, public records, foreclosures, collection accounts, and inquiries.

The non-credit risk factors evaluated by DU include: the borrower's equity and LTV ratio, liquid reserves, loan purpose, loan term, loan amortization type, occupancy type, debt-to-income ratio, property type, co-borrowers, and self-employment.

DU performs a comprehensive evaluation of these factors, weighing each factor based on the amount of risk it represents and its importance to the recommendation. DU analyzes the results of this evaluation along with the evaluation of the borrower's credit profile to arrive at the underwriting recommendation for the loan casefile.

More information on these risk factors is provided below. Also see below for information about the risk factors DU considers when evaluating loans where no borrower has a credit score.

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### **Credit History**

A borrower's credit history is an account of how well the borrower has handled credit, both now and in the past. An older, established history—even though the accounts may have zero balances—will have a more positive impact on the borrower's credit profile than newly established accounts.

A borrower who has a relatively new credit history (a few recently opened accounts) is not automatically considered a high credit risk. Successfully managing newly established accounts, including making payments as agreed, signifies lower risk.

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### **Delinquent Accounts**

Payment history is a significant factor in the evaluation of the borrower's credit. DU considers the severity of the delinquencies (30, 60, 90, or more days late), the length of time since the delinquencies, and the number of accounts that were not paid as agreed.

A payment history that includes bills that are 30 days or more past-due, or a history of paying bills late as evidenced by a number of accounts with late payments, will have a negative impact on the borrower's credit profile. The amount of time that has elapsed since an account was delinquent is an important factor included in the evaluation of the payment history. For example, a 30-day late payment that is less than three months old indicates a higher risk than a 30-day late payment that occurred several years ago.

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### **Installment Loans**

DU evaluates how well a borrower manages debt for all types of installment loans such as mortgage, auto, unsecured, and student loans. Research has shown that borrowers with no active installment accounts represent a higher risk than borrowers who have active installment accounts.

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### **Revolving Credit Utilization**

The establishment, use, and amount of revolving credit a borrower has available are important. Trended credit data is used to evaluate the borrower's ability to manage revolving accounts. A borrower who uses revolving accounts conservatively, meaning low revolving credit utilization or regular payoff of revolving balance, is considered lower risk. A borrower whose revolving credit utilization is high or who only makes the minimum payment each month is considered higher risk.

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### **Public Records, Foreclosures, and Collection Accounts**

A credit history that includes any significant derogatory credit event is considered high risk. Significant derogatory credit events include bankruptcy filings, foreclosures, deeds-in-lieu of foreclosure, preforeclosure sales, mortgage charge-offs, judgments, tax liens, or accounts that have been turned over to a collection agency.

The more recent such events occurred, the more adverse the impact is on the credit profile. Although most public record information is retained in the credit history for seven years (ten years for bankruptcies), as time passes, it does become less significant to DU's credit evaluation.

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### **Inquiries**

DU evaluates inquiries made within the most recent 12 months of the credit report date. Research has shown that a high number of inquiries can indicate a higher degree of risk. However, multiple inquiries made by different mortgage lenders or different auto loan creditors within the same time frame is not viewed by DU as multiple inquiries (these types of inquiries generally reflect borrowers shopping for favorable rates or terms). A borrower who has frequently applied for, or obtained, new or additional credit represents a higher risk.

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### **Borrower's Equity and LTV**

The amount of equity in the property is a very important component of the risk analysis. Research has shown that a borrower who makes a large down payment or who has considerable

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equity in his or her property is less likely to become delinquent on a mortgage loan than a borrower who makes a small down payment or has a small amount of equity in a property. In other words, the more equity a borrower has in the property, the lower the risk associated with the borrower's mortgage loan.

DU may use a low LTV ratio to offset other risks that it may identify in the loan application.

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### **Liquid Reserves**

Liquid reserves are those financial assets that are available to a borrower after a loan closes. Reserves are calculated as the total amount of liquid assets remaining after the loan transaction closes divided by the qualifying payment amount.

DU considers higher amounts of liquid reserves as more favorable than lower amounts or no reserves. Research has shown that mortgages to borrowers with higher amounts of liquid reserves tend to have lower delinquency rates. As with a low LTV ratio, DU may consider high amounts of reserves as an offset for other risks that it may identify in the loan application.

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### **Loan Purpose**

There is a certain level of risk associated with every transaction, whether it is a purchase or a refinance. Purchase transactions represent less risk than refinance transactions. When evaluating refinance transactions, a limited cash-out refinance transaction represents less risk than a cash-out refinance transaction. For construction-to-permanent transactions, DU determines the purpose of refinance based on the amount of cash the borrower is receiving at closing.

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### **Loan Term**

Research has shown that mortgages to borrowers who choose to finance their mortgages over shorter terms and build up equity in their properties faster generally tend to perform better than mortgages with longer amortization periods.

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### **Loan Amortization Type**

Research has shown that there is a difference in loan performance based on the manner in which the mortgage amortizes. Fixed-rate mortgages will be viewed as representing less risk than adjustable-rate mortgages.

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## Occupancy Type

Performance statistics on investor loans are notably worse than those of owner-occupied or second home loans. Owner-occupied transactions represent the least risk, followed by second home transactions, and investment property transactions having the highest risk level.

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## Debt-to-Income Ratio

In DU's evaluation, generally, the lower the borrower's debt-to-income ratio (DTI ratio), the lower the associated risk. As the ratio increases, the level of risk also tends to increase; and a high ratio will have the greatest adverse impact on the recommendation when there are also other high-risk factors present.

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## Property Type

Another important factor that DU considers in the risk analysis is the collateral or property type. DU differentiates the risk based on the number of units, and in some cases the property type (e.g., manufactured home).

The level of risk associated with each property type is as follows, starting with those property types representing the least amount of risk:

- one-unit properties;
  - two-, three-, and four-unit properties;
  - manufactured homes.
- 

## Co-borrowers

DU considers the number of borrowers (who have traditional credit) on a mortgage application in its evaluation because, generally, the presence of more than one borrower helps to reduce risk. Research has shown that mortgages that have more than one borrower tend to have a lower delinquency rate than mortgages with one borrower. However, additional borrowers tend to reduce risk only when they have good credit histories.

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## Self-Employment

Self-employment income can vary from year-to-year and because of the increased chance of uneven cash flows, self-employment adds a layer of risk that is not present with salaried borrowers. Research has shown that self-employed borrowers tend to become delinquent on their mortgages more often than salaried borrowers, when all other risk factors are held constant.

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DU considers self-employment in the risk assessment when the only borrower on the loan is self-employed as his or her primary source of income, or when two of the borrowers on the loan are self-employed as their primary source of income.

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### **Risk Factors for Loans Where No Borrower Has a Credit Score**

DU will consider the following factors when evaluating the overall credit risk of the loan when no borrower on the loan casefile has traditional credit and a credit score:

- borrower's equity and LTV ratio,
- liquid reserves, and
- DTI ratio.

See [B3-5.4-01, Eligibility Requirements for Loans with Nontraditional Credit](#), and [B3-5.4-02, Number and Types of Nontraditional Credit Sources](#), for additional requirements that apply to loan casefiles without credit scores.

**Note:** If a loan casefile does not receive an Approve recommendation or if the borrower is unable to meet the DU requirements related to the sources of nontraditional credit required, the lender may manually underwrite and document the loan according to the nontraditional credit guidelines described in this Guide.

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### **Related Announcements**

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016   |
| <a href="#">Announcement SEL-2016-04</a> | May 31, 2016      |
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015  |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013   |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012   |
| <a href="#">DU Version 9.0</a>           | July 24, 2012     |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |
| <a href="#">Announcement SEL-2010-06</a> | April 30, 2010    |



## **B3-2-04, DU Documentation Requirements (03/31/2015)**

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### **Introduction**

This topic contains information on DU documentation, including:

- [Required Documentation for the Permanent Loan File](#)
  - [DU Documentation Requirements](#)
  - [Transferring Documentation Flexibilities to Another Lender](#)
- 

### **Required Documentation for the Permanent Loan File**

The following documents must be maintained in the permanent loan file:

- the complete loan application (the full [Form 1003](#)),
- the final DU Underwriting Findings report, and
- the final Underwriting Analysis report produced by DU.

Lenders are not required to prepare a *Uniform Underwriting and Transmittal Summary* ([Form 1008](#)) for loans underwritten with DU and subsequently delivered to Fannie Mae.

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### **DU Documentation Requirements**

DU indicates the minimum verification documentation requirements necessary for the lender to process the loan application. While DU may offer a reduced level of documentation, a more comprehensive level of documentation is always acceptable and in some instances should be required by lenders when circumstances in the loan file warrant it.

DU documentation requirements are based on the specific risk factors present in each loan file. The requirements appear in the DU Underwriting Findings report in the section titled Verification Messages/Approval Conditions. DU indicates the minimum documentation requirements for income and asset verification, credit-related documentation, and level of property fieldwork.

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### **Transferring Documentation Flexibilities to Another Lender**

The documentation flexibilities that apply to loan casefiles underwritten with DU are transferable to any lender that subsequently delivers the mortgage to, or services it for, Fannie Mae.

The terms of the closed mortgage and the information in the underwriting file must match the data on which DU based its recommendation. For additional information, see:

- [B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report](#), and
- [B4-1.1-02, Lender Responsibilities](#).

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date     |
|--|----------------|
| <a href="#">Announcement SEL-2015-03</a> | March 31, 2015 |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012  |



## **B3-2-05, Approve/Eligible Recommendations (01/27/2015)**

### Introduction

This topic contains information on Approve/Eligible recommendations.

### Approve/Eligible Recommendations

The following table describes these recommendations.

| Approve/Eligible   |   |
|--|---|
| Eligible for Fannie Mae's limited waiver of certain mortgage loan eligibility and underwriting representations and warranties? | Yes, as long as the mortgage loan satisfies the applicable requirements related to limited waivers as described in this Guide. (See <a href="#">A2-2.1-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU</a> .) |
| Satisfies Fannie Mae's credit risk standards/assessment?   | Yes   |
| Satisfies Fannie Mae's mortgage loan eligibility criteria?   | Yes   |

|                                      |  |
|--------------------------------------|--|
| <b>Approve/Eligible</b>              |  |
| Eligible for delivery to Fannie Mae? | Yes, if all approval conditions have been met. |

### Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015   |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">DU Version 9.0</a>           | July 24, 2012      |
| <a href="#">DU Version 8.0</a>           | September 22, 2009 |
| <a href="#">Announcement 09-29</a>       | September 22, 2009 |

## **B3-2-06, Approve/Ineligible Recommendations (01/27/2015)**

### Introduction

This topic contains information on Approve/Ineligible recommendations.

### Approve/Ineligible Recommendations

These recommendations do not take into consideration any additional credit risk or other factors that might be associated with the reason the loan is ineligible for delivery to Fannie Mae. The lender must determine if the reason for the ineligibility creates an additional layering of credit risk that should be considered as the lender makes the underwriting decision.

The following table provides further information about these recommendations.

|   |  |
|---|--|
| <b>Approve/Ineligible</b>   |  |
| Eligible for Fannie Mae's limited waiver of certain mortgage eligibility and underwriting representations and warranties? | No (see <a href="#">A2-2.1-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU</a> ) |



| <b>Approve/Ineligible</b>                                |   |
|--|---|
| Satisfies Fannie Mae’s credit risk standards/assessment? | Yes, assuming that there is no additional credit risk associated with the eligibility criteria that are not satisfied   |
| Satisfies Fannie Mae’s mortgage eligibility criteria?    | No  |
| Eligible for delivery to Fannie Mae?                     | No, unless the lender either resolves the issue that resulted in the ineligibility, or has a negotiated contract that specifically permits delivery of the mortgage (also stated as a negotiated variance in its Master Agreement that covers the ineligible condition specific to the loan transaction). |

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015   |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |



## **B3-2-07, Refer with Caution (01/27/2015)**

### Introduction

This topic contains information on Refer with Caution recommendations, including:

- [Overview of Refer with Caution Recommendations](#)
- [Lender Response to a Refer with Caution Recommendation](#)

### Overview of Refer with Caution Recommendations

The layering and degree of risk factors that result in a Refer with Caution recommendation represent a greater risk of serious delinquency than for those loan casefiles that receive an Approve recommendation.

Any loan casefile that receives a Refer with Caution recommendation from DU does not represent a level of risk that is acceptable to Fannie Mae for DU loans. If the data DU considered was an accurate representation of the borrower's income, assets, liabilities, and credit profile, the loan is not eligible for delivery to Fannie Mae as a DU loan.

The following table provides further information about this DU recommendation.

| <b>Refer with Caution</b>   |   |
|---|---|
| Eligible for Fannie Mae's limited waiver of certain mortgage eligibility and underwriting representations and warranties? | No  |
| Satisfies Fannie Mae's credit risk standards/assessment?  | No, not the standards for DU loans            |
| Satisfies Fannie Mae's mortgage eligibility criteria?   | No, not the eligibility criteria for DU loans |
| Eligible for delivery to Fannie Mae?  | Not as a DU loan                              |

### **Lender Response to a Refer with Caution Recommendation**

When a loan casefile receives a Refer with Caution recommendation, the lender should:

- Review the DU loan data for accuracy and verify that all income, assets, and liabilities were accurately recorded and fully disclosed by the borrower. If meaningful information was not included in the data submitted to DU, it should be entered and the loan casefile resubmitted.
- Review the credit report data to determine if the information accurately represents the applicant's credit history. Erroneous data in the credit report, or contradicting or derogatory information, could have affected DU's recommendation. (See [B3-2-01, General Information on DU](#), for additional guidance.)
- Determine if there is any information outside of the data submitted to DU that could have affected DU's recommendation, and should investigate whether there were any extenuating circumstances that contributed to serious instances of derogatory credit.

If the loan casefile is resubmitted to DU and still receives a Refer with Caution recommendation, the lender may manually underwrite the loan in accordance with this *Selling Guide* (if the loan product or transaction otherwise allows for delivery of manually underwritten loans), and deliver the loan as a manually underwritten loan.

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| Announcements and Release Notes          | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015   |
| <a href="#">Announcement SEL 2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">DU Version 9.0</a>           | July 24, 2012      |
| <a href="#">Announcement SEL-2010-01</a> | March 2, 2010      |



## B3-2-08, Out of Scope Recommendations (04/01/2009)

### Introduction

This topic contains information on Out of Scope recommendations.

### Out of Scope Recommendation

An Out of Scope recommendation indicates that DU is unable to underwrite the particular product, mortgage, or borrower described in the submission.

Any mortgage that receives an Out of Scope recommendation must be manually underwritten.



## B3-2-09, Erroneous Credit Report Data (01/27/2015)

### Introduction

This topic contains information on erroneous credit report data, including:

- [Erroneous Credit Report Data](#)
- [Merged Credit Reports and the Impact on DU's Evaluation](#)
- [Lender Action Regarding Derogatory Credit Reported in Error](#)

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## Erroneous Credit Report Data

The lender is responsible for ensuring that credit report data used by DU in its underwriting analysis is accurate. Significant, material credit errors in a borrower's credit report may have a negative impact on the underwriting recommendation from DU.

When there is documented evidence of material erroneous credit data, the underwriter should work with the credit repository to correct the data and resubmit the loan casefile to DU for underwriting. If there is not enough time to obtain corrected information, or if there are extenuating circumstances that contributed to the derogatory credit, the lender may manually underwrite the mortgage.

If significant material credit errors in the credit report have had a negative impact on the underwriting recommendation from DU resulting in a Refer with Caution recommendation, the lender may consider underwriting the loan manually in accordance with this *Selling Guide*, provided that the loan product or transaction otherwise allows for delivery of manually underwritten loans.

If the loan complies with Fannie Mae's standard eligibility and underwriting guidelines, it must be delivered as a manually underwritten loan with SFC 343. Such manually underwritten loans are not eligible for DU's limited waiver of representations and warranties.

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## Merged Credit Reports and the Impact on DU's Evaluation

Errors that are the result of the credit merge do not typically affect the credit or risk analysis of the loan casefile.

DU attempts to identify duplicate tradelines, including public record items, that are the result of the merge, and ignores duplicate accounts in the credit analysis.

Public record information is frequently duplicated on the credit report because the credit agencies do not attempt to merge or match items of this severe nature. A public record item may appear in the credit report three times—once from each repository—but the duplication will not affect the risk analysis of the case.

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## Lender Action Regarding Derogatory Credit Reported in Error

If it is determined that significant derogatory credit has been reported in error, the lender must obtain written documentation that supports the error. The following types of written documentation support erroneous information:

- a supplement to the credit report
- a new mortgage credit report,
- documentation from the credit provider that reported the error.

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| Announcements and Release Notes          | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015 |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012  |
| <a href="#">DU Version 9.0</a>           | July 24, 2012    |
| <a href="#">Announcement SEL-2010-01</a> | March 2, 2010    |



## **B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report (08/21/2012)**

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### Introduction

This topic contains information on the accuracy of DU data, DU tolerances, and errors in the credit report, including:

- [Ensuring DU Data and Delivery Information Accuracy](#)
- [DU Tolerances for Refinance Transaction Loan Amount Changes](#)
- [Other Errors in the Credit Data](#)
- [Non-Applicant Debts/Accounts](#)

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### Ensuring DU Data and Delivery Information Accuracy

The data submitted to DU must reflect the loan as it was closed, including occupancy type, product type, amortization, loan term, property type, loan purpose, sales price, and appraised value.

Verification documents must be reviewed and the verified values compared to the data submitted to DU. The terms of the closed loan must match the terms of the final loan casefile submission in DU or fall within the tolerances listed in the following table:

| <b>Data Attribute and Description</b>  | <b>Trigger</b>  | <b>Action Required</b>  |
|--|---|---|
| <ul style="list-style-type: none"> <li>• Interest rate increase</li> <li>• Discrepancies between the credit report payments and balances and those listed on the online loan application, including the presence of debt that is on the credit report but not on the application</li> <li>• Additional debt(s) disclosed by the borrower or identified by the lender during the mortgage process</li> <li>• Verified income is less than the income on the loan application submitted to DU</li> </ul> | <p>Loans other than DU Refi Plus — The result of these changes cause the DTI ratio</p> <ul style="list-style-type: none"> <li>• to exceed 45% or</li> <li>• to increase by 3 percentage points or more (if the recalculated DTI ratio is less than 45%)</li> </ul> <p>DU Refi Plus — The result of these changes cause the DTI ratio to increase by 3 percentage points or more</p> | <p>Loan casefile must be resubmitted to DU</p>  |
| <p>Interest rate on fixed-rate and adjustable-rate mortgages</p>   | <p>Interest rate decreases, not as the result of a permanent interest rate buydown</p>  | <p>No resubmission required</p>   |
| <p>Interest rate on fixed-rate and adjustable-rate mortgages</p>   | <p>Interest rate decreases as the result of a permanent interest rate buydown</p>   | <p>Loan casefile must be resubmitted to DU</p>  |
| <p>Verified income used to qualify the borrower for loans subject to HUD median income limits; for example, as with community lending mortgages.</p>   | <p>Income is greater than the loan application indicates</p>  | <p>Loan casefile must be resubmitted to DU</p>  |
| <p>Assets — Funds Required to Close</p>  | <p>The actual amount of assets required to close the transaction exceeds the amount of “Funds Required to</p>   | <p>If the lender has documented sufficient liquid assets to cover the actual amount of assets required to close the</p> |

| Data Attribute and Description                    | Trigger  | Action Required   |
|---|--|---|
|   | Close” per the DU Underwriting Findings report   | transaction, no resubmission required<br><br>Otherwise, loan casefile must be resubmitted to DU   |
| Assets — Reserves Required to be Verified         | Due to changes in the actual amount of assets required to close the transaction, the verified amount of reserves is less than the “Reserves Required to be Verified” per the DU Underwriting Findings report | If the lender has documented reserves that equal at least 90% of the Reserves Required to be Verified per the DU Underwriting Findings report, no resubmission required<br><br>Otherwise, loan casefile must be resubmitted to DU |
| Loan amount tolerances for refinance transactions | (See below)  |   |

### DU Tolerances for Refinance Transaction Loan Amount Changes

For refinance transactions, Fannie Mae allows the following tolerances to the loan amount:

- The loan amount may increase \$500 or up to 1% of the loan amount, whichever is less.
- The loan amount may decrease 5% of the loan amount.

The loan amount tolerances are permitted provided the new LTV/CLTV does not result in

- changes to the amount of required mortgage insurance coverage,
- different loan-level price adjustments, or
- changes to loan eligibility.

For example, if a loan casefile is submitted with a loan amount of \$100,000 and the appraised value is \$120,000 (which equals 83.3% LTV), the actual loan amount can go up to \$100,500 (which equals 83.75% LTV) without requiring resubmission.

On the other hand, if the original loan amount was \$108,000 (90% LTV), an increase without resubmission is not permitted because it would result in an LTV of 91%. The higher LTV requires different mortgage insurance coverage, and may result in the loan not being eligible for delivery.

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The loan amount tolerance does not apply to Fannie Mae's requirements regarding the amount of cash back to the borrower on a limited cash-out refinance transaction. (See [B2-1.2-02, Limited Cash-Out Refinance Transactions](#).)

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### **Other Errors in the Credit Data**

In some cases, errors are the result of reporting errors by the credit agency or individual creditors.

If the printed credit report contains derogatory information, and DU does not recognize or consider the derogatory information and does not reflect the derogatory information in the DU Underwriting Findings report, the lender must take action when information not considered by DU would result in a recommendation other than that returned by DU.

For example, if a borrower's credit report indicates that the borrower had a previous foreclosure, but the DU Underwriting Findings report does not reference the foreclosure, a reporting or data transfer error may have occurred, thus preventing DU from considering the foreclosure in its analysis of the loan. The lender must take action to ensure that the information is considered in the risk analysis.

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### **Non-Applicant Debts/Accounts**

In a small number of cases, credit reports may include accounts identified as possible non-applicant accounts (or with another similar notation).

Non-applicant accounts may belong to the borrower, or they may truly belong to another individual.

Typical causes of non-applicant accounts include

- applicants who are Juniors/Seniors,
- individuals who move frequently,
- non-related individuals who have identical names, and
- debts the borrower applied for under a different Social Security number or under a different address (these may be indicative of potential fraud).

When DU encounters possible non-applicant accounts on the credit report, DU will include the accounts in the credit risk assessment, and will issue a message in the DU Underwriting Findings report alerting the lender of the existence of the accounts. If the debts are on the loan application, DU will also include them in the DTI ratio. If the debts do not belong to the borrower, the lender may provide supporting documentation, remove the debts from the loan application, and



resubmit the loan casefile to DU in order for the DTI to be updated to exclude the non-applicant debts.

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## Related Announcements

The table below provides references to Announcements and Release Notes that have been issued that are related to this topic.

| Announcements and Release Notes          | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">DU Version 9.0</a>           | July 24, 2012      |
| <a href="#">Announcement SEL-2011-04</a> | May 24, 2011       |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">Announcement SEL-2010-11</a> | August 13, 2010    |
| <a href="#">Announcement SEL-2010-02</a> | March 2, 2010      |



## B3-2-11, DU Underwriting Findings Report (10/24/2016)

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### Introduction

This topic contains information on the DU Underwriting Findings report, including:

- [Overview](#)
- [Potential Red Flag Messages](#)

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### Overview

The DU Underwriting Findings report summarizes the overall underwriting recommendation and eligibility component of the loan casefile and lists certain steps necessary for the lender to complete the processing of the loan file.

Specific messages are provided for each individual loan casefile. These detailed messages are designed to assist lenders in processing and closing loans. However, the level of documentation recommended by DU may not be adequate for every borrower and every situation.

The DU Underwriting Findings report is divided into sections. Each section contains a different type of message. Certain messages will be provided based on the DU credit risk assessment. For example, some messages are returned only on Approve recommendations, while other messages are returned only on Refer with Caution recommendations.

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## Potential Red Flag Messages

DU provides a number of “potential red flag” messages designed to help the lender detect inconsistencies in the loan casefile. Neither the presence nor absence of these messages alters the lender’s responsibility to ensure accurate information in all areas of the loan process or otherwise comply with applicable law, including the Fair Credit Reporting Act.

**Note:** The appearance of these messages does not affect the underwriting recommendation from DU. Rather, they are designed to help lenders detect inconsistencies. Furthermore, the absence of any of these messages does not indicate or imply Fannie Mae’s acceptance of the data submitted to DU.

The following lists potential red flag messages:

- Excessive resubmissions: A message alerts lenders when an unusually high number of loan resubmissions may be the result of data manipulation.
- Manufactured home caution: A message alerts users when a property type was not submitted as a manufactured home, but Fannie Mae’s property database indicates that it may be a manufactured home.

More information can be found in the [Desktop Underwriter Potential Red Flags Messages](#) matrix or by contacting the lender’s lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)).

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016   |
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015   |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">DU Version 9.0</a>           | July 24, 2012      |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011      |
| <a href="#">DU 8.0 April Update</a>      | February 17, 2010  |



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# Chapter B3-3, Income Assessment



## Income Assessment

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### Introduction

This chapter describes the requirements for evaluating income stability, adequacy, and likelihood of continuance — key factors used in qualifying the borrower and assessing his or her capacity to repay the mortgage over the life of the loan.

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### In This Chapter

This chapter contains the following sections:

|  |     |
|--|-----|
| B3-3.1, Employment and Other Sources of Income ..... | 355 |
| B3-3.2, Self-Employment Income .....                 | 406 |
| B3-3.3, DU Requirements for Income Assessment .....  | 439 |

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## Section B3-3.1, Employment and Other Sources of Income



### B3-3.1-01, General Income Information (10/24/2016)

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#### Introduction

This topic contains information on employment income, including:

- [Stable and Predictable Income](#)
  - [Variable Income](#)
  - [Continuity of Income](#)
  - [Determining the Need for Federal Income Tax Returns](#)
  - [Verification of Income for Non-U.S. Citizen Borrowers](#)
  - [Using Nontaxable Income to Adjust the Borrower's Gross Income](#)
  - [Reduced Income Documentation Requirements for DU Refi Plus and Refi Plus Mortgage Loans](#)
- 

#### Stable and Predictable Income

Fannie Mae's underwriting guidelines emphasize the continuity of a borrower's stable income. The stable and reliable flow of income is a key consideration in mortgage loan underwriting. Individuals who change jobs frequently, but who are nevertheless able to earn consistent and predictable income, are also considered to have a reliable flow of income for qualifying purposes.

To demonstrate the likelihood that a consistent level of income will continue to be received for borrowers with less predictable sources of income, the lender must obtain information about prior earnings. Examples of less predictable income sources include commissions, bonuses, substantial amounts of overtime pay, or employment that is subject to time limits, such as contract employees or tradesmen.

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#### Variable Income

All income that is calculated by an averaging method must be reviewed to assess the borrower's history of receipt, the frequency of payment, and the trending of the amount of income being

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received. Examples of income of this type include income from hourly workers with fluctuating hours, or income that includes commissions, bonuses, or overtime.

**History of Receipt:** Two or more years of receipt of a particular type of variable income is recommended; however, variable income that has been received for 12 to 24 months may be considered as acceptable income, as long as the borrower's loan application demonstrates that there are positive factors that reasonably offset the shorter income history.

**Frequency of Payment:** The lender must determine the frequency of the payment (weekly, biweekly, monthly, quarterly, or annually) to arrive at an accurate calculation of the monthly income to be used in the trending analysis (see below). Examples:

- If a borrower is paid an annual bonus on March 31<sup>st</sup> of each year, the amount of the March bonus should be divided by 12 to obtain an accurate calculation of the current monthly bonus amount. Note that dividing the bonus received on March 31<sup>st</sup> by three months produces a much higher, inaccurate monthly average.
- If a borrower is paid overtime on a biweekly basis, the most recent paystub must be analyzed to determine that both the current overtime earnings for the period and the year-to-date overtime earnings are consistent and, if not, why. There are legitimate reasons why these amounts may be inconsistent yet still eligible for use as qualifying income. For example, borrowers may have overtime income that is cyclical (transportation employees who operate snow plows in winter, package delivery service workers who work longer hours through the holidays). The lender must investigate the difference between current period overtime and year-to-date earnings and document the analysis before using the income amount in the trending analysis.

**Income Trending:** After the monthly year-to-date income amount is calculated, it must be compared to prior years' earnings using the borrower's W-2's or signed federal income tax returns (or a standard Verification of Employment completed by the employer or third-party employment verification vendor).

- If the trend in the amount of income is stable or increasing, the income amount should be averaged.
- If the trend was declining, but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, lower amount of variable income must be used.
- If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any variable income should be used, but in no instance may it be averaged over the period when the declination occurred.

## Continuity of Income

A key driver of successful homeownership is confidence that all income used in qualifying the borrower will continue to be received by the borrower for the foreseeable future. Unless the lender has knowledge to the contrary, if the income does not have a defined expiration date and the applicable history of receipt of the income is documented (per the specific income type), the lender may conclude that the income is stable, predictable, and likely to continue. The lender is not expected to request additional documentation from the borrower.

If the income source does have a defined expiration date or is dependent on the depletion of an asset account or other limited benefit, the lender must document the likelihood of continued receipt of the income for at least three years.

The following table contains examples of income types with and without defined expiration dates. This information is provided to assist lenders in determining whether additional income documentation may be necessary to support a three-year continuance. Note that lenders remain responsible for making the final determination of whether the borrower’s specific income source has a defined expiration date.

| Expiration Date Not Defined   | Defined Expiration Date*   |
|---|--|
| <p>Lender does not need to document 3–year continuance</p> <ul style="list-style-type: none"> <li>• automobile allowance</li> <li>• base salary</li> <li>• bonus, overtime, commission, or tip income</li> <li>• capital gains income</li> <li>• corporate retirement or pension</li> <li>• disability income — long-term</li> <li>• foster-care income</li> <li>• interest and dividend income (unless other evidence that asset will be depleted)</li> <li>• military income</li> </ul> | <p>Lender must document 3–year continuance</p> <ul style="list-style-type: none"> <li>• alimony or child support</li> <li>• distributions from a retirement account – for example, 401(k), IRA, SEP, Keogh</li> <li>• mortgage differential payments</li> <li>• notes receivable</li> <li>• public assistance</li> <li>• royalty payment income</li> <li>• Social Security (not including retirement or long-term disability)</li> <li>• trust income</li> <li>• VA benefits (not including retirement or long-term disability)</li> </ul> |

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| Expiration Date Not Defined  | Defined Expiration Date* |
|--|--------------------------|
| <ul style="list-style-type: none"><li>• mortgage credit certificates</li><li>• part-time job, second job, or seasonal income</li><li>• rental income</li><li>• self-employment income</li><li>• Social Security, VA, or other government retirement or annuity</li></ul> |                          |

\*Because these income sources have a defined expiration date or allow the depletion of an asset, care must be taken when this is the sole source or majority of qualifying income. Lenders must consider the borrower's continued capacity to repay the mortgage loan when the income source expires or the distributions will deplete the asset prior to maturation of the mortgage loan.

Income sources that are not listed above will require lender judgment to determine if documentation of continuance must be obtained.

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### Determining the Need for Federal Income Tax Returns

The lender must obtain copies of the borrower's signed federal income tax returns filed with the IRS for the past two years for the following sources of income or employment. If the borrower

- earns 25% or more of his or her income from commissions;
- is employed by family members;
- is employed by interested parties to the property sale or purchase;
- receives rental income from an investment property (only one year of tax returns is required unless the borrower meets one or more of the other conditions in this list);
- receives income from temporary or periodic employment (or unemployment) or employment that is subject to time limits, such as a contract employee or a tradesman;
- receives income from capital gains, royalties, real estate, or other miscellaneous non-employment earnings reported on IRS Form 1099;
- receives income that cannot otherwise be verified by an independent and knowledgeable source;



- uses foreign income to qualify;
- uses interest and dividend income to qualify;
- uses tip income reported on IRS Form 4137 that was not reported by the employer on the W-2 to qualify; or
- receives income from sole proprietorships, limited liability companies, partnerships, or corporations, or any other type of business structure in which the borrower has a 25% or greater ownership interest. Borrowers with a 25% or greater ownership interest are considered self-employed. The lender must document and underwrite the loan application using the requirements for self-employed borrowers, as described in Section B3–3.2, Self-Employment Income.

If a borrower’s income is validated by the DU validation service, lenders are not required to determine if the borrower is employed by a family member or interested party to the property sale or purchase. See [B3-2-02, DU Validation Service](#).

See [B3-3.1-06, Requirements and Uses of IRS Form 4506-T](#), for information about obtaining tax return transcripts.

### Verification of Income for Non-U.S. Citizen Borrowers

The following table describes income verification requirements for borrowers who are non-U.S. citizens:

| Employment Type   | Employment and Income Verification Requirements   |
|---|---|
| Salaried or commissioned borrower employed by a U.S. company or individual                                | Same as for a U.S. citizen. See Section B3–3.1, Employment and Other Sources of Income.   |
| Self-employed   | Same as for a U.S. citizen. See Section B3–3.2, Self-Employment Income.   |
| Employed by a foreign corporation or a foreign government and paid in foreign currency (“foreign income”) | The lender must obtain: <ul style="list-style-type: none"> <li>• copies of the borrower's signed federal income tax returns filed with the IRS for the most recent two-year period, and</li> <li>• documentation to satisfy the standard documentation requirements in this Chapter.</li> </ul> |

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| Employment Type | Employment and Income Verification Requirements             |
|-----------------|---|
|                 | <b>Note:</b> All income must be translated to U.S. dollars. |

For information on U.S. citizens earning foreign income, refer to [B3-3.1-09, Other Sources of Income](#).

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### **Using Nontaxable Income to Adjust the Borrower's Gross Income**

The lender should give special consideration to regular sources of income that may be nontaxable, such as child support payments, Social Security benefits, workers' compensation benefits, certain types of public assistance payments, and food stamps.

The lender must verify that the particular source of income is nontaxable. Documentation that can be used for this verification includes award letters, policy agreements, account statements, or any other documents that address the nontaxable status of the income.

If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the lender may develop an "adjusted gross income" for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower's income.

If the actual amount of federal and state taxes that would generally be paid by a wage earner in a similar tax bracket is more than 25% of the borrower's nontaxable income, the lender may use that amount to develop the adjusted gross income, which should be used in calculating the borrower's qualifying ratio.

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### **Reduced Income Documentation Requirements for DU Refi Plus and Refi Plus Mortgage Loans**

For certain DU Refi Plus and Refi Plus mortgage loans, lenders are not required to follow the income documentation requirements described in this Chapter. Refer to [B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations](#), for specific requirements.

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| Announcements and Release Notes          | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016   |
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015      |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013    |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012      |
| <a href="#">Announcement SEL-2012-04</a> | May 15, 2012       |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010   |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">DU Version 8.2</a>           | September 20, 2010 |
| <a href="#">Announcement SEL-2010-02</a> | March 2, 2010      |



## **B3-3.1-02, Standards for Employment Documentation (10/24/2016)**

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### Introduction

This topic contains information on the standards for documentation of employment income, including:

- [General Documentation Requirements](#)
- [Employment Documentation Provided by the Borrower](#)
- [Employment Documentation Provided by the Borrower's Employer](#)
- [Employment Documentation Provided by a Third-Party Employment Verification Vendor](#)

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### General Documentation Requirements

The lender must verify employment income for all borrowers whose income is used to qualify for the mortgage loan. This verification can be provided by the borrower, by the borrower's employer, or by a third-party employment verification vendor.

### Employment Documentation Provided by the Borrower

The following table provides requirements for documentation provided by the borrower.

| ✓ | <b>Requirements — Paystubs and W-2s</b>   |
|---|---|
|   | <p>The paystub must be dated no earlier than 30 days prior to the initial loan application date and it must include all year-to-date earnings. Additionally, the paystub must include sufficient information to appropriately calculate income; otherwise, additional documentation must be obtained.</p> <p>Paystubs must comply with <a href="#">B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns</a>.</p>   |
|   | <p>IRS W-2 forms must cover the most recent one- or two-year period, based on the documentation requirements for the particular income type. The W-2 forms must clearly identify the borrower as the employee.</p> <p>”Most recent” W-2 is defined as the W-2 for the calendar year prior to the current calendar year. Alternative documentation, such as an IRS Wage and Income (W-2) Transcript, a written <i>Request for Verification of Employment</i> (<a href="#">Form 1005</a> or <a href="#">Form 1005(S)</a>) (see below) or the final year-to-date paystub, may be used as long as adequate information is provided.</p> |
|   | <p>Documents must be computer-generated or typed by the borrower’s employer(s), although paystubs that the borrower downloads from the Internet are also acceptable. Documents must clearly identify the employer’s name and source of information.</p>   |
|   | <p>The documents must clearly identify the borrower as the employee.</p>  |
|   | <p>The information must be complete and legible.</p>  |
|   | <p>The original source of the information must be a third party, such as the borrower's human resources department, personnel office, payroll department, company's payroll vendor, or supervisor.</p>  |
| ✓ | <b>Requirements — Tax Returns</b>   |
|   | <p>When required, personal federal income tax returns must be copies of the original returns that were filed with the IRS. All supporting schedules must be included.</p> <p>Alternatively, the lender may obtain applicable transcripts of federal income tax returns. See <a href="#">B3-3.1-06, Requirements and Uses of IRS Form 4506-T</a>.</p>  |

| ✓ | <b>Requirements — Paystubs and W-2s</b>   |
|---|---|
|   | “Most recent” tax return is defined as the last return scheduled to have been filed with the IRS. See <a href="#">B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns</a> .   |
|   | The information must be complete and legible.   |
|   | Each tax return must be signed by the borrower unless the lender has obtained one of the following signature alternatives: <ul style="list-style-type: none"> <li>• documentation confirming that the tax returns were filed electronically,</li> <li>• a completed IRS Form 4506-T (signed by the borrower) for the year in question, or</li> <li>• IRS transcripts that validate the tax return.</li> </ul> |

### **Employment Documentation Provided by the Borrower’s Employer**

The lender may use the *Request for Verification of Employment* (Form 1005 or Form 1005(S)) to document income for a salaried or commissioned borrower. The date of the completed form must comply with [B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns](#).

The information on the Form 1005 or Form 1005(S) must be legible. The following fields on the form are optional:

| <b>Field #</b> | <b>Title of Optional Field</b>                                      |
|----------------|---|
| 11             | Probability of continued employment                                 |
| 14             | If overtime or bonus is applicable, is its continuance likely?      |
| 16             | Date of applicant’s next pay increase                               |
| 17             | Projected amount of next pay increase                               |
| 18             | Date of applicant’s last pay increase                               |
| 19             | Amount of last pay increase   |
| 24             | Reason for leaving (Part III — Verification of Previous Employment) |

The remaining fields on the form must be completed as applicable to the borrower. For example, overtime may not be completed if the borrower is in a position that does not pay overtime.

When the borrower authorizes the lender to obtain verifications of employment and income directly from the employer, the lender must have the borrower sign Form 1005 or Form 1005(S).

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Alternatively, the lender may have the applicant sign a signature authorization form, which gives the lender blanket authorization to request the information it needs to evaluate the applicant's creditworthiness (see [B1-1-02, Blanket Authorization Form](#)).

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### **Employment Documentation Provided by a Third-Party Employment Verification Vendor**

The lender may receive employment and income verification directly from a third-party employment verification vendor. These verifications are acceptable as long as

- the borrower provided proper authorization for the lender to use this verification method,
- the date of the completed verification is in compliance with [B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns](#),
- the lender has determined that the vendor has made provisions to comply with reasonable quality control requests from both the lender and any subsequent mortgagee, and
- the lender understands it will be held accountable for the integrity of the information obtained from this source.

If necessary, the lender must supplement these verifications by obtaining any missing information from the borrower or his or her employer.

Loans that are submitted through the DU validation service must comply with all requirements pertaining to the DU validation service. See [B3-2-02, DU Validation Service](#).

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### **Related Announcements**

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016   |
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015      |
| <a href="#">Announcement SEL-2013-04</a> | May 28, 2013       |
| <a href="#">Announcement SEL-2012-04</a> | May 15, 2012       |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010   |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">DU Version 8.2</a>           | September 20, 2010 |
| <a href="#">Announcement 09-19</a>       | June 8, 2009       |



## **B3-3.1-03, Base Pay (Salary or Hourly), Bonus, and Overtime Income (05/15/2012)**

### **Introduction**

This topic contains information on base pay (salary and hourly), bonus, and overtime income, including:

- [Verification of Base Pay, Bonus, and Overtime Income](#)
- [Base Income Calculation Guidelines](#)
- [Military Income](#)

### **Verification of Base Pay, Bonus, and Overtime Income**

The following table provides verification requirements for base pay, bonus, and overtime income:

| ✓ | <b>Verification of Base Pay, Bonus, and Overtime Income</b>   |
|---|---|
|   | <p>A minimum history of two years of employment income is recommended. However, income that has been received for a shorter period of time may be considered as acceptable income, as long as the borrower's employment profile demonstrates that there are positive factors to reasonably offset the shorter income history.</p> <p>Borrowers relying on overtime or bonus income for qualifying purposes must have a history of no less than 12 months to be considered stable.</p> |
|   | <p><b>Base Pay (Salary and Hourly):</b></p> <p>Obtain the following documents:</p> <ul style="list-style-type: none"> <li>• a completed <i>Request for Verification of Employment</i> (<a href="#">Form 1005</a> or <a href="#">Form 1005(S)</a>), or</li> <li>• the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.</li> </ul>   |
|   | <p><b>Bonus or Overtime:</b></p> <p>Obtain the following documents:</p> <ul style="list-style-type: none"> <li>• a completed Form 1005 or Form 1005(S), or</li> </ul>   |

| ✓ | <b>Verification of Base Pay, Bonus, and Overtime Income</b>   |
|---|---|
|   | <ul style="list-style-type: none"> <li>the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.</li> </ul>   |
|   | See <a href="#">B3-3.1-01, General Income Information</a> , for additional information on calculating variable income (applies to hourly paid employees with fluctuating hours and bonus and overtime).   |
|   | If the borrower has recently changed positions with his or her employer, determine the effect of the change on the borrower's eligibility and opportunity to receive bonus or overtime pay in the future. |
|   | If a borrower who has historically been employed on a part-time basis indicates that he or she will now be working full-time, obtain written confirmation from the borrower's employer.                   |
|   | A verbal VOE is required from each employer. See <a href="#">B3-3.1-07, Verbal Verification of Employment</a> , for specific requirements.  |
|   | See <a href="#">B3-3.1-02, Standards for Employment Documentation</a> , for additional information about verifying employment income.   |

### Base Income Calculation Guidelines

After the applicable income documentation has been obtained, the lender must calculate the borrower's eligible qualifying base income. The following table provides guidance for standard employment documentation:

| <b>How Often Paid</b>  | <b>How to Determine Monthly Income</b>   |
|--|--|
| Annually   | Annual gross pay / 12 months   |
| Monthly  | Use monthly gross payment amount   |
| Twice Monthly  | Twice monthly gross pay x 2 pay periods  |
| Biweekly   | (Biweekly gross pay x 26 pay periods) / 12 months                              |
| Weekly   | (Weekly gross pay x 52 pay periods) / 12 months                                |
| Hourly   | (Hourly gross pay x average # of hours worked per week x 52 weeks) / 12 months |
| All of the above calculations must be compared with the documented year-to-date base earnings (and past year earnings, if applicable) to determine if the income amount appears to be consistent. See <a href="#">B3-3.1-01, General Income Information</a> , for additional information about variable income (bonus and overtime). |  |



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## Military Income

Military personnel may be entitled to different types of pay in addition to their base pay. Flight or hazard pay, rations, clothing allowance, quarters' allowance, and proficiency pay are acceptable sources of stable income, as long as the lender can establish that the particular source of income will continue to be received in the future.

Income paid to military reservists while they are satisfying their reserve obligations also is acceptable if it satisfies the same stability and continuity tests applied to secondary employment.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2012-04</a> | May 15, 2012       |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">Announcement 09-37</a>       | December 30, 2009  |
| <a href="#">Announcement 09-19</a>       | June 8, 2009       |



## **B3-3.1-04, Commission Income (06/30/2015)**

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### Introduction

This topic contains information on the verification of commission income.

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### Verification of Commission Income

The following table provides verification requirements for commission income:

| ✓ | Verification of Commission Income  |
|---|--|
|   | A minimum history of 2 years of commission income is recommended; however, commission income that has been received for 12 to 24 months may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history. |
|   | If the commission income represents less than 25% of the borrower's total annual employment income, obtain the following documents:  |

| ✓ | <b>Verification of Commission Income</b>  |
|---|---|
|   | <ul style="list-style-type: none"> <li>• a completed <i>Request for Verification of Employment</i> (<a href="#">Form 1005</a> or <a href="#">Form 1005(S)</a>), or</li> <li>• the borrower’s recent paystub and IRS W-2 forms covering the most recent two-year period.</li> </ul>  |
|   | <p>If commission income represents 25% or more of the borrower’s total annual employment income, obtain the following documents:</p> <ul style="list-style-type: none"> <li>• copies of the borrower’s signed federal income tax returns that were filed with the IRS for the past two years; and either           <ul style="list-style-type: none"> <li>– a completed Form 1005 or Form 1005(S), or</li> <li>– the borrower’s recent paystub and IRS W-2 forms covering the most recent two-year period.</li> </ul> </li> </ul> |
|   | For borrowers with commission income representing 25% or more of their total annual employment income, any unreimbursed business expenses must be subtracted from the gross commission income.  |
|   | A verbal VOE is required from each employer. See <a href="#">B3-3.1-07, Verbal Verification of Employment</a> , for specific requirements.  |
|   | See <a href="#">B3-3.1-01, General Income Information</a> , for additional information about calculating variable income.   |
|   | See <a href="#">B3-3.1-02, Standards for Employment Documentation</a> , for additional information about verifying employment income.   |

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015      |
| <a href="#">Announcement SEL-2012-04</a> | May 15, 2012       |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">Announcement 09-19</a>       | June 8, 2009       |



## **B3-3.1-05, Secondary Employment Income (Second Job and Multiple Jobs) and Seasonal Income (05/27/2014)**

### **Introduction**

This topic contains information on income from secondary and seasonal employment, including:

- [Documentation Requirements](#)
- [Verification of Secondary Employment Income](#)
- [Verification of Seasonal Income](#)

### **Documentation Requirements**

The income sources discussed in this topic must be documented by obtaining the following:

- a completed *Request for Verification of Employment* ([Form 1005](#) or [Form 1005\(S\)](#)); or
- the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period. (Signed federal income tax returns may also be required to verify unemployment income related to seasonal employment.)

A verbal VOE is also required from each employer. See [B3-3.1-07, Verbal Verification of Employment](#), for specific requirements.

As these income types may be hourly or seasonal, refer to [B3-3.1-01, General Income Information](#), for additional information on calculating variable income. Also see [B3-3.1-02, Standards for Employment Documentation](#), for additional information about verifying employment income.

### **Verification of Secondary Employment Income**

Secondary employment income is income that is derived from a second job or multiple jobs the borrower may have. The lender must verify the following.

| ✓ | <b>Verification of Secondary Employment Income</b>  |
|---|---|
|   | Verification of a minimum history of two years of uninterrupted secondary employment income is recommended. However, income that has been received for a shorter period of time (no less than 12 months) may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history. |

|   |  |
|---|--|
| ✓ | <b>Verification of Secondary Employment Income</b>   |
|   | A borrower may have a history that includes different employers, which is acceptable as long as income has been consistently received. |

### Verification of Seasonal Income

The lender must verify the following for seasonal income.

|   |   |
|---|---|
| ✓ | <b>Verification of Seasonal Income</b>  |
|   | Verify that the borrower has worked in the same job (or the same line of seasonal work) for the past two years.   |
|   | Confirm with the borrower's employer that there is a reasonable expectation that the borrower will be rehired for the next season.  |
|   | For seasonal unemployment compensation, verify that it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's signed federal income tax returns. Otherwise, unemployment compensation cannot be used to qualify the borrower. See <a href="#">B3-3.1-09, Other Sources of Income</a> , for more information on unemployment benefits.<br><br><b>Note:</b> Seasonal <i>and non-seasonal</i> unemployment compensation may be used in qualifying a borrower for a DU Refi Plus or Refi Plus mortgage loan. See <a href="#">B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations</a> , for income documentation requirements. |

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2014-06</a> | May 27, 2014       |
| <a href="#">Announcement SEL-2012-04</a> | May 15, 2012       |
| <a href="#">Announcement SEL-2010-13</a> | September 30, 2010 |
| <a href="#">Announcement 09-19</a>       | June 8, 2009       |



## **B3-3.1-06, Requirements and Uses of IRS Form 4506-T (10/24/2016)**

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### **Introduction**

This topic contains information on the use of IRS Request for Transcript of Tax Return (IRS Form 4506-T), including:

- [Use of IRS Form 4506-T to Validate Borrower Income Documentation](#)
  - [Use of IRS Forms to Obtain Federal Income Tax Information](#)
  - [Alternatives to the IRS Form 4506-T](#)
  - [Completing and Submitting the IRS Authorization Form](#)
  - [Retaining the Tax Documents](#)
- 

### **Use of IRS Form 4506-T to Validate Borrower Income Documentation**

Fannie Mae requires lenders to have each borrower (regardless of income source) complete and sign a separate IRS Form 4506-T at or before closing. (As noted below, it may be necessary to have the borrower complete and sign multiple IRS Form 4506-Ts depending on the transcripts required to validate the information used in documenting income.)

In addition, the lender must document the requirement to obtain an executed IRS Form 4506-T with the IRS (directly or through an authorized designee) in their written quality control (QC) plan. See [D1-3-02, Lender Post-Closing Quality Control Review of Approval Conditions, Underwriting Decisions, and Documentation](#) for details concerning QC requirements.

If the IRS Form 4506-T is executed prior to closing, the transcript(s) received from the IRS must be used to validate the income documentation provided by the borrower and used in the underwriting process. In this case, because the form has already been executed, a signed IRS Form 4506-T is not required to be included in the loan file.

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### **Use of IRS Forms to Obtain Federal Income Tax Information**

When federal income tax information is used to document income for qualifying purposes, the lender may obtain transcripts of the applicable federal income tax documents directly from the IRS (or designee) by using IRS Form 4506-T. For example, the lender may obtain Tax Return Transcripts for Form 1040, 1040A or 1040EZ or Wage and Income Transcripts for W2s, 1098s, and 1099s. However, in certain instances, copies of the actual returns, schedules, or forms are needed because the tax return transcripts will not provide the detail required to qualify the borrower. For example, the lender must obtain copies of Schedules B through F, Schedule K-1, Form 2106, or business returns. These schedules or forms are not required if:

- the income reflected on the applicable schedule transcripts is positive, and
- the income supported by that schedule or form is not being used for qualifying.

If a borrower's self-employment income from a sole proprietorship (as reported on IRS Form 1040, Schedule C or C-EZ) is validated by the DU validation service, lenders are not required to obtain the tax returns. Documentation in accordance with the DU message is acceptable. The DU message may allow a tax transcript rather than the tax returns. See [B3-2-02, DU Validation Service](#), for additional information.

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### Alternatives to the IRS Form 4506-T

Use of IRS Form 4506-T has become the most efficient method for lenders to obtain electronic transcripts of the borrower's income tax information. It is also acceptable for lenders to use either IRS Request for Copy of Tax Return (IRS Form 4506) or IRS Tax Information Authorization (IRS Form 8821); however, these forms are not supported electronically by the IRS. In addition, IRS Short Form Request for Individual Tax Return Transcript (IRS Form 4506T-EZ) is also acceptable, although it may only be used to obtain transcripts of IRS Form 1040 (no other tax forms are supported using IRS Form 4506T-EZ).

**Note:** Borrowers with income from Puerto Rico must use Modelo SC 2907 (Solicitud De Copia De Planilla, Relevé De Herencia Y De Donación) rather than one of the forms mentioned above. Applicable forms or processes for eligible borrowers filing tax returns in other U.S. territories must be adhered to and obtained when required.

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### Completing and Submitting the IRS Authorization Form

IRS Form 4506-T can be used to obtain transcripts for up to four years or tax periods but only one tax form number can be requested per each IRS Form 4506-T. For example, it is necessary to complete two IRS Form 4506-Ts for a self-employed borrower whose income documentation includes both two years of personal tax returns and two years of business tax returns. One IRS Form 4506-T will be required to obtain a transcript of the personal 1040 returns and another will be required for the business returns (Form 1065, Form 1120, Form 1120A, etc.).

Lenders must

- fill in as the recipient of the tax documents — either its name or the name of the servicer, if servicing will be transferred within 120 days of the taxpayer signing the form;
- indicate that the request is for documentation concerning the year or years for which the borrower's income was or will be used in underwriting the loan; and

- date the form(s) with the date on which the borrower signs the form (or ascertain that the borrower dates the form when he or she signs it).

IRS Forms 4506-T and 4506 are valid for 120 days after completion (including signature) by the borrower. IRS Form 8821 is valid for 60 days after completion.

**Note:** The borrower should not be required to sign an IRS authorization form before all items on the form, including the transcript being requested, the years/tax periods, and the date, have been completed.

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### Retaining the Tax Documents

All tax documents, including the IRS Form 4506-T transcript received from the IRS, and any subsequent explanation or documentation of discrepancies must be retained in the loan file for QC review.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016 |
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015    |
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015 |
| <a href="#">Announcement SEL-2013-05</a> | July 30, 2013    |
| <a href="#">Announcement SEL-2013-04</a> | May 28, 2013     |
| <a href="#">Announcement SEL-2012-04</a> | May 15, 2012     |
| <a href="#">Announcement SEL-2010-06</a> | April 30, 2010   |
| <a href="#">Announcement 09-19</a>       | June 8, 2009     |



## **B3-3.1-07, Verbal Verification of Employment (12/06/2016)**

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### Introduction

This topic contains information on verbal verification of employment requirements for all borrowers.

## Verbal Verification of Employment

Lenders must obtain a verbal verification of employment (verbal VOE) for each borrower using employment or self-employment income to qualify. The verbal VOE must be obtained within 10 business days prior to the note date for employment income, and within 120 calendar days prior to the note date for self-employment income. The verbal VOE requirement is intended to help lenders mitigate risk by confirming, as late in the process as possible, that the borrower remains employed as originally disclosed on the loan application. A change in the borrower’s employment status could have a significant impact on that borrower’s capacity to repay the mortgage loan and must be fully reevaluated.

Alternatively, lenders may obtain the verbal VOE after closing, up to the time of loan delivery. If the verbal VOE cannot be obtained prior to delivery, the loan is ineligible for delivery to Fannie Mae.

**Note:** If the employer confirms the borrower is currently on temporary leave, the lender must consider the borrower “employed.” See [B3-3.1-09, Other Sources of Income](#), for details on temporary leave.

The following table describes verbal VOE requirements:

| Type of Income   | Verbal VOE Requirements   |
|--|---|
| <p><b>Hourly, Salary, and Commission Income (Non-Military)</b></p> | <p>Requirements:</p> <ul style="list-style-type: none"> <li>• The lender must independently obtain a phone number and, if possible, an address for the borrower's employer. This can be accomplished by using a telephone book, the Internet, directory assistance, or by contacting the applicable licensing bureau.</li> <li>• The lender must contact the employer verbally and confirm the borrower's current employment status within 10 business days prior to the note date.</li> </ul> <p style="text-align: center;"><b>Note:</b> If the employer confirms the borrower is currently on temporary leave, the lender must consider the borrower “employed.” See <a href="#">B3-3.1-09, Other Sources of Income</a>, for details on temporary leave.</p> <ul style="list-style-type: none"> <li>• The conversation must be documented. It should include the following:</li> </ul> |



| Type of Income            | Verbal VOE Requirements   |
|---------------------------|---|
|                           | <ul style="list-style-type: none"> <li>– name and title of the person who confirmed the employment for the lender,</li> <li>– name and title of the person who completed the verification for the employer,</li> <li>– date of the call, and</li> <li>– the source of the phone number.</li> </ul> <p>Exceptions:</p> <ul style="list-style-type: none"> <li>• If the employer will not verbally verify employment, the lender can obtain a written verification (other than an additional paystub) confirming the borrower’s current employment status within the same time frame as the verbal VOE requirements. The written documentation must include the name and title of the person who completed the verification for the employer.</li> <li>• If the employer uses a third party employment verification vendor, the lender must obtain written verification from the vendor of the borrower’s current employment status within the same time frame as the verbal VOE requirements.</li> </ul> <p><b>Note:</b> Because third-party vendor databases are typically updated monthly, the verification must evidence that the information in the vendor's database was no more than 35 days old as of the note date.</p> <p>When employment is validated by DU, DU includes in its assessment the age of the information in the vendor’s database. The DU message will include a date by which the loan must close. This may differ from the age of data and 10 business day requirements above. Compliance with the DU message satisfies the requirement for completing the verification of employment. See <a href="#">B3-2-02, DU Validation Service</a> for additional information.</p> |
| <b>Military Personnel</b> | If the borrower is in the military, in lieu of a verbal or written VOE, the lender must obtain either   |

| Type of Income              | Verbal VOE Requirements  |
|-----------------------------|--|
|                             | <ul style="list-style-type: none"> <li>• a military Leave and Earnings Statement dated within 30 calendar days prior to the note date (or 31 days for longer months), or</li> <li>• a verification of employment through the Defense Manpower Data Center (<a href="https://www.dmdc.osd.mil/appj/mla/">https://www.dmdc.osd.mil/appj/mla/</a>).</li> </ul>  |
| <b>Self-Employed Income</b> | Requirements: <ul style="list-style-type: none"> <li>• The lender must verify the existence of the borrower's business within 120 calendar days prior to the note date                             <ul style="list-style-type: none"> <li>– from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible; or</li> <li>– by verifying a phone listing and address for the borrower's business using a telephone book, the Internet, or directory assistance.</li> </ul> </li> <li>• The lender must document the source of the information obtained and the name and title of the lender's employee who obtained the information.</li> </ul> |

### Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| Announcements and Release Notes          | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 6, 2016   |
| <a href="#">Announcement SEL-2016-05</a> | June 28, 2016      |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013    |
| <a href="#">Announcement SEL-2012-04</a> | May 15, 2012       |
| <a href="#">Announcement SEL-2011-13</a> | December 20, 2011  |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">DU Version 8.2</a>           | September 20, 2010 |
| <a href="#">Announcement 09-19</a>       | June 8, 2009       |



## **B3-3.1-08, Rental Income (09/29/2015)**

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### **Introduction**

This topic provides information on qualifying a borrower's rental income, including:

- [Associated Policies](#)
  - [Eligible Properties](#)
  - [Ineligible Properties](#)
  - [General Requirements for Documenting Rental Income](#)
  - [Documenting Rental Income from Subject Property](#)
  - [Documenting Rental Income From Property Other Than the Subject Property](#)
  - [Partial or No Rental History on Tax Returns](#)
  - [Calculating Monthly Qualifying Rental Income \(or Loss\)](#)
  - [Treatment of the Income \(or Loss\)](#)
  - [Offsetting Monthly Obligations for Rental Property Reported through a Partnership or an S Corporation](#)
  - [Rental Income Calculation Worksheets](#)
- 

### **Associated Policies**

In conjunction with the policies in this topic, lenders must also comply with, as applicable, but not limited to, the policies in the following:

- [A3-4-02, Data Quality and Integrity](#) (Reporting of Gross Monthly Rent);
  - [B2-2-03, Multiple Financed Properties for the Same Borrower](#);
  - [B3-3.1-01, General Income Information](#) (Continuity of Income);
  - [B3-3.3-02, Income From Rental Property in DU](#);
  - [B3-4.1-01, Minimum Reserve Requirements](#); and
  - [B3-6-06, Qualifying Impact of Other Real Estate Owned](#).
- 

### **Eligible Properties**

Rental income is an acceptable source of stable income if it can be established that the income is likely to continue. If the rental income is derived from the subject property, the property must be one of the following:

- 
- a two- to four-unit principal residence property in which the borrower occupies one of the units, or
  - a one- to four-unit investment property.

If the income is derived from a property that is not the subject property, there are no restrictions on the property type. For example, rental income from a commercial property owned by the borrower is acceptable if the income otherwise meets all other requirements (it can be documented in accordance with the requirements below).

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### **Ineligible Properties**

Generally, rental income from the borrower's principal residence (a one-unit principal residence or the unit the borrower occupies in a two- to four-unit property) or a second home cannot be used to qualify the borrower. However, Fannie Mae does allow certain exceptions to this policy for boarder income and properties with accessory units. See [B3-3.1-09, Other Sources of Income](#), for boarder income requirements, and [B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements](#), for accessory unit income requirements.

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### **General Requirements for Documenting Rental Income**

If a borrower has a history of renting the subject or another property, generally the rental income will be reported on IRS Form 1040, Schedule E of the borrower's personal tax returns or on Rental Real Estate Income and Expenses of a Partnership or an S Corporation form (IRS Form 8825) of a business tax return. If the borrower does not have a history of renting the subject property or if, in certain cases, the tax returns do not accurately reflect the ongoing income and expenses of the property, the lender may be justified in using a fully executed current lease agreement. Examples of scenarios that justify the use of a lease agreement are

- purchase transactions;
- refinance transactions in which the borrower purchased the rental property during or subsequent to the last tax return filing; or
- refinance transactions of a property that experienced significant rental interruptions such that income is not reported on the recent tax return (for example, major renovation to a property occurred in the prior year that affected rental income).

When the subject property will generate rental income, one of the following Fannie Mae forms must be used to support the income-earning potential of the property:

- For one-unit properties: *Single-Family Comparable Rent Schedule* ([Form 1007](#)) (provided in conjunction with the applicable appraisal report), or
- For two- to four-unit properties: *Small Residential Income Property Appraisal Report* ([Form 1025](#)).

### Documenting Rental Income from Subject Property

The lender must obtain documentation that is used to calculate the monthly rental income for qualifying purposes. The documentation may vary depending on whether the borrower has a history of renting the property, and whether the prior year tax return includes the income.

| Does the Borrower Have a History of Receiving Rental Income From the Subject Property? | Transaction Type | Documentation Requirements   |
|--|------------------|--|
| Yes  | Refinance        | Form 1007 or Form 1025, as applicable, and either <ul style="list-style-type: none"> <li>• the borrower’s most recent year of signed federal income tax returns, including Schedule E, or</li> <li>• copies of the current lease agreement(s) if the borrower can document a qualifying exception (see Partial or No Rental History on Tax Returns below).</li> </ul>                          |
| No   | Purchase         | Form 1007 or Form 1025, as applicable, and <ul style="list-style-type: none"> <li>• copies of the current lease agreement(s).</li> </ul> If the property is not currently rented, lease agreements are not required. Lenders may use market rent supported by Form 1007 or Form 1025, as applicable.<br><br>If there is a lease on the property that is being transferred to the borrower, the |

| <b>Does the Borrower Have a History of Receiving Rental Income From the Subject Property?</b> | <b>Transaction Type</b> | <b>Documentation Requirements</b>  |
|---|-------------------------|--|
|   |                         | lender must verify that it does not contain any provisions that could affect Fannie Mae's first lien position on the property. See <a href="#">B7-2-05, Title Exceptions and Impediments</a> , for additional information. |
| No  | Refinance               | Form 1007 or Form 1025, as applicable, and <ul style="list-style-type: none"> <li>• copies of the current lease agreement(s).</li> </ul>   |

If the borrower is not using any rental income from the subject property to qualify, the gross monthly rent must still be documented for lender reporting purposes. See the Reporting of Gross Monthly Rent section of [A3-4-02, Data Quality and Integrity](#)

### **Documenting Rental Income From Property Other Than the Subject Property**

When the borrower owns property – other than the subject property – that is rented, the lender must document the monthly gross (and net) rental income with the borrower’s most recent signed federal income tax return that includes Schedule E. Copies of the current lease agreement(s) may be substituted if the borrower can document a qualifying exception. See Partial or No Rental History on Tax Returns below.

### **Partial or No Rental History on Tax Returns**

In order for the lender to determine qualifying rental income, the lender must determine whether or not the rental property was in service for the entire tax year or only a portion of the year. In some situations, the lender’s analysis may determine that using alternative rental income calculations or using lease agreements to calculate income are more appropriate methods for calculating the qualifying income from rental properties. This policy may be applied to refinances of a subject rental property or to other rental properties owned by the borrower.

If the borrower is able to document (per the table below) that the rental property was not in service the previous tax year, or was in service for only a portion of the previous tax year, the lender may determine qualifying rental income by using

- Schedule E income and expenses, and annualizing the income (or loss) calculation; or
- fully executed lease agreement(s) to determine the gross rental income to be used in the net rental income (or loss) calculation.

| If ...  | Then ...  |
|---|---|
| the property was acquired during or subsequent to the most recent tax filing year,              | <p>the lender must confirm the purchase date using the settlement statement or other documentation.</p> <ul style="list-style-type: none"> <li>• If acquired during the year, Schedule E (Fair Rental Days) must confirm a partial year rental income and expenses (depending on when the unit was in service as a rental).</li> <li>• If acquired after the last tax filing year, Schedule E will not reflect rental income or expenses for this property.</li> </ul>  |
| the rental property was out of service for an extended period,                                  | <ul style="list-style-type: none"> <li>• Schedule E will reflect the costs for renovation or rehabilitation as repair expenses. Additional documentation may be required to ensure that the expenses support a significant renovation that supports the amount of time that the rental property was out of service.</li> <li>• Schedule E (Fair Rental Days) will confirm the number of days that the rental unit was in service, which must support the unit being out of service for all or a portion of the year.</li> </ul> |
| the lender determines that some other situation warrants an exception to use a lease agreement, | the lender must provide an explanation and justification in the loan file.  |

If the borrower is converting a principal residence to an investment property, see [B3-6-06, Qualifying Impact of Other Real Estate Owned](#), for guidance in using that rental income to qualify the borrower.

### Calculating Monthly Qualifying Rental Income (or Loss)

*Federal Income Tax Returns, Schedule E.* When Schedule E is used to calculate qualifying rental income, the lender must add back any listed depreciation, interest, homeowners' association

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dues, taxes, or insurance expenses to the borrower's cash flow. Non-recurring property expenses may be added back, if documented accordingly.

If the property was in service

- for the entire tax year, the rental income must be averaged over 12 months; or
- for less than the full year, the rental income must be averaged over the number of months that the borrower used the property as a rental unit.

See Treatment of the Income (or Loss) below for further instructions.

*Lease Agreements.* When current lease agreements are used, the lender must calculate the rental income by multiplying the gross rent(s) by 75%. The remaining 25% of the gross rent will be absorbed by vacancy losses and ongoing maintenance expenses.

See Treatment of the Income (or Loss) below for further instructions.

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### **Treatment of the Income (or Loss)**

The amount of monthly qualifying rental income (or loss) that is considered as part of the borrower's total monthly income (or loss) — and its treatment in the calculation of the borrower's total debt-to-income ratio — varies depending on whether the borrower occupies the rental property as his or her principal residence.

If the rental income relates to the borrower's principal residence:

- The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property.)
- The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.

If the rental income (or loss) relates to a property other than the borrower's principal residence:

- If the monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income.
- If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.
- The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation.



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- The full monthly payment for the borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation.

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### **Offsetting Monthly Obligations for Rental Property Reported through a Partnership or an S Corporation**

If the borrower is personally obligated on the mortgage debt (as evidenced by inclusion of the related mortgage(s) on the credit report) and gross rents and related expenses are reported through a partnership or S corporation, the business tax returns may be used to offset the property's PITIA. The steps described below should be followed:

1. Obtain the borrower's business tax returns, including IRS Form 8825 for the most recent year.
2. Evaluate each property listed on Form 8825, as shown below:
  - From total gross rents, subtract total expenses. Then add back insurance, mortgage interest, taxes, homeowners' association dues (if applicable), depreciation, and non-recurring property expenses (if documented accordingly).
  - Divide by the number of months the property was in service.
  - Subtract the entire PITIA (proposed for subject property or actual for real estate owned) to determine the monthly property cash flow.
3. If the resulting net cash flow is **positive**, the lender may exclude the property PITIA from the borrower's monthly obligations when calculating the debt-to-income ratio.
4. If the resulting net cash flow is **negative** (that is, the rental income derived from the investment property is not sufficient to fully offset the property PITIA), the calculated negative amount must be included in the borrower's monthly obligations when calculating the debt-to-income ratio.

In order to include a positive net rental income received through a partnership or an S corporation in the borrower's monthly qualifying income, the lender must evaluate it according to Fannie Mae's guidelines for income received from a partnership or an S corporation. See [B3-3.2.2-01, Analyzing Partnership Returns for a Partnership or LLC](#) and [B3-3.2.2-02, Analyzing Returns for an S Corporation](#).

**Note:** For DU loan casefiles, the term "subject net cash flow" applies to net rental income from the subject property, and the term "net rental income" applies to rental income from properties other than the subject property.

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## Rental Income Calculation Worksheets

Fannie Mae publishes four worksheets that lenders may use to calculate rental income. Use of these worksheets is optional. The worksheets are:

- Rental Income Worksheet – Principal Residence, 2- to 4-unit Property ([Form 1037](#)),
- Rental Income Worksheet – Individual Rental Income from Investment Property(s) (up to 4 properties) ([Form 1038](#)),
- Rental Income Worksheet – Individual Rental Income from Investment Property(s) (up to 10 properties) ([Form 1038A](#)), and
- Rental Income Worksheet – Business Rental Income from Investment Property(s) ([Form 1039](#)).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014  |
| <a href="#">Announcement SEL-2014-12</a> | September 30, 2014 |
| <a href="#">Announcement SEL-2012-04</a> | May 15, 2012       |
| <a href="#">Announcement SEL-2011-10</a> | September 27, 2011 |
| <a href="#">Announcement 09-32</a>       | October 30, 2009   |



## **B3-3.1-09, Other Sources of Income (10/24/2016)**

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### **Introduction**

This topic provides information on documenting and qualifying a borrower's income from sources other than wages and salaries, including:

- [Documentation Requirements for Current Receipt of Income](#)
- [Alimony or Child Support](#)
- [Automobile Allowance](#)
- [Boarder Income](#)
- [Capital Gains Income](#)
- [Disability Income — Long-Term](#)
- [Employment Offers or Contracts](#)
- [Employment-Related Assets as Qualifying Income](#)
- [Foreign Income](#)
- [Foster-Care Income](#)
- [Housing or Parsonage Income](#)
- [Interest and Dividends Income](#)
- [Mortgage Credit Certificates](#)
- [Mortgage Differential Payments Income](#)
- [Non-Occupant Borrower Income](#)
- [Notes Receivable Income](#)
- [Public Assistance Income](#)
- [Retirement, Government Annuity, and Pension Income](#)
- [Royalty Payment Income](#)
- [Schedule K-1 Income](#)
- [Social Security Income](#)
- [Temporary Leave Income](#)
- [Tip Income](#)
- [Trust Income](#)
- [Unemployment Benefits Income](#)
- [VA Benefits Income](#)

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### **Documentation Requirements for Current Receipt of Income**

The documentation required for each income source is described below. The documentation must support the history of receipt, if applicable, and the amount, frequency, and duration of the income. In addition, evidence of current receipt of the income must be obtained in compliance with the Allowable Age of Credit Documents policy, unless specifically excluded below. See

[B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns](#), for additional information.

Current receipt may be documented by various means, depending on the income type. Examples include but are not limited to

- current paystubs,
- bank statements confirming direct deposit,
- canceled checks from the payer’s account to the borrower,
- court records, or
- copies of the borrower’s bank statements showing the regular deposit of these funds.

### Alimony or Child Support

The following table provides verification requirements for alimony or child support.

| ✓ | <b>Verification of Income From Alimony or Child Support</b>   |
|---|---|
|   | <p>Document that alimony or child support will continue to be paid for at least three years after the date of the mortgage application, as verified by one of the following:</p> <ul style="list-style-type: none"> <li>• A copy of a divorce decree or separation agreement (if the divorce is not final) that indicates payment of alimony or child support and states the amount of the award and the period of time over which it will be received.</li> </ul> <p style="text-align: center;"><b>Note:</b> If a borrower who is separated does not have a separation agreement that specifies alimony or child support payments, the lender should not consider any proposed or voluntary payments as income.</p> <ul style="list-style-type: none"> <li>• Any other type of written legal agreement or court decree describing the payment terms for the alimony or child support.</li> <li>• Documentation that verifies any applicable state law that mandates alimony, child support, or separate maintenance payments, which must specify the conditions under which the payments must be made.</li> </ul> |
|   | <p>Check for limitations on the continuance of the payments, such as the age of the children for whom the support is being paid or the duration over which alimony is required to be paid.</p>  |
|   | <p>Document no less than six months of the borrower’s most recent regular receipt of the full payment.</p>  |

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| ✓ | <b>Verification of Income From Alimony or Child Support</b>  |
|---|--|
|   | Review the payment history to determine its suitability as stable qualifying income. To be considered stable income, full, regular, and timely payments must have been received for six months or longer. Income received for less than six months is considered unstable and may not be used to qualify the borrower for the mortgage. In addition, if full or partial payments are made on an inconsistent or sporadic basis, the income is not acceptable for the purpose of qualifying the borrower. |

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### **Automobile Allowance**

For an automobile allowance to be considered as acceptable stable income, the borrower must have received payments for at least two years. The lender must include all associated business expenditures in its calculation of the borrower's total DTI ratio.

There are two methods for calculating the income associated with an automobile allowance:

- *Actual cash flow approach:* If the borrower reports automobile allowances on Employee Business Expenses (IRS Form 2106) or IRS Form 1040, Schedule C
  - funds in excess of the borrower's monthly expenditures are added to the borrower's monthly income, or
  - expenses in excess of the monthly allowance are included in the borrower's total monthly obligations.

If the borrower used IRS Form 2106 and recognized "actual expenses" instead of the "standard mileage rate," the lender must look at the "actual expenses" section to identify the borrower's actual lease payments and make appropriate adjustments.

- *Income and debt approach:* If the borrower does not report the allowance on either Form 2106 or Schedule C, the full amount of the allowance is added to the borrower's monthly income, and the full amount of the lease or financing expenditure for the automobile is added to the borrower's total monthly obligations.

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### **Boarder Income**

Income from boarders in the borrower's principal residence or second home is not considered acceptable stable income with the exception of the following:

- When a borrower with disabilities receives rental income from a live-in personal assistant, whether or not that individual is a relative of the borrower, the rental payments can be considered as acceptable stable income in an amount up to 30% of the total gross income that

is used to qualify the borrower for the mortgage loan. Personal assistants typically are paid by Medicaid Waiver funds and include room and board, from which rental payments are made to the borrower.

- The HomeReady mortgage eligibility requirements include an additional exception. See Chapter B5–6, HomeReady Mortgage.

The following table provides verification requirements for income from boarders.

| ✓ | <b>Verification of Income from Boarders</b>  |
|---|--|
|   | Obtain documentation of the boarder’s history of shared residency (such as a copy of a driver’s license, bills, bank statements, or W-2 forms) that shows the boarder’s address as being the same as the borrower’s address. |
|   | Obtain documentation of the boarder’s rental payments for the most recent 12 months.   |

### Capital Gains Income

Income received from capital gains is generally a one-time transaction; therefore, it should not be considered as part of the borrower’s stable monthly income. However, if the borrower needs to rely on income from capital gains to qualify, the income must be verified in accordance with the following requirements.

| ✓ | <b>Verification of Capital Gains Income</b>   |
|---|---|
|   | Document a two-year history of capital gains income by obtaining copies of the borrower’s signed federal income tax returns for the most recent two years, including IRS Form 1040, Schedule D.   |
|   | <p>Develop an average income from the last two years (according to the Variable Income section of <a href="#">B3-3.1-01, General Income Information</a>), and use the averaged amount as part of the borrower’s qualifying income as long as the borrower provides current evidence that he or she owns additional property or assets that can be sold if extra income is needed to make future mortgage loan payments.</p> <p style="text-align: center;"><b>Note:</b> Capital losses identified on IRS Form 1040, Schedule D, do not have to be considered when calculating income or liabilities, even if the losses are recurring.</p> <p>Due to the nature of this income, current receipt of the income is not required to comply with the Allowable Age of Credit Documents policy. However, documentation of the asset ownership must be in compliance with the Allowable Age of Credit Documents policy (see <a href="#">B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns</a>, for additional information).</p> |

### Disability Income — Long-Term

The following table provides verification requirements for long-term disability income. It does not apply to disability income that is received from the Social Security Administration. See the applicable section below for information on Social Security income.

| ✓ | <b>Verification of Long-Term Disability Income</b>   |
|---|--|
|   | <p>Obtain a copy of the borrower’s disability policy or benefits statement from the benefits payer (insurance company, employer, or other qualified disinterested party) to determine</p> <ul style="list-style-type: none"> <li>• the borrower’s current eligibility for the disability benefits,</li> <li>• the amount and frequency of the disability payments, and</li> <li>• if there is a contractually established termination or modification date.</li> </ul>   |
|   | <p>Generally, long-term disability will not have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date.</p> <p>If a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the amount of the long-term benefits must be used as income to qualify the borrower. For additional information on short-term disability, see Temporary Leave Income below.</p> |

### Employment Offers or Contracts

If the borrower is scheduled to begin employment after the loan closes, the lender may, depending on its risk appetite, use the borrower’s offer or contract for future employment and income to underwrite and close the loan. If receipt of the income or employment information cannot be obtained prior to delivery to Fannie Mae, the loan is ineligible for delivery.

| ✓ | <b>Verification of Employment Offers or Contracts</b>  |
|---|--|
|   | The lender must document the borrower’s income and employment history per <a href="#">B3-3.1-01, General Income Information</a> .  |
|   | The lender must obtain the borrower’s offer or contract for future employment and anticipated income. The lender must determine whether to close the mortgage loan prior to the borrower beginning the new employment. |
|   | The borrower must begin employment before the lender delivers the loan to Fannie Mae. The lender must obtain a paystub from the borrower that includes sufficient information  |

|   |  |
|---|--|
| ✓ | <b>Verification of Employment Offers or Contracts</b>  |
|   | to support the income used to qualify the borrower prior to delivering the loan. The paystub must be retained in the mortgage loan file. |

### Employment-Related Assets as Qualifying Income

The following table provides the requirements for employment-related assets that may be used as qualifying income.

| ✓ | Asset Requirements   |
|---|--|
|   | <p>Assets used for the calculation of the monthly income stream must be owned individually by the borrower, or the co-owner of the assets must be a co-borrower of the mortgage loan.</p> <p>The documentation must be in compliance with the Allowable Age of Credit Documents policy (see <a href="#">B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns</a>, for additional information).</p>  |
|   | <p>Assets must be liquid and available to the borrower and must be sourced as one of the following:</p> <ul style="list-style-type: none"> <li>• A non-self-employed severance package or non-self-employed lump sum retirement package (a lump sum distribution) — these funds must be documented with a distribution letter from the employer (Form 1099–R) and deposited to a verified asset account.</li> <li>• For 401(k) or IRA, SEP, Keogh retirement accounts – the borrower must have unrestricted access to the funds in the accounts and can only use the accounts if distribution is not already set up or the distribution amount is not enough to qualify. The account and its asset composition must be documented with the most recent monthly, quarterly, or annual statement.</li> </ul> |
|   | If a penalty would apply to a distribution of funds from the account made at the time of calculation, then the amount of such penalty applicable to a complete distribution from the account (after costs for the transaction) must be subtracted to determine the income stream from these assets.  |
|   | If the employment–related assets are in the form of stocks, bonds, and mutual funds, 70% of the value (remaining after costs for the transaction and consideration of any penalty) must be used to determine the income stream to account for the volatile nature of these assets.   |
|   | A borrower shall only be considered to have unrestricted access to a 401(k) or IRA, SEP, Keogh retirement account if the borrower has, as of the time of calculation, the  |



| ✓ | <b>Asset Requirements</b>   |                      |
|---|---|----------------------|
|   | unqualified and unlimited right to request a distribution of all funds in the account (regardless of any possible tax withholding or applicable penalty applied to such distribution).  |                      |
|   | <p>“Net documented assets” are equal to the sum of eligible assets minus:</p> <p>(a) the amount of the penalty that would apply if the account was completely distributed at the time of calculation;</p> <p>(b) the amount of funds used for down payment, closing costs, and required reserves;</p> <p>(c) 30% of the remaining value of any stocks, bonds, or mutual funds assets (after the calculation in (b)).</p>  |                      |
|   | Ineligible assets are non-employment-related assets (for example, stock options, non-vested restricted stock, lawsuits, lottery winnings, sale of real estate, inheritance, and divorce proceeds). Checking and savings accounts are generally not eligible as employment-related assets, unless the source of the balance in a checking or savings account was from an eligible employment-related asset (for example, a severance package or lump sum retirement distribution). |                      |
|   | <b>Example: Calculation of Net Documented Assets</b>  |                      |
|   | IRA (made up of stocks and mutual funds)  | \$ 500,000           |
|   | Minus 10% of \$500,000 ( $\$500,000 \times .10$ )<br><br>(assumes the borrower is not yet 59 1/2 years of age at the time this income is being calculated; therefore, it is subject to a 10% penalty for early distribution. This penalty must be levied against any cash being withdrawn for closing the transaction as well as the remaining funds used to calculate the income stream.)  | (-) \$50,000         |
|   | Total eligible documented assets  | (=) \$ 450,000       |
|   | Minus funds required for closing<br><br>(down payment, closing costs, reserves)   | (-) \$100,000        |
|   | (a) Subtotal  | (=) \$ 350,000       |
|   | Minus 30% of \$350,000 ( $\$350,000 \times .30$ )<br><br>(assumes funds are in the form of stocks, bonds, and mutual funds)   | (-) \$105,000        |
|   | <b>(b) Net Documented Assets</b>  | <b>(=) \$245,000</b> |
|   | Monthly income calculation  | \$680.56/month       |

|   |  |  |
|---|--|--|
| ✓ | <b>Asset Requirements</b>                              |  |
|   | (\$245,000/360 (or applicable term of loan in months)) |  |
|   | See Income Calculation/Payout Stream in table below.   |  |

All of the following loan parameters must be met in order for employment-related assets to be used as qualifying income:

| Parameter                        | Fannie Mae Requirement   |
|----------------------------------|--|
| Maximum LTV/CLTV/HCLTV           | 70%  |
| Minimum Credit Score             | DU: 620<br><br>Standard: Higher of 620 or minimum Credit Score per the <i>Eligibility Matrix</i> |
| Loan Purpose                     | Purchase and limited cash-out refinance only   |
| Occupancy                        | Principal residence and second home only   |
| Number of units                  | One- to four-unit properties   |
| Income Calculation/Payout Stream | Divide “Net Documented Assets” by the amortization term of the mortgage loan (in months).        |

**Note:** If the mortgage loan does not meet the above parameters, employment-related assets may still be eligible under other standard income guidelines, such as “Interest and Dividends Income,” or “Retirement, Government Annuity, and Pension Income.”

### Foreign Income

Foreign income is income that is earned by a borrower who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if the following requirements are met.

|   |  |  |
|---|--|--|
| ✓ | <b>Verification of Foreign Income</b>  |  |
|   | Copies of his or her signed federal income tax returns for the most recent two years that include foreign income.                                      |  |
|   | The lender must satisfy the standard documentation requirements based on the source and type of income as outlined in Chapter B3–3, Income Assessment. |  |

| ✓ | <b>Verification of Foreign Income</b>   |
|---|---|
|   | <p><b>Note:</b> All income must be translated to U.S. dollars. If the borrower is not a U.S. citizen, refer to <a href="#">B2-2-02, Non-U.S. Citizen Borrower Eligibility Requirements</a>, for additional information.</p> |

### **Foster-Care Income**

Income received from a state- or county-sponsored organization for providing temporary care for one or more children may be considered acceptable stable income if the following requirements are met.

| ✓ | <b>Verification of Foster-Care Income</b>  |
|---|--|
|   | Verify the foster-care income with letters of verification from the organizations providing the income.  |
|   | <p>Document that the borrower has a two-year history of providing foster-care services. If the borrower has not been receiving this type of income for two full years, the income may still be counted as stable income if</p> <ul style="list-style-type: none"> <li>• the borrower has at least a 12-month history of providing foster-care services, and</li> <li>• the income does not represent more than 30% of the total gross income that is used to qualify for the mortgage loan.</li> </ul> |

### **Housing or Parsonage Income**

Housing or parsonage income may be considered qualifying income if there is documentation that the income has been received for the most recent 12 months and the allowance is likely to continue for the next three years. The housing allowance may be added to income but may not be used to offset the monthly housing payment.

**Note:** This requirement does not apply to military quarters' allowance. For information on military housing, refer to [B3-3.1-03, Base Pay \(Salary or Hourly\), Bonus, and Overtime Income](#).

### **Interest and Dividends Income**

The following table provides verification requirements for interest and dividends income.

| ✓ | <b>Verification of Income From Interest and Dividends</b>   |
|---|---|
|   | Verify the borrower's ownership of the assets on which the interest or dividend income was earned. Documentation of asset ownership must be in compliance with the Allowable Age of Credit Documents policy (see <a href="#">B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns</a> , for additional information). |
|   | Document a two-year history of the income, as verified by <ul style="list-style-type: none"> <li>• copies of the borrower's signed federal income tax returns, or</li> <li>• copies of account statements.</li> </ul>   |
|   | Develop an average of the income received for the most recent two years. Refer to the Variable Income section of <a href="#">B3-3.1-01, General Income Information</a> , for additional information.  |
|   | Subtract any assets used for down payment or closing costs from the borrower's total assets before calculating expected future interest or dividend income.   |

### **Mortgage Credit Certificates**

States and municipalities can issue mortgage credit certificates (MCCs) in place of, or as part of, their authority to issue mortgage revenue bonds. MCCs enable an eligible first-time home buyer to obtain a mortgage secured by his or her principal residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments.

When calculating the borrower's DTI ratio, treat the maximum possible MCC income as an addition to the borrower's income, rather than as a reduction to the amount of the borrower's mortgage payment. Use the following calculation when determining the available income:

$$[(\text{Mortgage Amount}) \times (\text{Note Rate}) \times (\text{MCC \%})] \div 12 = \text{Amount added to borrower's monthly income.}$$

For example, if a borrower obtains a \$100,000 mortgage that has a note rate of 7.5% and he or she is eligible for a 20% credit under the MCC program, the amount that should be added to his or her monthly income would be \$125 ( $\$100,000 \times 7.5\% \times 20\% = \$1500 \div 12 = \$125$ ).

The lender must obtain a copy of the MCC and the lender's documented calculation of the adjustment to the borrower's income and include them in the mortgage loan file.

For refinance transactions, the lender may allow the MCC to remain in place as long as it obtains confirmation prior to loan closing from the MCC provider that the MCC remains in effect for the new mortgage loan. Copies of the MCC documents, including the reissue certification, must be maintained in the new mortgage loan file.

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**Note:** Because the MCC is transaction specific, it does not have to comply with the Allowable Age of Credit Documents policy (see [B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns](#), for additional information).

---

### **Mortgage Differential Payments Income**

An employer may subsidize an employee's mortgage payments by paying all or part of the interest differential between the employee's present and proposed mortgage payments.

When calculating the qualifying ratio, the differential payments should be added to the borrower's gross income.

The payments may not be used to directly offset the mortgage payment, even if the employer pays them to the mortgage lender rather than to the borrower.

The following table provides verification requirements for mortgage differential payment income.

| ✓ | <b>Verification of Income From Mortgage Differential Payments</b>   |
|---|---|
|   | Obtain written verification from the borrower's employer confirming the subsidy and stating the amount and duration of the payments.  |
|   | Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application.<br><br>If this income is used on a purchase transaction, current receipt is not required to be documented except as verified in the employer letter. For refinance transactions where the income is continuing with the new loan, the recent receipt must be in compliance with the Allowable Age of Credit Documents policy (see <a href="#">B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns</a> , for additional information). |

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### **Non-Occupant Borrower Income**

DU will consider a non-occupant borrower's income as qualifying income for a principal residence with certain LTV ratio limitations.

For manually underwritten loans, the income from a non-occupant borrower may be considered as acceptable qualifying income. This income can offset certain weaknesses that may be in the occupant borrower's loan application, such as limited income, financial reserves, or limited credit history. However, it may not be used to offset significant or recent instances of major derogatory credit in the occupant borrower's credit history. The occupant borrower

must still reasonably demonstrate a willingness to make the mortgage payments and maintain homeownership. If the income from a non-occupant borrower is used for qualifying, the LTV ratios are limited.

See [B2-2-04, Guarantors, Co-Signers, or Non-Occupant Borrowers](#), for information about the maximum LTV, CLTV, and HCLTV ratios that apply when non-occupant borrower income is used for qualifying purposes for both DU and manually underwritten loans.

### Notes Receivable Income

The following table provides verification requirements for notes receivable income.

| ✓ | <b>Verification of Income From Notes Receivable</b>   |
|---|---|
|   | Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application.  |
|   | Obtain a copy of the note to establish the amount and length of payment.  |
|   | Document regular receipt of income for the most recent 12 months.<br><br>Payments on a note executed within the past 12 months, regardless of the duration, may not be used as stable income. |

### Public Assistance Income

The following table provides verification requirements for public assistance income.

| ✓ | <b>Verification of Public Assistance Income</b>   |
|---|---|
|   | Document the borrower's receipt of public assistance income with letters or exhibits from the paying agency that state the amount, frequency, and duration of the benefit payments. |
|   | Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application.  |

The Housing Choice Voucher Program (more commonly known as Section 8) is also an acceptable source of qualifying income. There is no requirement for the Section 8 voucher payments to have been received for any period of time prior to the date of the mortgage application or for the payments to continue for any period of time from the date of the mortgage application.

| ✓ | <b>Verification of Section 8 Payment Vouchers</b>  |
|---|--|
|   | Determine from the public agency that issues the vouchers the monthly payment amount and whether the income is nontaxable. |

| ✓ | <b>Verification of Section 8 Payment Vouchers</b>  |
|---|--|
|   | If the income is nontaxable, the lender can develop an adjusted gross income for the borrower. See <a href="#">B3-3.1-01, General Income Information</a> , for additional information. |

### **Retirement, Government Annuity, and Pension Income**

The following table provides verification requirements for retirement and pension income.

| ✓ | <b>Verification of Retirement and Pension Income</b>  |
|---|---|
|   | <p>Document regular and continued receipt of the income, as verified by</p> <ul style="list-style-type: none"> <li>• letters from the organizations providing the income,</li> <li>• copies of retirement award letters,</li> <li>• copies of signed federal income tax returns,</li> <li>• IRS W-2 or 1099 forms, or</li> <li>• proof of current receipt.</li> </ul>   |
|   | <p>If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three years after the date of the mortgage application. In addition</p> <ul style="list-style-type: none"> <li>• the borrower must have unrestricted access without penalty to the accounts; and</li> <li>• if the assets are in the form of stocks, bonds, or mutual funds, 70% of the value (remaining after any applicable costs for the subject transaction) must be used to determine the number of distributions remaining to account for the volatile nature of these assets.</li> </ul> <p>Documentation of asset ownership must be in compliance with the Allowable Age of Credit Documents policy (see <a href="#">B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns</a>, for additional information).</p> |

If a borrower's retirement, annuity, or pension income is validated by the DU validation service, DU will issue a message indicating the required documentation. This documentation may differ from the requirements described above. See [B3-2-02, DU Validation Service](#).

### **Royalty Payment Income**

The following table provides verification requirements for royalty income.

| ✓ | <b>Verification of Income From Royalty Payments</b>   |
|---|---|
|   | Obtain copies of the <ul style="list-style-type: none"> <li>• royalty contract, agreement, or statement confirming amount, frequency, and duration of the income; and</li> <li>• borrower’s most recent signed federal income tax return, including the related IRS Form 1040, Schedule E.</li> </ul> |
|   | Confirm that the borrower has received royalty payments for at least 12 months and that the payments will continue for a minimum of three years after the date of the mortgage application.   |

Refer to the Variable Income section of [B3-3.1-01, General Income Information](#), for additional information.

### Schedule K-1 Income

For borrowers who have less than 25% ownership of a partnership, S corporation, or limited liability company (LLC), ordinary income, net rental real estate income, and other net rental income reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1 may be used in qualifying the borrower provided the lender can confirm the business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.

The following table provides verification of income requirements for Schedule K-1 borrowers with less than 25% ownership of a partnership, an S corporation, or an LLC.

| ✓ | <b>Verification of Schedule K-1 Income</b>   |
|---|--|
|   | If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to the income or adequate business liquidity is required. The Schedule K-1 income may then be included in the borrower’s cash flow.                                      |
|   | If the Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then the lender must confirm the business has adequate liquidity to support the withdrawal of earnings. The lender may use discretion in the method used to confirm the business has adequate liquidity. |
|   | If the borrower has a two-year history of receiving “guaranteed payments to the partner” from a partnership or an LLC, these payments can be added to the borrower’s cash flow.  |



| ✓ | <b>Verification of Schedule K-1 Income</b>   |
|---|--|
|   | <p><b>Note:</b> An exception to the two-year requirement of receiving “guaranteed payments to the partner” is if a borrower has recently acquired nominal ownership in a professional services partnership (for example, a medical practice or a law firm) after having an established employment history with the partnership. In this situation, the lender may rely on the borrower’s guaranteed compensation. This must be evidenced by the borrower’s partnership agreement and further supported by evidence of current year-to-date income.</p> |

### Documentation Requirements

The borrower must provide the most recent two years of signed individual federal income tax returns and the most recent two years of IRS Schedule K-1.

### Social Security Income

The following table provides verification requirements for Social Security income.

| ✓ | <b>Verification of Social Security Income</b>   |
|---|---|
|   | <p>Social Security income for retirement or long-term disability that the borrower is drawing from his or her own account/work record will not have a defined expiration date and must be expected to continue.</p> <p>However, if Social Security benefits are being paid as a benefit for a family member of the benefit owner, that income may be used in qualifying if the lender obtains documentation that confirms the remaining term is at least three years from the date of the mortgage application.</p> |
|   | <p>Document regular receipt of payments, as verified by the following, depending on the type of benefit and the relationship of the beneficiary (self or other) as shown in the table below.</p>  |

| <b>Documentation Requirements</b>      |  |   |
|--|--|---|
| <b>Type of Social Security benefit</b> | <b>Borrower is drawing Social Security benefits from own account/work record<sup>a</sup></b>               | <b>Borrower is drawing Social Security benefits from another person’s account/work record<sup>aa, b</sup></b>         |
| Retirement                             | <ul style="list-style-type: none"> <li>• Social Security Administrator’s (SSA) Award letter, or</li> </ul> | <ul style="list-style-type: none"> <li>• SSA Award letter,</li> <li>• Proof of current receipt, <b>AND</b></li> </ul> |
| Disability                             |  |   |

| Documentation Requirements       |   |  |
|----------------------------------|---|--|
|                                  | <ul style="list-style-type: none"> <li>• Proof of current receipt</li> </ul>                                  | <ul style="list-style-type: none"> <li>• Three-year continuance (e.g., verification of beneficiary's age)</li> </ul> |
| Survivor Benefits                | NA  |  |
| Supplement Security Income (SSI) | <ul style="list-style-type: none"> <li>• SSA Award letter, and</li> <li>• Proof of current receipt</li> </ul> | NA   |

<sup>a</sup>An SSA Award letter may be used to document the income if the borrower is receiving Social Security payments or if the borrower will begin receiving payments on or before the first payment date of the subject mortgage as confirmed by a recently issued award letter.

<sup>b</sup>Examples of how a borrower might draw Social Security benefits from another person's account/work record and use the income for qualifying:

- A borrower may be eligible for benefits from a spouse, ex-spouse, or dependent parents (the benefit is paid to the borrower on behalf of the spouse, etc.); or
- A borrower may use Social Security income received by a dependent (a minor or disabled dependent).

If a borrower's Social Security income is validated by the DU validation service, DU will issue a message indicating the required documentation. This documentation may differ from the requirements described above. See [B3-2-02, DU Validation Service](#).

### Temporary Leave Income

Temporary leave from work is generally short in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or the borrower's employer. Borrowers on temporary leave may or may not be paid during their absence from work.

If a lender is made aware that a borrower will be on temporary leave at the time of closing of the mortgage loan and that borrower's income is needed to qualify for the loan, the lender must determine allowable income and confirm employment as described below.

| ✓ | Temporary Leave — Employment Requirements  |
|---|--|
|   | The borrower's employment and income history must meet standard eligibility requirements as described in Section B3–3.1, Employment and Other Sources of Income.   |
|   | The borrower must provide written confirmation of his or her intent to return to work.   |
|   | The lender must document the borrower's agreed-upon date of return by obtaining, either from the borrower or directly from the employer (or a designee of the employer when the employer is using the services of a third party to administer employee leave), documentation evidencing such date that has been produced by the employer or by a designee of the employer. |

|  |  |
|--|--|
|  | Examples of the documentation may include, but are not limited to, previous correspondence from the employer or designee that specifies the duration of leave or expected return date or a computer printout from an employer or designee’s system of record. (This documentation does not have to comply with the Allowable Age of Credit Documents policy.)  |
|  | The lender must receive 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.   |
|  | The lender must obtain a verbal verification of employment in accordance with <a href="#">B3-3.1-07, Verbal Verification of Employment</a> . If the employer confirms the borrower is currently on temporary leave, the lender must consider the borrower employed.  |
|  | <p>The lender must verify the borrower's income in accordance with Section B3–3.1, Employment and Other Sources of Income. The lender must obtain</p> <ul style="list-style-type: none"> <li>• the amount and duration of the borrower's “temporary leave income,” which may require multiple documents or sources depending on the type and duration of the leave period; and</li> <li>• the amount of the “regular employment income” the borrower received prior to the temporary leave. Regular employment income includes, but is not limited to, the income the borrower receives from employment on a regular basis that is eligible for qualifying purposes (for example, base pay, commissions, and bonus).</li> </ul> <p><b>Note:</b> Income verification may be provided by the borrower, by the borrower's employer, or by a third-party employment verification vendor.</p> |

### Requirements for Calculating Income Used for Qualifying

If the borrower **will** return to work as of the first mortgage payment date, the lender can consider the borrower's regular employment income in qualifying.

If the borrower will **not** return to work as of the first mortgage payment date, the lender must use the lesser of the borrower's temporary leave income (if any) or regular employment income. If the borrower's temporary leave income is less than his or her regular employment income, the lender may supplement the temporary leave income with available liquid financial reserves (see [B3-4.1-01, Minimum Reserve Requirements](#)). Following are instructions on how to calculate the “supplemental income”:

$$\text{Supplemental income amount} = \frac{\text{available liquid reserves}}{\text{number of months of supplemental income}}$$

- *Available liquid reserves*: subtract any funds needed to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount.
- *Number of months of supplemental income*: the number of months from the first mortgage payment date to the date the borrower will begin receiving his or her regular employment income, rounded up to the next whole number.

After determining the supplemental income, the lender must calculate the total qualifying income.

**Total qualifying income = supplemental income plus the temporary leave income**

The total qualifying income that results may not exceed the borrower's regular employment income.

### **Example**

Regular income amount: \$6,000 per month

Temporary leave income: \$2,000 per month

Total verified liquid assets: \$30,000

Funds needed to complete the transaction: \$18,000

Available liquid reserves: \$12,000

First payment date: July 1

Date borrower will begin receiving regular employment income: November 1

Supplemental income:  $\$12,000/4 = \$3,000$

Total qualifying income:  $\$3,000 + \$2,000 = \$5,000$

For loan casefiles underwritten with DU, refer to [B3-3.3-01, Income and Employment Documentation for DU](#), for data entry guidance.

**Note:** These requirements apply if the lender becomes aware through the employment and income verification process that the borrower is on temporary leave. If a borrower

is not currently on temporary leave, the lender must not ask if he or she intends to take leave in the future.

### Tip Income

The following table provides verification requirements for tip income.

| ✓ | Verification of Tip Income  |
|---|---|
|   | <p>Obtain the following documents:</p> <ul style="list-style-type: none"> <li>• a completed <i>Request for Verification of Employment</i> (<a href="#">Form 1005</a> or <a href="#">Form 1005(S)</a>), or</li> <li>• the borrower’s recent paystub, and</li> <li>• IRS W-2 forms covering the most recent two-year period or the most recent two years tax returns with IRS Form 4137, Social Security and Medicare Tax on Unreported Tip Income, to verify tips not reported by the employer.</li> </ul> <p>See <a href="#">B3-3.1-02, Standards for Employment Documentation</a>, for additional information.</p> |
|   | <p>Tip income may be used to qualify the borrower if the lender verifies that the borrower has received it for the last two years.</p>  |
|   | <p>The lender must determine the amount of tip income that may be considered in qualifying the borrower. Refer to the Variable Income section of <a href="#">B3-3.1-01, General Income Information</a>, for additional information.</p>   |

Tip income must be entered in DU in the Other Monthly Income section of the loan application as “Other Types of Income” and verified according to these requirements.

### Trust Income

The following table provides verification requirements for trust income.

| ✓ | Verification of Trust Income  |
|---|---|
|   | <p>Confirm the trust income by obtaining a copy of the trust agreement or the trustee’s statement confirming the amount, frequency, and duration of payments.</p> |
|   | <p>Verify that the trust income will continue for at least three years from the date of the mortgage application.</p>   |

| ✓ | <b>Verification of Trust Income</b>   |
|---|---|
|   | Unless this income is received monthly, documentation of current receipt of the income is not required to comply with the Allowable Age of Credit Documents policy. |

### Unemployment Benefits Income

The following table provides verification requirements for income from unemployment benefits, such as those received by seasonal workers.

| ✓ | <b>Verification of Income From Unemployment Benefits</b>   |
|---|--|
|   | Document that the borrower has received the payments consistently for at least two years by obtaining copies of signed federal income tax returns.   |
|   | Unemployment compensation cannot be used to qualify the borrower unless it is clearly associated with seasonal employment that is reported on the borrower's signed federal income tax returns. Verify that the seasonal income is likely to continue. See <a href="#">B3-3.1-05, Secondary Employment Income (Second Job and Multiple Jobs) and Seasonal Income</a> , for additional information about verifying seasonal income. |

**Note:** Unemployment compensation may be used in qualifying a borrower for a DU Refi Plus or Refi Plus mortgage loan whether it is seasonal or non-seasonal. See [B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations](#), for income documentation requirements.

### VA Benefits Income

The following table provides verification requirements for income from VA benefits.

**Note:** Education benefits are not acceptable income because they are offset by education expenses.

| ✓ | <b>Verification of VA Benefits Income</b>   |
|---|---|
|   | Document the borrower's receipt of VA benefits with a letter or distribution form from the VA.  |
|   | Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application. (Verification is not required for VA retirement or long-term disability benefits.) |

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016   |
| <a href="#">Announcement SEL-2016-05</a> | June 28, 2016      |
| <a href="#">Announcement SEL-2016-05</a> | June 28, 2016      |
| <a href="#">Announcement SEL-2016-04</a> | May 31, 2016       |
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2015-09</a> | August 25, 2015    |
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015      |
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015   |
| <a href="#">Announcement SEL-2014-12</a> | September 30, 2014 |
| <a href="#">Announcement SEL-2014-06</a> | May 27, 2014       |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2013-04</a> | May 28, 2013       |
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012  |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">DU Version 9.0</a>           | July 24, 2012      |
| <a href="#">Announcement SEL-2012-04</a> | May 15, 2012       |
| <a href="#">Announcement SEL-2011-13</a> | December 20, 2011  |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010   |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| DU Version 8.2                           | September 20, 2010 |
| Announcement 09-19                       | June 8, 2009       |

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## Section B3-3.2, Self-Employment Income



### **B3-3.2-01, Underwriting Factors and Documentation for a Self-Employed Borrower (10/24/2016)**

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#### **Introduction**

This topic contains general information on underwriting factors and documentation for a self-employed borrower, including:

- [Overview](#)
  - [Factors to Consider for a Self-Employed Borrower](#)
  - [Length of Self-Employment](#)
  - [Verification of Income](#)
  - [Analysis of Borrower's Personal Income](#)
  - [Analysis of Borrower's Business Income](#)
  - [Use of Business Assets](#)
  - [Income Verification for Self-Employed Co-Borrowers](#)
  - [Verbal Verification of Employment](#)
- 

#### **Overview**

When determining the appropriate qualifying income for a self-employed borrower, it is important to note that business income (specifically from a partnership or S corporation) reported on an individual IRS Form 1040 may not necessarily represent income that has actually been distributed to the borrower. The fundamental exercise, when conducting a self-employment income cash flow analysis, is to determine the amount of income that can be relied on by the borrower in qualifying for their personal mortgage obligation. When underwriting these borrowers, it is important to review business income distributions that have been made or could be made to these borrowers while maintaining the viability of the underlying business. This analysis includes assessing the stability of business income and the ability of the business to continue to generate sufficient income to enable these borrowers to meet their financial obligations.

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#### **Factors to Consider for a Self-Employed Borrower**

Any individual who has a 25% or greater ownership interest in a business is considered to be self-employed.

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The following factors must be analyzed before approving a mortgage for a self-employed borrower:

- the stability of the borrower's income,
  - the location and nature of the borrower's business,
  - the demand for the product or service offered by the business,
  - the financial strength of the business, and
  - the ability of the business to continue generating and distributing sufficient income to enable the borrower to make the payments on the requested mortgage.
- 

### **Length of Self-Employment**

Fannie Mae generally requires 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.

However, a person who has a shorter history of self-employment — 12 to 24 months — may be considered, as long as the borrower's most recent signed federal income tax returns reflect the receipt of such income as the same (or greater) level in a field that provides the same products or services as the current business or in an occupation in which he or she had similar responsibilities to those undertaken in connection with the current business. In such cases, the lender must give careful consideration to the nature of the borrower's level of experience, and the amount of debt the business has acquired.

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### **Verification of Income**

The lender may verify a self-employed borrower's employment and income by obtaining from the borrower copies of his or her signed federal income tax returns (both individual returns and in some cases, business returns) that were filed with the IRS for the past two years (with all applicable schedules attached).

Alternatively, the lender may use IRS-issued transcripts of the borrower's individual and business federal income tax returns that were filed with the IRS for the most recent two years —as long as the information provided is complete and legible and the transcripts include the information from all of the applicable schedules. (See [B3-3.1-06, Requirements and Uses of IRS Form 4506-T.](#))

When two years of signed individual federal tax returns are provided, the lender may waive the requirement for business tax returns if:

- the borrower is using his or her own personal funds to pay the down payment and closing costs and satisfy applicable reserve requirements,
- the borrower has been self-employed in the same business for at least five years, and
- the borrower's individual tax returns show an increase in self-employment income over the past two years.

For certain loan casefiles DU will issue a message permitting only one year of personal and business tax returns, provided lenders document the income by:

- obtaining signed individual and business federal income tax returns for the most recent year,
  - confirming the tax returns reflect at least 12 months of self-employment income, and
  - completing Fannie Mae's *Cash Flow Analysis* ([Form 1084](#)) or any other type of cash flow analysis form that applies the same principles.
- 

### **Analysis of Borrower's Personal Income**

The lender must prepare a written evaluation of its analysis of a self-employed borrower's personal income, including the business income or loss, reported on the borrower's individual income tax returns. The purpose of this written analysis is to determine the amount of stable and continuous income that will be available to the borrower. This is not required when a borrower is qualified using only income that is not derived from self-employment and self-employment is a secondary and separate source of income (or loss). Examples of income not derived from self-employment include salary and retirement income.

The lender may use Form 1084 or any other type of cash flow analysis that applies the same principles as Fannie Mae's form.

A copy of the written analysis must be included as part of any loan application package that the lender submits to Fannie Mae for a mortgage that is selected for a post-purchase quality control review.

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### **Analysis of Borrower's Business Income**

When a borrower is relying upon self-employed income to qualify for a mortgage and the requirements that permit the lender to waive business tax returns are not met, the lender must prepare a written evaluation of its analysis of the borrower's business income. The lender must evaluate the borrower's business through its knowledge of other businesses in the same industry

to confirm the stability of the borrower's business income and estimate the potential for long-term earnings.

The purpose of this analysis is to:

- consider the recurring nature of the business income, including identification of pass-through income that may require additional evaluation;
- measure year-to-year trends for gross income, expenses, and taxable income for the business;
- determine (on a yearly or interim basis) the percentage of gross income attributed to expenses and taxable income; and
- determine a trend for the business based on the change in these percentages over time.

The lender may use Fannie Mae's *Comparative Income Analysis* ([Form 1088](#)) or any other method of trend analysis that enables it to determine a business's viability, as long as the method used fairly presents the viability of the business and results in a degree of accuracy and a conclusion that is comparable to that which would be reached by use of Form 1088.

A copy of the written analysis and conclusions must be retained in the individual mortgage file.

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### **Use of Business Assets**

When a borrower intends to use business assets as funds for the down payment, closing costs, and/or financial reserves, the lender must perform a business cash flow analysis to confirm that the withdrawal of funds for this transaction will not have a negative impact on the business. In order to assess the impact, the lender may require a level of documentation greater than what is required to evaluate the borrower's business income (for example, several months of recent business asset statements in order to see cash flow needs and trends over time, or a current balance sheet). This may be due to the amount of time that has elapsed since the most recent tax return filing, or the lender's need for information to perform its analysis. See [B3-4.2-02, Depository Accounts](#), for additional information on business assets.

---

### **Income Verification for Self-Employed Co-Borrowers**

When co-borrower income that is derived from self-employment is not being used for qualifying purposes, the lender is not required to document or evaluate the co-borrower's self-employment income (or loss). Any business debt on which the borrower is personally obligated must be included in the total monthly obligations when calculating the debt-to-income ratio.

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## Verbal Verification of Employment

For requirements regarding verbal VOEs, see [B3-3.1-07, Verbal Verification of Employment](#).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016   |
| <a href="#">Announcement SEL-2016-05</a> | June 28, 2016      |
| <a href="#">Announcement SEL-2015-09</a> | August 25, 2015    |
| <a href="#">Announcement SEL-2014-16</a> | December 16, 2014  |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013      |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">Announcement SEL-2010-02</a> | March 2, 2010      |
| <a href="#">Announcement 09-19</a>       | June 8, 2009       |

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## B3-3.2-02, Business Structures (12/16/2014)

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### Introduction

This topic contains information on various types of business structures, including:

- [Overview](#)
  - [Sole Proprietorships](#)
  - [Partnerships](#)
  - [Limited Liability Companies](#)
  - [S Corporations](#)
  - [Corporations](#)
- 

### Overview

The legal structure of a business determines the following:

- 
- the way business income or loss is reported to the IRS,
  - the taxes that are paid,
  - the ability of the business to accumulate capital, and
  - the extent of the owner's liability.

There are five principal business structures: sole proprietorships, partnerships, limited liability companies (LLCs), S corporations, and corporations. Knowledge of the structure of a self-employed borrower's business will assist the lender in analyzing and evaluating the stability of the business and the degree of the borrower's involvement.

**Note:** Refer to [B3-3.2-03, IRS Forms Quick Reference](#), for a summary of the IRS forms referenced in this section and their full titles.

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### **Sole Proprietorships**

A sole proprietorship is an unincorporated business that is individually owned and managed. The individual owner has unlimited personal liability for all debts of the business. If the business fails, the borrower not only will have to replace his or her lost income, but also will be expected to satisfy the outstanding obligations of the business. Since no distinction is made between the owner's personal assets and the assets used in the business, creditors may take either (or both) to satisfy the borrower's business obligations.

The financial success or failure of this type of business depends solely on the owner's ability to obtain capital and to manage the various aspects of the business. Poor management skills or an inability to secure capital to keep the business running will compromise the continuance of the borrower's business (and income). The owner's death terminates the business and may cause the assets to be placed into probate, thus delaying the disposition of the assets to creditors and heirs.

The income, expenses, and taxable profits of a sole proprietorship are reported on the owner's IRS Form 1040, Schedule C, and are taxed at the tax rates that apply to individuals. (See [B3-3.2.1-04, Income or Loss Reported on IRS Form 1040, Schedule C.](#))

When evaluating a sole proprietorship, the lender must:

- review the owner's most recent signed federal income tax returns to ensure that there is sufficient and stable cash flow to support both the business and the payments for the requested mortgage, and
- determine whether the business can accommodate the withdrawal of assets or revenues should the borrower need them to pay the mortgage payment and/or other personal expenses.

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## Partnerships

A partnership is an arrangement between two or more individuals who have pooled their assets and skills to form a business and who will share profits and losses according to predetermined proportions that are set out in the partnership agreement. A partnership may be either a general partnership or a limited partnership:

- **General Partnership** — Under a general partnership, each partner has responsibility for running the business, is personally liable for the debts of the entire business, and is responsible for the actions of every other partner (unless otherwise specified in the partnership agreement). A general partnership is dissolved immediately on the death, withdrawal, or insolvency of any of the partners, although the personal liability to partnership creditors exists even after the partnership is dissolved. However, the partnership's assets will first be applied to the creditors of the business and the partners' individual assets will be first be applied to their personal creditors, with any surplus in a partner's personal assets then being applied to the remaining business creditors.
- **Limited Partnership** — Under a limited partnership, a limited partner has limited liability based on the amount he or she invested in the partnership, does not typically participate in the management and operation of the business, and has limited decision-making ability. A limited partnership will have at least one general partner who manages the business and is personally liable for the debts of the entire business. A limited partner's death, withdrawal, or insolvency does not dissolve the partnership. Because limited partnerships often are formed as tax shelters, it is more likely that IRS Form 1065, Schedule K-1, will reflect a loss instead of income. In such cases, the borrower's ability to deduct the loss will be limited by the "at risk" amount of his or her limited partnership interest (and will probably be subject to passive loss limitations).

The partnership must report its profit or loss on IRS Form 1065 and each partner's share of the profit or loss on IRS Form 1065, Schedule K-1; however, the partnership pays no tax on the partnership income.

Each partner uses the information from IRS Form 1065, Schedule K-1, to report his or her share of the partnership's net profit or loss (and special deductions and credits) on his or her IRS Form 1040—whether or not the partner receives a cash distribution from the partnership. Individual partners pay taxes on their proportionate share of the net partnership income at their individual tax rates.

To quantify the level of the borrower's financial risk, the lender must:

- determine whether the borrower has guaranteed any loans obtained by the partnership (other than loans that are considered as nonrecourse debt or qualified nonrecourse debt),

- determine if the borrower received a distribution from the partnership, and
- determine the borrower's share of non-cash expenses that can be added back to the cash flow of the partnership business.

For additional information, see the following:

- [B3-3.2.1-08, Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1](#)
- [B3-3.2.2-01, Analyzing Partnership Returns for a Partnership or LLC](#)

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### Limited Liability Companies

A limited liability company (LLC) is a hybrid business structure that is designed to offer its member-owners the tax efficiencies of a partnership and the limited liability advantages of a corporation. The member-owners of the LLC (or their assigned managers) can sign contracts, sell assets, and make other important business decisions. The LLC operating agreement may set out specific divisions of power among the member-owners (or managers). Although the member-owners generally have limited liability, there may be some instances in which they are required to personally guarantee some of the loans that the LLC obtains. Profits from the operation of the LLC may be distributed beyond the pool of member-owners, such as by offering profit distributions to managers.

The LLC may report its profit or loss on IRS Form 1065 or IRS Form 1120S with each member-owner's share of the profit or loss on Schedule K-1, IRS Form 1065 or IRS Form 1120S; however, the LLC pays no tax on its income. Each member-owner uses the information from Schedule K-1 to report his or her share of the LLC's net profit or loss (and special deductions and credits) on his or her individual IRS Form 1040, whether or not the member-owner receives a cash distribution from the LLC. Individual member-owners pay taxes on their proportionate share of the LLC's net income at their individual tax rates.

The lender must evaluate the LLC using IRS Form 1065 or IRS Form 1120S along with the Schedule K-1, as applicable, to determine the following:

- whether the borrower actually received a cash distribution from the LLC, since profits may or may not be distributed to the individual member-owners; and
- whether the borrower has guaranteed any loans obtained by the LLC (other than loans that are considered as nonrecourse debt or qualified nonrecourse debt).

For additional information, see the following:

- [B3-3.2.1-08, Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1](#)

- 
- [B3-3.2.2-01, Analyzing Partnership Returns for a Partnership or LLC](#)
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## **S Corporations**

An S corporation is a legal entity that has a limited number of stockholders and elects not to be taxed as a regular corporation. Business gains and losses are passed on to the stockholders. An S corporation has many of the characteristics of a partnership. Stockholders are taxed at their individual tax rates for their proportionate share of ordinary income, capital gains, and other taxable items.

The ordinary income for an S corporation is reported on IRS Form 1120S, with each shareholder's share of the income reported on IRS Form 1120S, Schedule K-1.

Because this income from the distribution of corporate earnings may or may not be distributed to the individual shareholders, the lender must determine if the borrower received a cash distribution from the S corporation.

The cash flow of an S corporation is otherwise evaluated similarly to that of a regular corporation.

For additional information, see the following:

- [B3-3.2.1-08, Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1](#)
  - [B3-3.2.2-02, Analyzing Returns for an S Corporation](#)
- 

## **Corporations**

A corporation is a state-chartered legal entity that exists separately and distinctly from its owners (who are called stockholders or shareholders). It is the most flexible form of business organization for purposes of obtaining capital. A corporation can sue; be sued; hold, convey, or receive property; enter into contracts under its own name; and does not dissolve when its ownership changes. There are two types of corporations—publicly owned (widely held) corporations and privately owned (closely held) corporations. Because more than 50% of the outstanding stock of a privately owned corporation is owned directly or indirectly by no more than five people, the corporation has little or no access to public funds and must raise capital through institutional financing.

Although legal control of the corporation rests with its stockholders, they typically are not responsible for the day-to-day operations of the business since they elect a board of directors to manage the corporation and delegate responsibility for the day-to-day operations to the directors



and officers of the company. The distribution of profits earned by the business is determined by the corporation's board of directors or other entities that have a significant financial interest in the business. However, the profits usually are filtered down to the owners in the form of dividends. Since a stockholder is not personally liable for the debts of the corporation, losses are limited to his or her individual investment in the corporation's stock.

Corporations must report income and losses on IRS Form 1120 and pay taxes on the net income. The corporation distributes profits to its shareholders in the form of dividends, which it reports on IRS Form 1099-DIV. The shareholders must then report the dividends as income on their individual IRS Form 1040.

For additional information, see:

- [B3-3.2.1-08, Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1](#)
- [B3-3.2.2-03, Analyzing Returns for a Corporation](#)

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcement                             | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2014-16</a> | December 16, 2014 |
| <a href="#">Announcement SEL-2010-02</a> | March 2, 2010     |



## B3-3.2-03, IRS Forms Quick Reference (09/30/2014)

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### Introduction

This topic provides information on IRS tax forms.

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### IRS Forms Quick Reference

The following table lists the IRS forms referenced in this section and provides the full titles.

| IRS Form Number | Title   |
|-----------------|---|
| Form 990        | <i>Return of Organization Exempt From Income Tax Form</i> |

| <b>IRS Form Number</b>    | <b>Title</b>   |
|---------------------------|--|
| Form 1040                 | <i>U.S. Individual Income Tax Return</i>   |
| Form 1040, Schedule B     | <i>Interest and Ordinary Dividends</i>   |
| Form 1040, Schedule C     | <i>Profit or Loss from Business (Sole Proprietorship)</i>                          |
| Form 1040, Schedule D     | <i>Capital Gains and Losses</i>  |
| Form 1040, Schedule E     | <i>Supplemental Income and Loss</i>  |
| Form 1040, Schedule F     | <i>Profit or Loss From Farming</i>   |
| Form 1065                 | <i>U.S. Return of Partnership Income</i>   |
| Form 1065, Schedule K-1   | <i>Partner's Share of Income, Deductions, Credits, etc.</i>                        |
| Form 1099-A               | <i>Acquisition or Abandonment of Secured Property</i>                              |
| Form 1099-C               | <i>Cancellation of Debt</i>  |
| Form 1099-DIV             | <i>Dividends and Distributions</i>   |
| Form 1099-MISC            | <i>Miscellaneous Income</i>  |
| Form 1120                 | <i>U.S. Corporation Income Tax Return</i>  |
| Form 1120-S               | <i>U.S. Income Tax Return for an S Corporation</i>                                 |
| Form 1120-S, Schedule K-1 | <i>Shareholder's Share of Income, Deductions, Credits, etc.</i>                    |
| Form 2106                 | <i>Employee Business Expenses</i>  |
| Form 4506-T               | <i>Request for Transcript of Tax Return</i>  |
| Form 4506                 | <i>Request for Copy of Tax Return</i>  |
| Form 4797                 | <i>Sales of Business Property</i>  |
| Form 6252                 | <i>Installment Sale Income</i>   |
| Form 8821                 | <i>Tax Information Authorization</i>   |
| Form 8825                 | <i>Rental Real Estate Income and Expenses of a Partnership or an S Corporation</i> |
| Form W-4                  | <i>Employee's Withholding Allowance Certificate</i>                                |

### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2014-12</a> | September 30, 2014 |



## Section B3-3.2.1, Documentation Requirements for an Individual



### **B3-3.2.1-01, General Information on Analyzing Individual Tax Returns (08/25/2015)**

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#### **Introduction**

This topic contains general information on analyzing individual tax returns, including:

- [Analyzing Individual Tax Returns](#)
  - [Adjusted Gross Income Approach](#)
- 

#### **Analyzing Individual Tax Returns**

In analyzing a self-employed borrower's personal income, the lender should focus on earnings trends and the actual sources of the income, not just on the total amount of the income. The lender must confirm the stability and likelihood of continuance for each source of income that the borrower reports on his or her IRS Form 1040. The lender should not include any income that does not appear to be stable or likely to continue. The lender should, however, consider all recurring income that the borrower can expect to continue receiving over time.

Income may be considered as recurring if the loan application package does not include any specific indication of an upcoming change in the borrower's employment or income, the borrower's employment history has no gaps or other significant fluctuations in income, and any income received under a contractual agreement (other than an "at will" contract) will continue to be received for at least three years.

Examples of recurring income include:

- regular salaries or wages,
- bonus or commission income that has been received on a consistent basis,
- interest income from long-term investments that are not being liquidated in connection with the mortgage transaction, and

- earnings from the operation of the borrower’s business.

Any nonrecurring loss (such as an extraordinary one-time expense) should not be included in the cash flow analysis; therefore, in developing the borrower’s qualifying income, the lender should adjust the borrower’s cash flow by the amount of any nonrecurring loss.

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### **Adjusted Gross Income Approach**

IRS Form 1040 permits a taxpayer to adjust his or her total reported income by reporting certain deductions in the “Adjusted Gross Income” section.

If a lender uses the adjusted gross income approach to its cash flow analysis, it should add back to the borrower’s cash flow all deductions in this section that represent:

- voluntary payments to savings accounts (IRA and Keogh deductions),
- deductions for taxes or health insurance plans,
- deductions for obligations that must be counted in the calculation of the borrower’s debt-to-income ratio (such as alimony or payments on student loans), and
- other nonrecurring expenses (such as moving expenses or penalties for early withdrawal of savings).

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2015-09</a> | August 25, 2015   |



## **B3-3.2.1-02, Income Reported on IRS Form 1040 (05/15/2012)**

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### **Introduction**

This topic contains information on income reported on IRS Form 1040, including:

- [Overview](#)
  - [Wages, Salary, and Tips](#)
  - [Interest and Dividend Income](#)
  - [State and Local Tax Refunds](#)
  - [Alimony Received](#)
  - [IRA Distributions, Pensions and Annuities, and Social Security Benefits](#)
  - [Unemployment Compensation](#)
  - [Other Income \(or Loss\)](#)
- 

### **Overview**

To get an accurate picture of the borrower's cash flow, the lender will need to make certain adjustments to some of the income (or loss) that the borrower reported on IRS Form 1040 since it may not be recurring income. The lender also may need to further analyze the accompanying tax schedules or supplemental tax forms.

This section describes how the lender should treat various components of the income (or loss) that a self-employed borrower reported on IRS Form 1040 in its cash flow analysis.

**Note:** Eligibility criteria for accepting income from specific non-business sources is generally the same as that for salaried or commissioned borrowers (see [B3-3.1-01, General Income Information](#)).

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### **Wages, Salary, and Tips**

If an amount is shown for wages, salary, or tips for a self-employed borrower, it may mean:

- the borrower operates as a corporation and pays himself or herself a salary or
- the borrower's spouse is employed and receives a salary (either from the borrower's business or from another employer).

If the income relates to the borrower's spouse who is employed by another company and the income will be used in qualifying for the mortgage, the spouse's income must be verified directly

with his or her employer since it may be more appropriate to use the spouse's current earnings in underwriting the mortgage. Any income that is based on current earnings or that will not be used for qualifying purposes should be deducted from the borrower's cash flow.

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### **Interest and Dividend Income**

The taxable interest and dividend income that is reported on IRS Form 1040, Schedule B, may be counted as stable income only if it has been received for the past two years. However, the income cannot be counted if the borrower is using the interest-bearing or dividend-producing asset as the source of the down payment or closing costs.

Any taxable interest or dividend income that is not recurring must be deducted from the borrower's cash flow.

Tax-exempt interest income may be counted as stable income only if it has been received for the past two years and is expected to continue. If so, this income can be added to the borrower's cash flow.

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### **State and Local Tax Refunds**

Taxable state and local tax refunds, credits, or offsets of state and local income taxes should not be used as qualifying income since the income was accounted for in the previous year's tax returns. Therefore, the borrower's cash flow must be adjusted accordingly.

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### **Alimony Received**

Alimony may be accepted as qualifying income if it meets the requirements described in [B3-3.1-09, Other Sources of Income](#). Any reported alimony received that is determined to be nonrecurring must be deducted from the borrower's total income reported on IRS Form 1040.

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### **IRA Distributions, Pensions and Annuities, and Social Security Benefits**

Income received from IRA distributions, pensions, annuities, and Social Security benefits may be accepted as qualifying income. See [B3-3.1-09, Other Sources of Income](#), for specific requirements.

The nontaxable portion of such recurring income must be added to the borrower's cash flow. The tax-exempt portion of income from these sources may be increased to reflect the tax savings, as described in [B3-3.1-01, General Income Information](#). If the income from these sources is determined to be nonrecurring, the income must be deducted from the borrower's cash flow.

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## Unemployment Compensation

Unemployment compensation may be considered as acceptable qualifying income if it meets the requirements described in [B3-3.1-09, Other Sources of Income](#). Any reported unemployment compensation that is determined to be nonrecurring must be deducted from the borrower's cash flow.

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## Other Income (or Loss)

If the borrower reported income from other sources, the lender must verify that the income is an eligible source for qualifying purposes per the requirements described in [B3-3.1-09, Other Sources of Income](#), for the applicable income source. Income that is determined to be nonrecurring or ineligible for qualifying purposes must be deducted from the borrower's cash flow. If the borrower reported any nonrecurring losses, the borrower's cash flow should be increased by the amount of the losses.

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## Related Announcements

The table below provides references to the Announcements that have been released that are related to this topic.

| Announcements                            | Issue Date   |
|--|--------------|
| <a href="#">Announcement SEL-2012-04</a> | May 15, 2012 |



## **B3-3.2.1-03, Deductions Reported on IRS Form 2106 (06/30/2015)**

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### Introduction

This topic contains information on deductions reported on IRS Form 2106, including:

- [Business Expenses](#)
- [Automobile Depreciation](#)

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### Business Expenses

When evaluating commission income that represents 25% or more of the borrower's total annual employment income, the lender must consider certain tax deductions reported on IRS Form 2106 (Employee Business Expenses) when conducting the cash flow analysis:



- Out-of-pocket, unreimbursed business expenses — These expenses must be deducted from the borrower’s income.
- Actual expenses for a leased automobile, rather than the standard mileage rate — The lender must analyze the “Actual Expenses” section of IRS Form 2106 to determine the amount of the lease payments, and make sure the lease expense is counted only once in its cash flow analysis, either as an expense on IRS Form 2106 or as a monthly obligation.

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### Automobile Depreciation

If a borrower claims a “standard mileage” deduction, the business miles driven should be multiplied by the depreciation factor for the appropriate year, and the calculated amount added to the borrower’s cash flow.

If a borrower claims an “actual depreciation expense” deduction, the amount the borrower claimed should be added to the borrower’s cash flow.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date    |
|--|---------------|
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015 |



## **B3-3.2.1-04, Income or Loss Reported on IRS Form 1040, Schedule C (04/01/2009)**

### Introduction

This topic contains information on income or loss reported on IRS Form 1040, Schedule C, including:

- [Income \(or Loss\) from a Sole Proprietorship](#)
- [Recurring vs. Non-recurring Income and Expenses](#)

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### Income (or Loss) from a Sole Proprietorship

The income (or loss) from a borrower’s sole proprietorship is calculated on IRS Form 1040, Schedule C, then transferred to IRS Form 1040.

The lender may need to make certain adjustments to the net profit or loss shown on Schedule C to arrive at the borrower's cash flow. For example, Schedule C may include income that was not obtained from the profits of the borrower's business. If the lender determines that such income is not recurring, it should adjust the borrower's cash flow by deducting the nonrecurring income.

See [B3-3.2-02, Business Structures](#), for more information on sole proprietorships.

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### **Recurring vs. Non-recurring Income and Expenses**

The lender must determine whether income is recurring or non-recurring.

Non-recurring income must be deducted in the cash flow analysis, including any exclusion for meals and entertainment expenses reported by the borrower on Schedule C.

The following recurring items claimed by the borrower on Schedule C must be added back to the cash flow analysis: depreciation, depletion, business use of a home, amortization, and casualty losses.

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### **B3-3.2.1-05, Income or Loss Reported on IRS Form 1040, Schedule D (11/13/2012)**

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#### **Introduction**

This topic contains information on income or loss reported on IRS Form 1040, Schedule D, including:

- [Overview](#)
  - [Calculating Borrower Cash Flow from Schedule D and Required Documentation](#)
- 

#### **Overview**

IRS Form 1040, Schedule D, is used to report capital gains and losses. Income received from a capital gain is generally a one-time transaction; therefore, it should not usually be considered part of the borrower's stable monthly income.

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#### **Calculating Borrower Cash Flow from Schedule D and Required Documentation**

If the income calculated on the Schedule D shows that the borrower has realized capital gains for the last two years, as may be the case when the borrower's business has a constant turnover

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of assets that produces regular gains, the recurring gains can be considered in determining the borrower's stable monthly income. In this case, the borrower must provide evidence of ownership of additional property or assets that can be sold if extra income is needed to make future mortgage payments.

The table below provides the requirements for calculating cash flow from Schedule D and the associated required documentation.

| <b>If ...</b>  | <b>Then ...</b>  |
|--|--|
| recurring capital gains relate to the sale of business property,   | lenders must obtain a copy of the applicable Sale of Business Property (IRS Form 4797) to support the recurring nature of the capital gains.   |
| Schedule D includes principal payments on an installment sales contract,   | lenders must obtain a copy of <ul style="list-style-type: none"> <li>• the Installment Sale Income (IRS Form 6252), and</li> <li>• the note or contract to verify that the borrower will continue to receive the payments for at least three years.</li> </ul> |
| the capital gain on the principal payment and interest income from an installment sales contract is determined to be nonrecurring, | the amount must be deducted from the borrower's cash flow.   |

**Note:** Capital losses identified on IRS Form 1040, Schedule D, do not have to be considered when calculating income or liabilities, even if the losses are recurring.

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012 |



## **B3-3.2.1-06, Income or Loss Reported on IRS Form 1040, Schedule E (09/30/2014)**

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### **Introduction**

This topic contains information on income or loss reported on IRS Form 1040, Schedule E, including:

- [Overview](#)
  - [Royalty Income](#)
  - [Rental Income](#)
- 

### **Overview**

Income received from rents, royalties, and distributions from partnerships, corporations, estates, trusts, etc., is calculated on IRS Form 1040, Schedule E, and transferred to IRS Form 1040.

Rather than using Schedule E for income related to distributions from partnerships, corporations, estates, and trusts, the lender should rely on Schedule K-1 (see [B3-3.2.1-08, Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1](#)).

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### **Royalty Income**

Schedule E should be used to determine the supplemental income to use for royalties. The lender must include the total amount of royalty payments received, and must document the borrower's receipt of royalty income for 12 months and the likelihood of continued receipt of such income for at least three years (see [B3-3.1-09, Other Sources of Income](#)).

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### **Rental Income**

If rental income is reported on Schedule E, only the rental income that relates to properties shown on the Schedule of Real Estate Owned on the borrower's loan application should be included.

All regular and ongoing expenses for the properties, such as maintenance, advertising, management fees, utilities, homeowners' association dues, and supply costs, should be subtracted from the borrower's cash flow.

Depending on the approach used to calculate cash flow, adjustments will need to be made for depreciation and any one-time extraordinary expenses, such as the costs of repairing damage that resulted from a natural disaster.

In most situations, the full amount of the mortgage payment for a rental property will be factored into the net rental income calculation, but it may also be counted as part of the liabilities that are considered in the calculation of the borrower's total debt-to-income ratio. Therefore, the lender must add back any portion of the mortgage payment, including interest, taxes, and insurance, necessary to avoid double counting of these expenses.

The lender must pay particular attention to the effect of "passive loss" limitations or prior "carryovers" related to the borrower's rental properties and, depending on the method it uses for the cash flow analysis, make any special adjustments necessary to account for them.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2014-12</a> | September 30, 2014 |



## **B3-3.2.1-07, Income or Loss Reported on IRS Form 1040, Schedule F (04/01/2009)**

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### Introduction

This topic contains information on income or loss reported on IRS Form 1040, Schedule F.

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### Income or Loss Reported on IRS Form 1040, Schedule F

Income received from farming is calculated on IRS Form 1040, Schedule F, and transferred to IRS Form 1040.

**Note:** Other income on Schedule F may represent income that is not obtained from the borrower's farming operations.

The lender may need to make certain adjustments to the net income amount that was transferred to IRS Form 1040. For example, certain federal agricultural program payments, co-op distributions, and insurance or loan proceeds are not fully taxable, so they would not be reported

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on IRS Form 1040. These income sources may or may not be stable or continuous and could be a one-time occurrence.

If the lender verifies that the net income amounts that were transferred to IRS Form 1040 are stable, consistent, and continuing, the borrower's cash flow must be adjusted by the nontaxable portion of any recurring income from these sources. Otherwise, the income must be deducted from the borrower's cash flow.

The lender can adjust the borrower's cash flow by adding the amount of any deductions the borrower claimed on Schedule F for depreciation, amortization, casualty loss, depletion, or business use of his or her home.



## **B3-3.2.1-08, Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1 (06/28/2016)**

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### **Introduction**

This topic contains information on income or loss reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1, including:

- [Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1](#)
- [Documentation Requirements](#)

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### **Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1**

The version of Schedule K-1 that is utilized to report a borrower's share of income (or loss) is based on how the business reports earnings for tax purposes:

- partnership — reported on IRS Form 1065, Schedule K-1;
- S corporation — reported on IRS Form 1120S, Schedule K-1; and
- LLC — reported on either IRS Form 1065 or IRS Form 1120S, Schedule K-1, depending on how the federal income tax returns are filed for the LLC.

The lender must use caution when including income that the borrower draws from the borrower's partnership or S corporation as qualifying income. Ordinary income, net rental real estate income, and other net rental income reported on Schedule K-1 may be included in the borrower's cash flow provided the lender can confirm that the business has adequate liquidity to support the withdrawal of earnings, as described below:

- If the borrower has a two-year history of receiving “guaranteed payments to the partner” from a partnership or an LLC, these payments can be added to the borrower’s cash flow.
- If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to the income or adequate business liquidity is required. But if the Schedule K-1 does not reflect a documented, stable history, then the lender must confirm adequate business liquidity, as discussed below.

If business tax returns are required, then the lender must consider the type of business structure and analyze the business returns, according to the requirements described in [B3-3.2-01, Underwriting Factors and Documentation for a Self-Employed Borrower](#).

The lender may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, the lender may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.

It is important that the lender select a business liquidity formula based on how the business operates. For example:

- The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.

$$\text{Quick Ratio} = (\text{current assets} - \text{inventory}) \div \text{current liabilities}$$

- The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.

$$\text{Current Ratio} = \text{current assets} \div \text{current liabilities}$$

For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.

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## Documentation Requirements

The following table describes the documentation that the borrower must provide. The borrower must select one item from each row.

| ✓ | Documentation Requirements  |
|---|---|
|   | <ul style="list-style-type: none"><li>• the most recent two years of signed individual federal income tax returns—IRS Form 1040; or</li></ul> |

| ✓ | <b>Documentation Requirements</b>  |
|---|--|
|   | <ul style="list-style-type: none"> <li>the most recent one year of signed individual federal income tax returns, if permitted by DU</li> </ul>   |
|   | <ul style="list-style-type: none"> <li>the most recent two years of IRS Schedule K-1; or</li> <li>the most recent year IRS Schedule K-1, if permitted by DU</li> </ul>   |
|   | <ul style="list-style-type: none"> <li>the most recent two years of business federal income tax returns (IRS Form 1065 or IRS Form 1120S), unless the requirements to waive business tax returns have been met; or</li> <li>the most recent one year of business federal income tax returns, if permitted by DU</li> </ul> |

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-05</a> | June 28, 2016     |
| <a href="#">Announcement SEL-2015-09</a> | August 25, 2015   |
| <a href="#">Announcement SEL-2014-16</a> | December 16, 2014 |



## Section B3-3.2.2, Documentation Requirements for a Business



### **B3-3.2.2-01, Analyzing Partnership Returns for a Partnership or LLC (06/28/2016)**

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#### **Introduction**

This topic contains information on analyzing partnership returns for a partnership or LLC, including:

- [Overview](#)
  - [Evaluating the Business Income](#)
  - [Borrower's Proportionate Share of Income or Loss](#)
  - [Adjustments to Business Cash Flow](#)
  - [Income from Partnerships, LLCs, Estates, and Trusts](#)
- 

#### **Overview**

Partnerships and some LLCs use IRS Form 1065 for filing informational federal income tax returns for the partnership or LLC. The partner's or member-owner's share of income (or loss) is carried over to IRS Form 1040, Schedule E. See [B3-3.2-02, Business Structures](#), for more information on partnerships and LLCs.

A borrower with an ownership interest in a partnership or LLC may receive income in the form of wages or other compensation from the partnership or LLC in addition to the borrower's proportionate share of income (or loss) reported on the Schedule K-1.

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#### **Evaluating the Business Income**

When the borrower has 25% or more ownership interest in the business and business tax returns are required, the lender must perform a business cash flow analysis and evaluate the overall financial position of the borrower's business to determine whether

- income is stable and consistent, and
  - sales and earnings trends are positive.
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If the business does not meet these standards, business income cannot be used to qualify the borrower.

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### **Borrower's Proportionate Share of Income or Loss**

The borrower's proportionate share of income or loss is based on the borrower's partnership percentage of Ending Capital in the business as shown on IRS Form 1065, Schedule K-1.

The lender can only consider the borrower's proportionate share of the business income or loss after making the adjustments to the business cash flow analysis discussed below.

---

### **Adjustments to Business Cash Flow**

Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and recurring.

The following items should be subtracted from the business cash flow:

- meals and entertainment exclusion,
- other reported income that is not consistent and recurring, and
- the total amount of obligations on mortgages or notes that are payable in less than one year.

These adjustments are not required for lines of credit or if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.

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### **Income from Partnerships, LLCs, Estates, and Trusts**

Income from partnerships, LLCs, estates, or trusts can only be considered if the lender obtains documentation, such as the Schedule K-1, verifying that

- the income was actually distributed to the borrower, or
- the business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.

The lender may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, the lender may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.

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It is important that the lender select a business liquidity formula based on how the business operates. For example:

- The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.

$$\text{Quick Ratio} = (\text{current assets} - \text{inventory}) \div \text{current liabilities}$$

- The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.

$$\text{Current Ratio} = \text{current assets} \div \text{current liabilities}$$

For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-05</a> | June 28, 2016     |
| <a href="#">Announcement SEL-2015-09</a> | August 25, 2015   |
| <a href="#">Announcement SEL-2014-16</a> | December 16, 2014 |



## **B3-3.2.2-02, Analyzing Returns for an S Corporation (06/28/2016)**

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### Introduction

This topic contains information on analyzing returns for an S corporation, including:

- [Overview](#)
- [Evaluating the Business Income](#)
- [Borrower's Proportionate Share of Income or Loss](#)
- [Adjustments to Business Cash Flow](#)

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## Overview

S corporations and some LLCs pass gains and losses on to their shareholders, who are then taxed at the tax rates for individuals. S corporations and some LLCs use IRS Form 1120S, Schedule K-1, for filing federal income tax returns for the corporation. The shareholder's share of income or loss is carried over to IRS Form 1040, Schedule E. See [B3-3.2-02, Business Structures](#), for more information on S corporations. A borrower with an ownership interest in an S corporation or LLC may receive income in the form of wages or dividends in addition to his or her proportionate share of business income (or loss) reported on Schedule K-1.

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## Evaluating the Business Income

When the borrower has 25% or more ownership interest in the business, the lender must perform a business cash flow analysis in order to evaluate the overall financial position of the business and confirm

- the business income is stable and consistent, and
- the sales and earnings trends are positive.

If the business does not meet these standards, business income cannot be used to qualify the borrower.

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## Borrower's Proportionate Share of Income or Loss

The borrower's proportionate share of income or loss is based on the borrower's (shareholder) percentage of stock ownership in the business for the tax year as shown on IRS Form 1120S, Schedule K-1. The cash flow analysis should consider only the borrower's proportionate share of the business income (or loss), taking into account any adjustments to the business income that are discussed below. Business income may only be used to qualify the borrower if the lender obtains documentation verifying that

- the income was actually distributed to the borrower, or
- the business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.

The lender may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, the lender may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.

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It is important that the lender select a business liquidity formula based on how the business operates. For example:

- The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.

$$\text{Quick Ratio} = (\text{current assets} - \text{inventory}) \div \text{current liabilities}$$

- The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.

$$\text{Current Ratio} = \text{current assets} \div \text{current liabilities}$$

For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.

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### Adjustments to Business Cash Flow

Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and recurring.

The following items should be subtracted from the business cash flow:

- meals and entertainment exclusion,
- other reported income that is not consistent and recurring, and
- the total amount of obligations on mortgages or notes that are payable in less than one year.

These adjustments are not required for lines of credit or if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-05</a> | June 28, 2016     |
| <a href="#">Announcement SEL-2015-09</a> | August 25, 2015   |
| <a href="#">Announcement SEL-2014-16</a> | December 16, 2014 |



## **B3-3.2.2-03, Analyzing Returns for a Corporation (04/01/2009)**

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### **Introduction**

This topic contains information on analyzing returns for corporations, including:

- [Overview](#)
  - [Corporate Fiscal Year](#)
  - [Determining the Corporation's Financial Position](#)
  - [Borrower's Share of Income or Loss](#)
  - [Adjustments to Cash Flow](#)
- 

### **Overview**

Corporations use IRS Form 1120 to report their taxes. See [B3-3.2-02, Business Structures](#), for more information on corporations.

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### **Corporate Fiscal Year**

When funds from a corporation that operates on a fiscal year that is different from the calendar year are used in qualifying a self-employed borrower, the lender must make time adjustments to relate the corporate income to the borrower's individual tax return, which is on a calendar year basis.

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### **Determining the Corporation's Financial Position**

After determining the income available to the borrower for qualifying purposes, the lender must evaluate the overall financial position of the corporation. Ordinary income from the corporation can be used to qualify the borrower only if the following requirements are met:

- the business income must be stable and consistent,
  - the sales and earnings trends must be positive, and
  - the business must have adequate liquidity to support the borrower's withdrawals of cash without having severe negative effects.
-

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### **Borrower's Share of Income or Loss**

The cash flow analysis can only consider the borrower's share of the business income or loss, taking into consideration adjustments to business income provided below. Earnings may not be used unless the borrower owns 100% of the business.

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### **Adjustments to Cash Flow**

Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, net operating losses, and other special deductions that are not consistent and recurring.

The following items should be subtracted from the business cash flow:

- meals and entertainment exclusion,
  - tax liability and amount of any dividends, and
  - the total amount of obligations on mortgages or notes that are payable in less than one year. These adjustments are not required if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.
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## **B3-3.2.2-04, Analyzing Profit and Loss Statements (04/01/2009)**

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### **Introduction**

This topic contains information on analyzing profit and loss statements.

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### **Analyzing Profit and Loss Statements**

The lender may use a profit and loss statement—audited or unaudited—for a self-employed borrower's business to support its determination of the stability or continuance of the borrower's income. A typical profit and loss statement has a format similar to IRS Form 1040, Schedule C.

A year-to-date profit and loss statement is not required for most businesses, but if the borrower's loan application is dated more than 120 days after the end of the business's tax year, the lender

may choose to require this document if it believes that it is needed to support its determination of the stability or continuance of the borrower's income.

If the lender did not count the borrower's year-to-date salary or draws in determining the borrower's qualifying income, it may add them to the net profit shown on the profit and loss statement as well as adding any of the allowable adjustments it used in analyzing the tax returns for the business, such as nonrecurring income and expenses, depreciation, and depletion.

However, only the borrower's proportionate share of these items may be considered in determining the amount of income from the business that the borrower can use for qualifying purposes.

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## Section B3-3.3, DU Requirements for Income Assessment



### **B3-3.3-01, Income and Employment Documentation for DU (10/24/2016)**

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#### **Introduction**

This topic contains information on general income and employment documentation requirements for DU, including:

- [General Income Documentation Requirements](#)
  - [Reduced Income Documentation Requirements for DU Refi Plus](#)
  - [Alternative Documentation Requirements for Income Validated by the DU Validation Service](#)
  - [Base Pay \(Salary or Hourly\) Income](#)
  - [Bonus and Overtime Income](#)
  - [Commission Income](#)
  - [Secondary Employment Income \(Second Job and Multiple Jobs\)](#)
  - [Self-Employment Income](#)
  - [Verbal Verification of Employment](#)
  - [Other/Non-Employment Income](#)
  - [Temporary Leave Income](#)
  - [Nontaxable Income](#)
- 

#### **General Income Documentation Requirements**

DU indicates the minimum income verification documentation required to process a loan application. This level of documentation may not be adequate for every borrower and every situation. The lender must determine whether additional documentation is warranted. If the lender is unable to determine the stability of the borrower's income on the basis of the available documentation, the income must be removed and the loan resubmitted to DU.

The standards for employment documentation are the same for DU loan casefiles as they are for manually underwritten loans. For example, paystubs, W-2s, and tax returns must meet the same requirements without regard to the underwriting method. The following information

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describes DU considerations for specific types of income. For additional information, see [B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns](#), and Section B3-3.1, Employment and Other Sources of Income.

**Note:** Only actual employer information should be entered in Section IV. For example, do not enter “retired” or “homemaker” as the borrower’s current employer.

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### **Reduced Income Documentation Requirements for DU Refi Plus**

DU offers a reduced level of income documentation for DU Refi Plus mortgage loans. Refer to [B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations](#), for additional information.

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### **Alternative Documentation Requirements for Income Validated by the DU Validation Service**

When a component of the loan file is validated by the DU validation service, DU will issue a message indicating the required documentation. This documentation requirement may differ from those described below. See [B3-2-02, DU Validation Service](#).

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### **Base Pay (Salary or Hourly) Income**

DU will require the following:

- a completed *Request for Verification of Employment* (Form 1005), or
- the borrower's recent paystub and IRS W-2 forms covering the most recent one-year period.

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### **Bonus and Overtime Income**

DU will require the following:

- a completed Form 1005, or
- the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.

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### **Commission Income**

DU will require the following documentation based on the percentage of commission income to the borrower's total annual employment income:

- 
- Commission income less than 25% of borrower's total annual employment income:
    - a completed Form 1005, or
    - the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.
  - Commission income equal to or greater than 25% of borrower's total annual employment income:
    - a completed Form 1005 or the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period; and
    - copies of the borrower's signed federal income tax returns covering the most recent two-year period.
- 

### **Secondary Employment Income (Second Job and Multiple Jobs)**

When the second job income is not from self-employment, DU will require the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.

**Note:** The income from any second or multiple jobs must be included in the Base Income field in Section V.

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### **Self-Employment Income**

For DU loan casefiles where two years of the most recent signed personal and two years of the most recent signed business federal income tax returns are required, business tax returns do not have to be provided unless the business is a corporation, an S corporation, a limited liability company, or a partnership. Under certain conditions, the requirements for business tax returns may be waived.

For certain loan casefiles, DU will issue a message permitting only one year of personal and business tax returns, provided lenders document the income by

- obtaining signed individual and business federal income tax returns for the most recent year,
  - confirming the tax returns reflect at least 12 months of self-employment income, and
  - completing Fannie Mae's *Cash Flow Analysis* ([Form 1084](#)) or any other type of cash flow analysis form that applies the same principles.
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Refer to [B3-3.2-01, Underwriting Factors and Documentation for a Self-Employed Borrower](#) for additional information about waiving the business return requirement and for required forms and calculations. A copy of the written analysis must be included in the permanent loan file.

**Note:** The net income from self-employment should be entered in the Base Income field in Section V. The lender should answer “Yes” in the self-employment indicator.

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### Verbal Verification of Employment

A verbal VOE is required for each employer. For requirements regarding verbal VOEs, see [B3-3.1-07, Verbal Verification of Employment](#).

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### Other/Non-Employment Income

Other/non-employment income must be entered as “Other Income” in Section V. The other income types available in DU are listed below. Income types not in the Other Income List must be entered as “Other Types of Income” (for example, housing or parsonage income).

Refer to [B3-3.1-09, Other Sources of Income](#), [B3-3.1-05, Secondary Employment Income \(Second Job and Multiple Jobs\) and Seasonal Income](#), and [B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements](#), for information on how to verify these sources of income:

- accessory unit
- alimony or child support
- automobile/expense account
- boarder income
- capital gains
- dividends/interest
- employment-related assets
- foreign income
- foster-care

- 
- housing choice voucher program (Section 8)
  - military base pay, clothes allowance, combat pay, flight pay, hazard pay, overseas pay, prop pay, quarters allowance, rations allowance, variable housing allowance. (All military income can be combined and entered as Base Income in Section V for conventional loans.)
  - mortgage credit certificates
  - mortgage differential payments income
  - non-borrower household income
  - notes receivable and installment debt
  - other types of income
  - pension and retirement income
  - royalty payment
  - seasonal income
  - Schedule K-1
  - Social Security disability income
  - temporary leave (see data entry instructions below)
  - tip income
  - trust income
  - unemployment and public assistance income
  - VA benefits (non-education)

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### **Temporary Leave Income**

When income from temporary leave is being used to qualify for the mortgage loan, the lender must enter the appropriate qualifying income amount into DU based on the requirements provided in [B3-3.1-09, Other Sources of Income](#).

- 
- If the borrower **will** return to work as of the first mortgage payment date, the lender can consider the borrower's regular employment income in qualifying and must enter the income into DU using the applicable income type.
  - If the borrower will **not** return to work as of the first mortgage payment date, but is able to qualify using the lesser of the borrower's temporary leave income (if any) or regular employment income, that “lesser of” income amount must be entered into DU. Entry of the income into DU depends on what was derived as the “lesser of” amount:
    - When the borrower's temporary leave income is used, enter the income amount into DU as an Other Monthly Income amount of “Temporary Leave.”
    - When the borrower's regular employment income is used, enter the income amount in DU using the applicable income type.
  - If the borrower's temporary leave income is less than the regular employment income and the lender is able to “supplement” the temporary income with available liquid reserves (per [B3-3.1-09, Other Sources of Income](#)), the following must be applied:
    - The lender must enter the combined temporary leave income and supplemental income from reserves in DU as an Other Monthly Income amount of “Temporary Leave.” The combination of these two incomes may not exceed the borrower's regular monthly employment income.
    - As DU is not able to determine that supplemental income is being used, nor is it able to determine the amount of reserves used to supplement the temporary income, the lender must manually reduce the amount of the borrower's total liquid assets by the amount of reserves used to supplement the temporary income (in order to avoid the reserves being used for both income and assets).

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## Nontaxable Income

DU does not provide any unique messaging identifying the use of adjusted gross income.

See [B3-3.1-01, General Income Information](#), for guidance on how to calculate adjusted gross income for nontaxable income. This topic also defines the requirements that nontaxable income must meet to be considered for qualifying purposes in DU. If these requirements are not met, the borrower’s income must be adjusted downward.

**Note:** Certain loan origination systems offer an automatic calculation of adjusted gross income when nontaxable income types are entered in the loan application.

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016   |
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2015-09</a> | August 25, 2015    |
| <a href="#">Announcement SEL-2013-04</a> | May 28, 2013       |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">DU Version 9.0</a>           | July 24, 2012      |
| <a href="#">Announcement SEL-2012-04</a> | May 15, 2012       |
| <a href="#">Announcement SEL-2011-13</a> | December 20, 2011  |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010   |
| <a href="#">Announcement SEL-2010-01</a> | September 20, 2010 |
| <a href="#">DU Version 8.2</a>           | September 20, 2010 |
| <a href="#">Announcement SEL-2010-01</a> | March 2, 2010      |
| <a href="#">Announcement SEL-2010-02</a> | March 2, 2010      |
| <a href="#">Announcement 09-19</a>       | June 8, 2009       |



## **B3-3.3-02, Income From Rental Property in DU (09/29/2015)**

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### **Introduction**

This topic provides information on DU considerations for calculating net rental income and net cash flow for rental property, including:

- [Associated Policies](#)
  - [Entering Net Rental Income in DU](#)
  - [Special Situations](#)
  - [Documentation of Net Rental Income](#)
  - [Calculation of Net Rental Income](#)
  - [Entering Subject Net Cash Flow in DU](#)
  - [Documentation of Subject Net Cash Flow](#)
  - [Calculation of Subject Net Cash Flow](#)
- 

### **Associated Policies**

Many of the requirements that pertain to rental income are the same for loans underwritten through DU as they are for manually underwritten loans. See [B3-3.1-08, Rental Income](#), and [B3-6-06, Qualifying Impact of Other Real Estate Owned](#), for additional income.

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### **Entering Net Rental Income in DU**

“Net rental income” for DU loan casefiles does not include rental income from the subject property. It applies only to rental properties already owned by the borrower. For rental income on the subject property, see Subject Net Cash Flow below.

To submit net rental income to DU, the lender can either

- Calculate the total net rental income for all rental properties (except the subject property) and enter the amount (either positive or negative) in the Net Rental field in Section V. If Real Estate Owned (REO) data is entered, DU will ignore a zero value in this Net Rental field. Therefore, the lender must enter either a positive or negative amount. In other words, if the net rental income is a “breakeven” amount, the user must enter either \$0.01 or \$-0.01. Otherwise, DU will use the value from Section VI R.



- Complete the REO data entered in the *Uniform Residential Loan Application* ([Form 1003](#)) (or in a loan origination system) for each rental property (except the subject property). DU will preliminarily calculate the net rental income using the following formula:

$$(\text{gross rental income} \times 75\%) - \text{property PITIA expense} = \text{net rental income}$$

The lender should override DU's preliminary calculation, if it is different from the lender's calculation, by entering the net rental income amount directly in the Net Rental field in the Full 1003, Section VI R.

If both methods are used, DU will use the net rental income from Section V (if it is a value other than zero) and issue a message when there is a conflict of data.

If the combined total net rental income for all rental properties is positive, DU adds the net rental income to the qualifying income. If the total is negative, DU treats the loss as a liability and includes it in the debt-to-income ratio.

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### Special Situations

If the borrower is purchasing a principal residence and is retaining his or her current residence as a rental property, show the current principal residence as Rental in the Property Disposition field and complete the Net Rental field in the Full 1003, Section VI R. The conversion of a principal residence to an investment property must follow the guidelines described in [B3-6-06, Qualifying Impact of Other Real Estate Owned](#).

If the borrower's principal residence is a two- to four-unit property, rental income from the principal residence can be used to qualify the borrower. With the exception of subtracting the borrower's principal mortgage payment from the gross rental income, all other calculations and documentation requirements in this section apply.

To use net rental income from a borrower's owner-occupied two- to four-unit property when the borrower is purchasing or refinancing a second home or investment property, enter the net rental income from the borrower's principal residence as Net Rental in Section V.

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### Documentation of Net Rental Income

The requirements for documenting net rental income are the same for loans underwritten through DU as they are for manually underwritten loans. If the debt-to-income ratio already includes the entire rental property payment (that is, income from the property is not considered), rental income documentation is not required.

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## Calculation of Net Rental Income

The calculation of net rental income is the same for loans underwritten through DU as it is for manually underwritten loans.

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## Entering Subject Net Cash Flow in DU

Subject net cash flow applies to one- to four-unit investment properties and two- to four-unit principal residences secured by the subject property. DU does not calculate the subject net cash flow. The lender must calculate and enter the income in Subject Net Cash in Section V of the online loan application.

**Note:** Although negative subject net cash flow values appear to reduce the gross monthly income in Section V, DU actually treats the negative value as a liability and includes it in the debt-to-income ratio.

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## Documentation of Subject Net Cash Flow

The documentation of subject net cash flow is the same for loans underwritten through DU as it is for manually underwritten loans.

If the borrower is being qualified with the entire payment, without benefit of rental income, documentation of gross monthly rent for the subject property is only required for lender reporting purposes. See [A3-4-02, Data Quality and Integrity](#), (Reporting of Gross Monthly Rent), for additional information.

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## Calculation of Subject Net Cash Flow

The calculation of subject net cash flow for the security property is the same for loans underwritten through DU as it is for manually underwritten loans.

*Two- to four-unit principal residence.* Calculate the subject net cash flow, and enter this amount in Section V. It will be included in the total qualifying income. Do not subtract the PITIA from the rental income, because the PITIA is included in the total proposed mortgage payment and is considered in the qualifying ratio. Do not enter a negative subject net cash flow value, because the entire PITIA is already included in the qualifying ratio.

**Note:** Refer to [B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements](#), for information about rental income from accessory units on one-

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unit properties and income from two- to four-unit properties secured by HomeReady mortgage loans.

*Investment properties.* Calculate the subject net cash flow. If the subject net cash flow is positive, enter the amount in Section V. It will be included in the total qualifying income. If the cash flow is negative, enter the amount in Section V as a negative value. DU will include it in the debt-to-income ratio calculation as a liability. If income from the subject property is not included in the qualifying ratios, the lender should enter the entire proposed PITIA as a negative amount in the Subject Net Cash field in Section V.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015   |
| <a href="#">Announcement SEL-2014-12</a> | September 30, 2014 |
| <a href="#">Announcement SEL-2012-04</a> | May 15, 2012       |
| <a href="#">Announcement SEL-2011-10</a> | September 27, 2011 |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011     |

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# Chapter B3-4, Asset Assessment



## Asset Assessment

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### Introduction

This chapter explains asset assessment for qualifying, underwriting, and documentation purposes.

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### In This Chapter

This chapter contains the following sections:

|   |     |
|---|-----|
| B3-4.1, General Asset Requirements .....            | 451 |
| B3-4.2, Verification of Depository Assets .....     | 464 |
| B3-4.3, Verification of Non-Depository Assets ..... | 474 |
| B3-4.4, DU Requirements for Asset Assessment .....  | 499 |

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## Section B3-4.1, General Asset Requirements



### **B3-4.1-01, Minimum Reserve Requirements (03/29/2016)**

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#### **Introduction**

This topic contains information on minimum reserve requirements, including:

- [What Are Liquid Financial Reserves?](#)
- [Acceptable Sources of Reserves](#)
- [Unacceptable Sources of Reserves](#)
- [Supplementing Borrower Funds](#)
- [Determining Required Minimum Reserves](#)
- [Calculation of Reserves for Multiple Financed Properties](#)
- [Simultaneous Second Home or Investment Property Transactions](#)
- [Examples of Reserves Calculations](#)
- [Additional Resources](#)

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#### **What Are Liquid Financial Reserves?**

Liquid financial reserves are those liquid or near liquid assets that are available to a borrower after the mortgage closes. Liquid financial reserves include cash and other assets that are easily converted to cash by the borrower by

- drafting or withdrawing funds from an account,
- selling an asset,
- redeeming vested funds, or
- obtaining a loan secured by assets from a fund administrator or an insurance company.

Reserves are measured by the number of months of the qualifying payment amount for the subject mortgage (based on PITIA) that a borrower could pay using his or her financial assets. For monthly housing expense and qualifying payment requirements, see [B3-6-03, Monthly Housing Expense](#) and [B3-6-04, Qualifying Payment Requirements](#).

The definition of reserves applies to both manually underwritten mortgage loans and loan casefiles underwritten through DU. Funds to close are subtracted from available assets when considering sufficient assets for reserves.

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### **Acceptable Sources of Reserves**

Examples of liquid financial assets that can be used for reserves include readily available funds in

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

### **Unacceptable Sources of Reserves**

The following cannot be counted as part of the borrower's reserves:

- funds that have not been vested;
  - funds that cannot be withdrawn under circumstances other than the account owner's retirement, employment termination, or death;
  - stock held in an unlisted corporation;
  - non-vested stock options and non-vested restricted stock;
  - personal unsecured loans;
  - interested party contributions (IPCs) (see [B3-4.1-02, Interested Party Contributions \(IPCs\)](#)); and
  - cash proceeds from a cash-out refinance transaction on the subject property.
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### **Supplementing Borrower Funds**

Funds received from acceptable sources may be used to supplement the borrower's funds to satisfy any financial reserve requirement.

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### **Determining Required Minimum Reserves**

Minimum required reserves vary depending on

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- the transaction,
  - the occupancy status and amortization type of the subject property,
  - the number of units in the subject property, and
  - the number of other financed properties the borrower currently owns.

**Manually underwritten loans:** The minimum required reserves are documented in the *Eligibility Matrix*. However, when a borrower has multiple financed properties and is financing a second home or investment property, the lender must apply the applicable additional reserve requirements for the other financed second home and investment property transactions. Refer to the Minimum Reserve Requirements below for additional details.

**DU loan casefiles:** DU will determine the reserve requirements based on the overall risk assessment of the loan, the minimum reserve requirement that may be required for the transaction, and whether the borrower has multiple financed properties.

If a borrower has multiple financed properties and is financing a second home or investment property, DU will base the reserve calculations for the other financed properties on the number of financed properties determined by DU. Refer to the Calculation of Reserves for Multiple Financed Properties below for additional details.

**Note:** DU Refi Plus and Refi Plus mortgage loans are exempt from the minimum reserve requirements.

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### Calculation of Reserves for Multiple Financed Properties

If the borrower owns other financed properties (determined in accordance with [B2-2-03, Multiple Financed Properties for the Same Borrower](#)), additional reserves must be calculated and documented for financed properties other than the subject property and the borrower's principal residence. The other financed properties reserves amount must be determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for mortgages and HELOCs on these other financed properties. The percentages are based on the number of financed properties:

- 2% of the aggregate UPB if the borrower has one to four financed properties,
- 4% of the aggregate UPB if the borrower has five to six financed properties, or
- 6% of the aggregate UPB if the borrower has seven to ten financed properties (DU only).

The aggregate UPB calculation does not include the mortgages and HELOCs that are on

- the subject property,
- the borrower’s principal residence,
- properties that are sold or pending sale, and
- accounts that will be paid by closing (or omitted in DU on the online loan application).

**Note:** DU will also include in the UPB calculation open mortgages and HELOCs on the credit report that are not disclosed on the online loan application.

### Simultaneous Second Home or Investment Property Transactions

If a lender is processing multiple second home or investment property applications simultaneously, the same assets may be used to satisfy the reserve requirements for both mortgage applications. Reserves are not cumulative for multiple applications.

Example: A lender is simultaneously processing two refinance applications for two investment properties owned by the borrower. The application for property A requires reserves of \$5,000. The application for property B requires reserves of \$10,000. Because the reserves are covering the same properties, the lender does not have to verify \$15,000 in reserves, but only those required per each application.

### Examples of Reserves Calculations

The following tables contain examples of reserves calculations for borrowers with multiple financed properties.

#### Example 1: Three Financed Properties

| Occupancy               | Outstanding UPB | Monthly PITIA | Reserves Calculations |         |
|-------------------------|-----------------|---------------|-----------------------|---------|
| Subject:<br>Second Home | \$78,750        | \$776         | 2 Months PITIA =      | \$1,552 |
| Principal               | \$0             | \$179         | N/A                   | \$0     |
| Investor                | \$87,550        | \$787         | \$230,050 x 2% =      | \$4,601 |



| Occupancy | Outstanding UPB  | Monthly PITIA | Reserves Calculations |                |
|-----------|------------------|---------------|-----------------------|----------------|
| Investor  | \$142,500        | \$905         |                       |                |
|           | <b>\$230,050</b> |               | <b>Total =</b>        | <b>\$6,153</b> |

**Example 2: Six Financed Properties**

| Occupancy         | Outstanding UPB  | Monthly PITIA | Reserves Calculations |                 |
|-------------------|------------------|---------------|-----------------------|-----------------|
| Subject: Investor | \$78,750         | \$776         | 6 Months PITIA =      | \$4,656         |
| Principal         | \$133,000        | \$946         | N/A                   | \$0             |
| Investor          | \$87,550         | \$787         | \$345,030 x 4% =      | \$13,801        |
| Investor          | \$142,500        | \$905         |                       |                 |
| Investor          | \$84,950         | \$722         |                       |                 |
| Investor          | \$30,030         | \$412         |                       |                 |
|                   | <b>\$345,030</b> |               | <b>Total =</b>        | <b>\$18,457</b> |

**Example 3: Eight Financed Properties (DU ONLY)**

| Occupancy         | Outstanding UPB  | Monthly PITIA | Reserves Calculations |                 |
|-------------------|------------------|---------------|-----------------------|-----------------|
| Subject: Investor | \$78,750         | \$776         | 6 Months PITIA =      | \$4,656         |
| Principal         | \$133,000        | \$946         | N/A                   | \$0             |
| Investor          | \$87,550         | \$787         | \$629,530 x 6% =      | \$37,772        |
| Investor          | \$142,500        | \$905         |                       |                 |
| Investor          | \$84,950         | \$722         |                       |                 |
| Investor          | \$30,030         | \$412         |                       |                 |
| Second Home       | \$124,500        | \$837         |                       |                 |
| Investor          | \$160,000        | \$1,283       |                       |                 |
|                   | <b>\$629,530</b> |               | <b>Total =</b>        | <b>\$42,427</b> |

**Additional Resources**

- [B2-2-03, Multiple Financed Properties for the Same Borrower;](#)

- [B3-4.4-01, Asset Verification](#);
- [B3-6-03, Monthly Housing Expense](#); and
- [B3-6-04, Qualifying Payment Requirements](#).

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### Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-03</a> | March 29, 2016     |
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015      |
| <a href="#">Announcement SEL-2015-03</a> | March 31, 2015     |
| <a href="#">Announcement SEL-2015-02</a> | February 24, 2015  |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">DU Version 9.0</a>           | July 24, 2012      |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">Announcement SEL-2010-06</a> | April 30, 2010     |
| <a href="#">Announcement 09-19</a>       | June 8, 2009       |
| <a href="#">Announcement 09-02</a>       | February 6, 2009   |



## **B3-4.1-02, Interested Party Contributions (IPCs) (06/28/2016)**

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### Introduction

This topic contains information on interested party contributions, including:

- [Overview](#)
- [IPC Limits](#)
- [Lender Checklist for IPCs](#)
- [Lender Incentives for Borrowers](#)

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## Overview

Interested party contributions (IPCs) are costs that are normally the responsibility of the property purchaser that are paid directly or indirectly by someone else who has a financial interest in, or can influence the terms and the sale or transfer of, the subject property.

Interested parties to a transaction include, but are not limited to, the property seller, the builder/developer, the real estate agent or broker, or an affiliate who may benefit from the sale of the property and/or the sale of the property at the highest price possible. A lender or employer is not considered an interested party to a sales transaction unless it is the property seller or is affiliated with the property seller or another interested party to the transaction. (For Fannie Mae's purposes, an affiliation exists when there is direct common ownership or control by the lender over the interested party or vice versa, or when there is direct common ownership or control by a third party over both the lender and the interested party. A typical ongoing business relationship — for example, the relationship between a builder and a lender that serves as its financial institution — does not constitute an affiliation.)

IPCs are either financing concessions or sales concessions. Fannie Mae considers the following to be IPCs:

- funds that are paid directly from the interested party to the borrower;
- funds that flow from an interested party through a third-party organization, including nonprofit entities, to the borrower;
- funds that flow to the transaction on the borrower's behalf from an interested party, including a third-party organization or nonprofit agency; and
- funds that are donated to a third party, which then provides the money to pay some or all of the closing costs for a specific transaction.

See [B3-4.1-03, Types of Interested Party Contributions \(IPCs\)](#), for more information.

Fannie Mae does not permit IPCs to be used to make the borrower's down payment, meet financial reserve requirements, or meet minimum borrower contribution requirements.

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## IPC Limits

The table below provides IPC limits for conventional mortgages.

IPCs that exceed these limits are considered sales concessions. The property's sales price must be adjusted downward to reflect the amount of contribution that exceeds the maximum, and the

maximum LTV/CLTV ratios must be recalculated using the reduced sales price or appraised value.

| Occupancy Type                     | LTV/CLTV Ratio   | Maximum IPC     |
|------------------------------------|------------------|-----------------|
| Principal residence or second home | Greater than 90% | 3% <sup>a</sup> |
|                                    | 75.01% – 90%     | 6%              |
|                                    | 75% or less      | 9%              |
| Investment property                | All CLTV ratios  | 2%              |

<sup>a</sup>See [B5-4-03, Loans Secured by HomePath Properties](#) for an exception to this limit for principal residence transactions.

### Lender Checklist for IPCs

The lender must ensure that all of the following requirements for an IPC are satisfied.

| ✓ | Lender Checklist for IPCs   |
|---|---|
|   | Ensure that any and all IPCs have been identified and taken into consideration.   |
|   | Provide the appraiser with all appropriate financing data and IPCs for the subject property granted by anyone associated with the transaction.  |
|   | Ensure that the property value is adequately supported.   |
|   | Ensure that the LTV and CLTV ratios, after any IPCs are taken into consideration, remain within Fannie Mae’s eligibility limits for the particular product.   |
|   | Ensure that mortgage insurance coverage, if applicable, has been obtained, based on the LTV ratio after any IPC adjustments have been made.   |
|   | Scrutinize all loan and sales contract documents, including but not limited to the sales contract, the loan estimate, the <i>Uniform Residential Loan Application</i> ( <a href="#">Form 1003</a> or <a href="#">Form 1003(S)</a> ) (particularly Section VII, Details of Transaction), the appraisal report, and the settlement statement. |
|   | Ensure that all elements of the settlement statement were taken into consideration during the underwriting process.   |
|   | Ensure that fees and expenses are consistent between all documents. Analyze any differences and review any discrepancies.   |

### Lender Incentives for Borrowers

**Cash or Cash-like Incentives for all Transaction Types:** The lender may provide the borrower with a cash or cash-like (e.g., a gift card) incentive that is not reflected on the settlement statement provided that

- the amount of the incentive does not exceed \$500, and
- no repayment is required.

Because the lender is not typically a party to the sales transaction, these types of lender incentives are not considered IPCs and, as a result, are not included in the IPC limit calculation. Furthermore, these incentives are not considered cash out to the borrower and do not have to be included in the cash back to borrower at closing calculation.

**Note:** Documentation of compliance with this policy will not be required at the loan level. However, the lender must establish policies and/or procedures to ensure that the loans with these types of incentives that it delivers to Fannie Mae, whether or not the loans were originated by the lender, are in compliance with this policy.

**Pay Down of Existing Mortgage Balance for Eligible Refinance Transactions:** For DU Refi Plus and Refi Plus transactions, the lender may provide an incentive to the borrower in the form of a payment to pay off a portion of the mortgage loan being refinanced provided that

- the amount of the incentive does not exceed \$2,000,
- no repayment is required, and
- the payment is reflected on the settlement statement as a lender credit.

Because these are refinance transactions, the incentive is not considered an IPC and, as a result, is not included in the IPC limit calculation. Furthermore, this incentive is not considered cash out to the borrower and it does not have to be included in the cash back to borrower at closing calculation.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-05</a> | June 28, 2016     |
| <a href="#">Announcement SEL-2014-07</a> | June 24, 2014     |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |
| <a href="#">Announcement SEL-2010-06</a> | April 30, 2010    |
| <a href="#">Announcement 09-37</a>       | December 30, 2009 |

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## **B3-4.1-03, Types of Interested Party Contributions (IPCs) (03/29/2016)**

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### **Introduction**

This topic contains information on types of interested party contributions, including:

- [Undisclosed IPCs](#)
  - [Down Payment Assistance Programs](#)
  - [Financing Concessions](#)
  - [Sales Concessions](#)
  - [Interest Rate Buydowns](#)
  - [Payment Abatements](#)
- 

### **Undisclosed IPCs**

Mortgages with undisclosed IPCs are not eligible for delivery to Fannie Mae. Examples of these types of contributions include, but are not limited to, moving expenses, payment of various fees on the borrower's behalf, "silent" second mortgages held by the property seller, and other contributions that are given to the borrower outside of closing and are not disclosed on the settlement statement.

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### **Down Payment Assistance Programs**

Funds that are donated to third parties which are then applied toward some or all of the borrower's closing costs for a specific transaction are sometimes referred to as Down Payment Assistance Programs (DAPs). As long as the DAP allows such uses, these funds may also be used to pay for energy-related improvements that meet the requirements described in [B5-3.3-01, HomeStyle Energy for Energy Improvements on Existing Properties](#).

IPC funds that flow through a DAP may be used for allowable closing costs, prepaids, and energy-related expenses in compliance with Fannie Mae's IPC limits.

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### **Financing Concessions**

Financing concessions that are paid on the borrower's behalf are subject to Fannie Mae's IPC limits. Financing concessions are:

- financial contributions from interested parties that provide a benefit to the borrower in the financing transaction;

- 
- payments or credits related to acquiring the property; and
  - payments or credits for financing terms, including prepaids.

Typical fees and/or closing costs paid by a seller in accordance with local custom, known as common and customary fees or costs, are not subject to Fannie Mae IPC limits. Payoff of a PACE loan by a seller is not subject to Fannie Mae IPC limits because it is not a financing concession. Financing concessions that exceed the limits listed below are considered sales concessions and are subject to Fannie Mae IPC limits.

Financing concessions typically include origination fees, discount points, commitment fees, appraisal costs, transfer taxes, stamps, attorneys' fees, survey charges, title insurance premiums or charges, real estate tax service fees, and funds to subsidize a temporary or permanent interest rate buydown (if these fees are not considered common and customary fees or costs based on local custom, as described above). Financing concessions can also include prepaid items, such as:

- interest charges (limited to no more than 30 days of interest);
- real estate taxes covering any period after the settlement date (only if the taxes are being impounded by the servicer for future payment);
- property insurance premiums (limited to no more than 14 months);
- homeowners' association (HOA) assessments covering any period after the settlement date (limited to no more than 12 months);
- initial and/or renewal mortgage insurance premiums; and
- escrow accruals required for renewal of borrower-purchased mortgage insurance coverage.

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### **Sales Concessions**

Sales concessions are IPCs that take the form of non-realty items. They include cash, furniture, automobiles, decorator allowances, moving costs, and other giveaways, as well as financing concessions that exceed Fannie Mae limits. Consequently, the value of sales concessions must be deducted from the sales price when calculating LTV and combined LTV ratios for underwriting and eligibility purposes.

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### **Interest Rate Buydowns**

If a temporary or permanent interest rate buydown is being offered to the borrower, the cost of the subsidy to fund that buydown must be included in the IPC calculation, if received from an interested party or a lender affiliated with an interested party.

The lender must determine if the cost of the subsidy meets allowable IPC limits. This can be accomplished by confirming the current market interest rate—in other words, the rate that is offered without the payment of any discount points—and the discount points being charged to obtain the interest rate being offered with the buydown.

**Note:** Fees for standby commitments that a builder obtains for blanket coverage before it enters into a contract with a borrower are not subject to Fannie Mae’s IPC limits because they are not attributable to the specific mortgage transaction.

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### Payment Abatements

A payment abatement is considered to be a financing concession since it is an incentive provided to the borrower by an interested party, in which the interested party provides funds to pay or reimburse a certain number of monthly payments on the borrower’s behalf. The monthly payments may cover, in whole or in part, principal, interest, taxes, insurance and other assessments (PITIA). These funds are provided to the lender or a third party to be distributed over the term of the abatement period or credited against the borrower's future obligations.

Loans with payment abatements of any type are not eligible for delivery to Fannie Mae regardless of whether they are disclosed on the settlement statement. This prohibition applies to transactions in which an interested party is directly funding the abatement and/or if the funding for the abatement is flowing through another entity such, as a nonprofit down payment assistance program.

**Note:** The payment of HOA fees is not considered an abatement unless the payment of the fee extends for more than 12 months. The payment of HOA fees for 12 months or less is considered an interested party contribution.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-03</a> | March 29, 2016    |
| <a href="#">Announcement SEL-2010-09</a> | June 30, 2010     |
| <a href="#">Announcement SEL-2010-07</a> | May 27, 2010      |
| <a href="#">Announcement 09-32</a>       | October 30, 2009  |
| <a href="#">Announcement 09-02</a>       | February 6, 2009  |





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## Section B3-4.2, Verification of Depository Assets



### B3-4.2-01, Verification of Deposits and Assets (12/06/2016)

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#### Introduction

This topic contains information on verifying deposits and assets, including:

- [Verification of Deposits and Assets](#)
  - [Blanket Authorization Form](#)
- 

#### Verification of Deposits and Assets

The lender can use any of the following types of documentation to verify that a borrower has sufficient funds for closing, down payment, and/or financial reserves:

- *Request for Verification of Deposit* ([Form 1006](#) or [Form 1006\(S\)](#)). The information must be requested directly from the depository institution, and the complete, signed, and dated document must be sent directly from the depository institution.
- Copies of bank statements or investment portfolio statements. The statements must cover the most recent full two-month period of account activity (60 days, or, if account information is reported on a quarterly basis, the most recent quarter). The statements must:
  - clearly identify the borrower as the account holder,
  - include the account number,
  - include the time period covered by the statement,
  - include all deposits and withdrawal transactions (for depository accounts),
  - include all purchase and sale transactions (for financial portfolio accounts), and
  - include the ending account balance.

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If the lender is the holder of the borrower's account, the lender may produce a printout or other alternative verification of the asset(s) directly from its system. The printout or alternative verification is acceptable as long as all required data (above) is supplied and documented.

- Direct verification by a third-party asset verification vendor. These verifications are acceptable as long as:
  - the borrower provided proper authorizations for the lender to use the verification method,
  - the verified information provided must conform with the information that would be provided on Form 1006, Form 1006(S), or on bank statements,
  - the date of the completed verification is in compliance with [B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns](#),
  - the lender has determined that the vendor maintains reasonable practices that ensure reliable and authorized verifications of deposit and asset information (see [A1-1-01, Application and Approval of Seller/Service](#)), and
  - the lender understands it will be held accountable for the integrity of the information obtained from this source.
- Copies of retirement account statements. They must be the most recent statements, and they must identify the borrower's vested amount and the terms. (See [B3-4.3-03, Retirement Accounts](#), for additional information.)

If the latest bank statement is more than 45 days earlier than the date of the loan application, the lender should ask the borrower to provide a more recent, supplemental, bank-generated form that shows the account number, balance, and date. The statements may be computer-generated forms, including online account or portfolio statements downloaded by the borrower from the Internet.

Documents that are faxed to the lender or downloaded from the Internet must clearly identify the name of the depository or investment institution and the source of information—for example, by including that information in the Internet or fax banner at the top of the document.

If necessary, the lender must supplement these verifications by obtaining any missing information from the borrower or the depository institution.

Loans with assets validated by DU must comply with all requirements pertaining to the DU validation service. Compliance with the DU messages satisfies the requirement for documenting assets. This documentation may differ from the requirements described above. See [B3-2-02, DU Validation Service](#), for additional information.

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## Blanket Authorization Form

Rather than having the applicant sign multiple forms, the lender may have the applicant sign an authorization form which gives the lender blanket authorization to request the information it needs to evaluate the applicant's creditworthiness. (See [B1-1-02, Blanket Authorization Form](#).) When the lender uses this type of blanket authorization, it must attach a copy of the authorization form to each Form 1006 or Form 1006(S) it sends to the depository institutions in which the applicant has accounts.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 6, 2016   |
| <a href="#">Announcement SEL-2015-06</a> | May 26, 2015       |
| <a href="#">Announcement SEL-2014-12</a> | September 30, 2014 |
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012  |
| <a href="#">Announcement SEL-2011-04</a> | May 24, 2011       |



## B3-4.2-02, Depository Accounts (12/06/2016)

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### Introduction

This topic contains information on depository accounts, including:

- [Depository Accounts](#)
- [Business Assets](#)
- [Evaluating Large Deposits](#)
- [Request for Verification of Deposit](#)

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### Depository Accounts

Funds held in a checking, savings, money market, certificate of deposit, or other depository accounts may be used for the down payment, closing costs, and financial reserves. The funds must be verified as described in [B3-4.2-01, Verification of Deposits and Assets](#). Unverified funds are not acceptable for the down payment, closing costs, or financial reserves.

The lender must investigate any indications of borrowed funds. These must be identified differently based upon how the asset account was verified.

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### Business Assets

Business assets may be an acceptable source of funds for the down payment, closing costs, and financial reserves when a borrower is self-employed and the individual federal income tax returns have been evaluated by the lender, including, if applicable, the business federal income tax returns for that particular business (non-Schedule C). The borrower must be listed as an owner of the account and the account must be verified in accordance with [B3-4.2-01, Verification of Deposits and Assets](#). The lender must perform a business cash flow analysis to confirm that the withdrawal of funds for this transaction will not have a negative impact on the business. See Section B3–3.2, Self-Employment Income, for additional information on the analysis of a self-employed borrower.

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### Evaluating Large Deposits

When bank statements (typically covering the most recent two months) are used, the lender must evaluate large deposits, which are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. Requirements for evaluating large deposits vary based on the transaction type, as shown in the table below.

| Transaction Type       | Evaluation Requirements   |
|------------------------|---|
| Refinance transactions | Documentation or explanation for large deposits is <b>not</b> required; however, the lender remains responsible for ensuring that any borrowed funds, including any related liability, are considered.  |
| Purchase transactions  | <ul style="list-style-type: none"><li>If funds from a large deposit are needed to complete the purchase transaction (that is, are used for the down payment, closing costs, or financial reserves), the lender must document that those funds are from an acceptable source. Occasionally, a borrower may not have all of the documentation required to confirm the source of a deposit. In those instances, the lender must use reasonable judgment based on the available documentation as well as the borrower’s debt-to-income ratio and overall income and credit profile. Examples of acceptable documentation include the borrower’s written explanation, proof of ownership of an asset that was sold, or a copy of a wedding invitation to support receipt of gift funds. The lender must place in the loan file written documentation of the rationale for using the funds.</li></ul> |

| Transaction Type | Evaluation Requirements   |
|------------------|---|
|                  | <ul style="list-style-type: none"> <li>Verified funds must be reduced by the amount (or portion) of the undocumented large deposit (as defined above), and the lender must confirm that the remaining funds are sufficient for the down payment, closing costs, and financial reserves. When the lender uses a reduced asset amount, net of the unsourced amount of a large deposit, that reduced amount must be used for underwriting purposes (whether the mortgage loan is underwritten manually or through DU).</li> </ul> <p><b>Note:</b> When a deposit has both sourced and unsourced portions, only the unsourced portion must be used to calculate whether or not it must be considered a large deposit.</p> <p><b>Examples</b></p> <ul style="list-style-type: none"> <li><b>Scenario 1:</b> Borrower has monthly income of \$4,000 and an account at ABC Bank with a balance of \$20,000. A deposit of \$3,000 is identified, but \$2,500 of that deposit is documented as coming from the borrower's federal income tax refund.</li> </ul> <p>Only the unsourced \$500 [the deposit of \$3,000 minus the documented \$2,500] must be considered in calculating whether it meets the large deposit definition.</p> <p>The unsourced \$500 is 12.5% of the borrower's \$4,000 monthly income, falling short of the 50% definition of a large deposit.</p> <p>Therefore, it is not considered a large deposit and the entire \$20,000 balance in the ABC Bank account can be used for underwriting purposes.</p> <ul style="list-style-type: none"> <li><b>Scenario 2:</b> Using the same borrower example, a deposit of \$3,000 is identified, but only \$500 is documented as coming from the borrower's federal income tax refund, leaving \$2,500 unsourced.</li> </ul> <p>In this instance, the unsourced \$2,500 is 63% of the borrower's \$4,000 monthly income, which does meet the definition of a large deposit.</p> |

| Transaction Type | Evaluation Requirements   |
|------------------|---|
|                  | Therefore, the unsourced \$2,500 must be subtracted from the account balance of \$20,000 and only the remaining \$17,500 may be used for underwriting purposes. |

**Note:** If the source of a large deposit is readily identifiable on the account statement(s), such as a direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, the lender does not need to obtain further explanation or documentation. However, if the source of the deposit is printed on the statement, but the lender still has questions as to whether the funds may have been borrowed, the lender should obtain additional documentation.

The DU validation service automates the assessment of large deposits. When assets are validated, DU issues a message indicating which large deposits require documentation. Compliance with the DU messages satisfies the requirement for documenting large deposits. See [B3-2-02, DU Validation Service](#)

### Request for Verification of Deposit

When a *Verification of Deposit* (Form 1006 or Form 1006(S)) (VOD) is used and depository activity is not included, the lender must verify the source of funds for

- accounts opened within the last 90 days of the application date, and
- account balances that are considerably greater than the average balance reflected on the VOD.

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 6, 2016  |
| <a href="#">Announcement SEL-2014-06</a> | May 27, 2014      |
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012 |



## **B3-4.2-03, Individual Development Accounts (12/01/2010)**

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### **Introduction**

This topic contains information on individual development accounts, including:

- [Individual Development Accounts](#)
  - [Use of IDA Funds to Meet Borrower Minimum Contribution Requirements](#)
  - [Lender Checklist for IDAs](#)
- 

### **Individual Development Accounts**

Some nonprofit agencies will match the funds a borrower regularly deposits into a savings account that has been designated as an account that is used solely for the accumulation of funds to purchase a home. Such accounts are referred to as individual development accounts, or IDAs.

Nonprofit agencies that offer IDA programs have options with respect to accumulating and holding the matching funds, which include:

- the use of a parallel “savings” account that is separate from the home buyer’s savings account;
- separately designated matching funds within a single agency account via accounting processes to allocate matching funds to a particular home buyer; and
- the use of a trustee account that contains both the home buyer’s funds and the agency’s matching funds.

When a home buyer reaches the target amount and is ready to complete the home purchase, the funds are disbursed from the nonprofit agency account to the closing agent via a single check or multiple checks.

If the agency’s matching funds are held in an account that is separate from the home buyer’s account, the matching funds need not be commingled with the home buyer’s funds prior to disbursement to the closing agent. It is acceptable to allow the separate disbursement of funds from the agency and from the home buyer, as long as the terms of the IDA program are met.

Funds that the borrower deposited into an IDA may be used for either closing costs or the down payment.

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### **Use of IDA Funds to Meet Borrower Minimum Contribution Requirements**

Funds that the borrower deposited into an IDA may be used for either the closing costs or the down payment. Depending on the repayment terms of the IDA program, the borrower may or



may not be required to meet the minimum down payment requirements from his or her own funds, as outlined below:

| IDA Repayment Terms  | Allowable Use of Matching Funds   |
|--|---|
| <p>The nonprofit agency</p> <ul style="list-style-type: none"> <li>• requires repayment of the matching funds,</li> <li>• agrees to defer or forgive repayment provided that certain conditions are met, or</li> <li>• files a lien against the property.</li> </ul> | <p>The borrower may use the matching funds to supplement the down payment provided he or she has met the minimum borrower contribution requirements.</p> <p>The minimum borrower contribution must come from the borrower's own funds unless:</p> <ul style="list-style-type: none"> <li>• the LTV or CLTV ratio is less than or equal to 80%; or</li> <li>• the borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contributions. See <a href="#">B3-4.3-04, Personal Gifts</a>; <a href="#">B3-4.3-06, Donations From Entities</a>; and <a href="#">B3-4.3-08, Employer Assistance</a>, for additional information.</li> </ul> |
| <p>The nonprofit agency</p> <ul style="list-style-type: none"> <li>• does not require repayment of the matching funds and</li> <li>• does not file a lien against the property.</li> </ul>   | <p>The borrower may use the matching funds for some or all of the down payment without first being required to meet the minimum borrower contribution requirement from his or her own funds.</p>  |

**Note:** If the IDA program includes provisions for a second mortgage that will be sold to Fannie Mae, the lender must have a negotiated contract for the sale of said second mortgage and the second mortgage must be in compliance with the requirements set forth in the negotiated contract.

### Lender Checklist for IDAs

The lender must ensure that all of the following requirements for an IDA are satisfied:

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| ✓ | <b>Lender Checklist for IDAs</b>  |
|---|---|
|   | Document how the nonprofit agency's IDA program operates.   |
|   | Verify the rate at which the agency matches borrower deposits into the account.   |
|   | Determine that the borrower satisfied the program's vesting requirements.   |
|   | Document the borrower's regular payments into the account and the agency's regular deposits of matching funds into the account. |

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010  |

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## **B3-4.2-04, Pooled Savings (Community Savings Funds) (04/01/2009)**

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### **Introduction**

This topic contains information on pooled savings (community savings funds).

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### **Pooled Savings (Community Savings Funds)**

Funds from a community savings account or any other type of pooled savings may be used for the down payment if the borrower can document regular contributions to the fund.

Acceptable documentation includes written confirmation from the party managing the pooled savings fund and documentation of regular borrower contributions.

The borrower's obligation to continue making contributions to the fund must be considered as part of the borrower's debt when calculating the total debt-to-income ratio.

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## **B3-4.2-05, Verification of Assets for Non-U.S. Citizen Borrowers (04/01/2009)**

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### **Introduction**

This topic contains information on the verification of assets for non-U.S. citizen borrowers.

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### **Verification of Assets for Non-U.S. Citizen Borrowers**

The lender must document all sources of funds used for down payments and closing costs.

Funds that a non-U.S. citizen borrower recently deposited in a U.S. depository institution are an acceptable source of funds provided all of the following requirements are met:

- There is documented evidence of funds transfer from the country from which the borrower immigrated,
  - It can be established that the funds belonged to the borrower before the date of the transfer, and
  - The sources of all funds used for closing can be verified just as they would for a borrower who is a U.S. citizen.
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## Section B3-4.3, Verification of Non-Depository Assets



### B3-4.3-01, Stocks, Stock Options, Bonds, and Mutual Funds (06/30/2015)

#### Introduction

This topic contains information on stocks, stock options, bonds, and mutual funds.

#### Stocks, Stock Options, Bonds, and Mutual Funds

Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. The lender must verify the borrower's ownership of the account or asset. The value of the asset and any related documentation must meet the requirements outlined in the table below.

| Asset Type              | Determining the Value of the Asset  |
|-------------------------|---|
| Stocks and mutual funds | <p>The lender must determine the value of the asset (net of any margin accounts) by obtaining either</p> <ul style="list-style-type: none"><li>• the most recent monthly or quarterly statement from the depository or investment firm; or</li><li>• a copy of the stock certificate, accompanied by a newspaper stock list that is dated as of or near the date of the loan application.</li></ul> |
| Stock options           | <p>The value of vested stock options can be documented by</p> <ul style="list-style-type: none"><li>• a statement that lists the number of options and the option price, and</li><li>• using the current stock price to determine the gain that would be realized from exercise of an option and the sale of the optioned stock.</li></ul>  |

| Asset Type       | Determining the Value of the Asset   |
|------------------|--|
|                  | <p><b>Note:</b> Non-vested stock options are not an acceptable source of funds for the down payment, closing costs, or reserves.</p> |
| Government bonds | The value of government bonds must be based on their purchase price unless the redemption value can be documented.                   |

When used for the down payment or closing costs, if the value of the asset (as determined above) is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower’s actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower’s actual receipt of funds realized from the sale or liquidation must be documented.

When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required.

Refer to [B3-4.3-03, Retirement Accounts](#), for the requirements pertaining to the use of retirement accounts for the down payment, closing costs, or reserves.

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date    |
|--|---------------|
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015 |
| <a href="#">Announcement 09-19</a>       | June 8, 2009  |



## **B3-4.3-02, Trust Accounts (04/01/2009)**

### Introduction

This topic contains information on trust accounts.

### Trust Accounts

Funds disbursed from a borrower’s trust account are an acceptable source for the down payment, closing costs, and reserves provided the borrower has immediate access to the funds.

To document trust account funds, the lender must:

- obtain written documentation of the value of the trust account from either the trust manager or the trustee, and
  - document the conditions under which the borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on trust income used in qualifying the borrower for the mortgage.
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### **B3-4.3-03, Retirement Accounts (06/30/2015)**

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#### **Introduction**

This topic contains information on retirement accounts.

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#### **Retirement Accounts**

Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. The lender must verify the ownership of the account and confirm that the account is vested and allows withdrawals regardless of current employment status.

If the retirement assets are in the form of stocks, bonds, or mutual funds, the account must meet the requirements of [B3-4.3-01, Stocks, Stock Options, Bonds, and Mutual Funds](#), for determining value and whether documentation of the borrower's actual receipt of funds is required when used for the down payment and closing costs. When funds from retirement accounts are used for reserves, Fannie Mae does not require the funds to be withdrawn from the account(s).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015     |
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012 |
| <a href="#">Announcement SEL-2011-04</a> | May 24, 2011      |
| <a href="#">Announcement 09-19</a>       | June 8, 2009      |



## B3-4.3-04, Personal Gifts (09/29/2015)

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### Introduction

This topic contains information on personal gifts, including:

- [Gift Funds](#)
- [Acceptable Donors](#)
- [Minimum Borrower Contribution Requirements](#)
- [Documentation Requirements](#)
- [Verifying Donor Availability of Funds and Transfer of Gift Funds](#)

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### Gift Funds

A borrower of a mortgage loan secured by a principal residence or second home may use funds received as a personal gift from an acceptable donor. Gift funds may fund all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements below. Gifts are not allowed on an investment property.

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### Acceptable Donors

A gift can be provided by:

- a relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship;  
or

- a fiancé, fiancée, or domestic partner.

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

### Minimum Borrower Contribution Requirements

The following table describes the minimum borrower contribution requirements for transactions that contain gifts.

| LTV, CLTV, or HCLTV Ratio | Minimum Borrower Contribution Requirement from Borrower's Own Funds |   |
|---------------------------|---|---|
| 80% or less               | One- to four-unit principal residence<br><br>Second home            | A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.   |
| Greater than 80%          | One-unit principal residence  | A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.   |
|                           | Two- to four-unit principal residence<br><br>Second home            | The borrower must make a 5% minimum borrower contribution from his or her own funds. <sup>a</sup> After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves.<br><br>See <a href="#">B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements</a> , for HomeReady mortgage minimum borrower contribution and down payment requirements. |

<sup>a</sup>If the borrower receives a gift from a relative or domestic partner who has lived with the borrower for the last 12 months, or from a fiancé or fiancée, the gift is considered the borrower's own funds and may be used to satisfy the minimum borrower contribution requirement as long as both individuals will use the home being purchased as their principal residence.



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## Documentation Requirements

Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:

- specify the dollar amount of the gift;
- specify the date the funds were transferred;
- include the donor's statement that no repayment is expected; and
- indicate the donor's name, address, telephone number, and relationship to the borrower.

When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included:

- A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence.
- Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement.

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## Verifying Donor Availability of Funds and Transfer of Gift Funds

The lender must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account. Acceptable documentation includes the following:

- a copy of the donor's check and the borrower's deposit slip,
- a copy of the donor's withdrawal slip and the borrower's deposit slip,
- a copy of the donor's check to the closing agent, or
- a settlement statement showing receipt of the donor's check.

When the funds are not transferred prior to settlement, the lender must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, or other official check.

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| Announcements and Release Notes          | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">DU Version 8.2</a>           | September 20, 2010 |
| <a href="#">Announcement 09-32</a>       | October 30, 2009   |



## B3-4.3-05, Gifts of Equity (11/13/2012)

### Introduction

This topic contains information on gifts of equity, including:

- [Gift of Equity](#)
- [Documentation Requirements](#)
- [Gifts of Equity and Interested Party Contributions](#)

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### Gift of Equity

A “gift of equity” refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller’s equity in the property, and is transferred to the buyer as a credit in the transaction. A gift of equity is permitted for principal residence and second home purchase transactions. The acceptable donor and minimum borrower contribution requirements for gifts also apply to gifts of equity. See [B3-4.3-04, Personal Gifts](#).

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### Documentation Requirements

The following documents must be retained in the loan file:

- a signed gift letter (see [B3-4.3-04, Personal Gifts](#)), and

- the settlement statement listing the gift of equity.

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### Gifts of Equity and Interested Party Contributions

If the requirements listed in this topic are met, the gift of equity is not subject to Fannie Mae's interested party contribution requirements (see [B3-4.1-02, Interested Party Contributions \(IPCs\)](#)).

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012 |
| <a href="#">Announcement 09-32</a>       | July 1, 2009      |



### **B3-4.3-06, Donations From Entities (03/29/2016)**

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#### Introduction

This topic contains information on donations from entities, including:

- [Donations From Entities](#)
- [Minimum Borrower Contribution Requirements](#)
- [Documentation Requirements](#)

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#### Donations From Entities

A borrower of a mortgage loan secured by a principal residence may use donated gift or grant funds from acceptable entities to fund all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements described below.

Donated gift or grant funds may also be applied towards energy-related improvements if

- the program under which the funds are made available allows such a use, and

- the minimum borrower contribution requirements are met.

Donated gifts and grants are not allowed on a second home or an investment property.

Acceptable entities include churches, municipalities, nonprofit organizations (excluding credit unions), a regional Federal Home Loan Bank under one of its affordable housing programs, and public agencies.

### Minimum Borrower Contribution Requirements

The following table describes the minimum borrower contribution requirements for transactions that contain donated gifts or grants.

| LTV, CLTV, or HCLTV Ratio | Minimum Borrower Contribution Requirement from Borrower's Own Funds |   |
|---------------------------|---|---|
| 80% or less               | One- to four-unit principal residence                               | A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a donated gift or grant.  |
| Greater than 80%          | One-unit principal residence  | A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a donated gift or grant.  |
|                           | Two- to four-unit principal residence                               | The borrower must make a 5% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, donated gifts or grants can be used to supplement the down payment, closing costs, reserves, and energy-related improvements.<br><br>See <a href="#">B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements</a> , for HomeReady mortgage minimum borrower contribution and down payment requirements. |

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## Documentation Requirements

The donated gift or grant must be documented with either a copy of the letter awarding the gift or grant to the borrower or a copy of the legal agreement that specifies the terms and conditions of the gift or grant. The document must include language indicating that repayment of the gift or grant is not expected, and how the funds will be transferred to the borrower, lender, or closing agent.

The transfer of gifts or grants must be documented with a copy of the donor's canceled check, a copy of the settlement statement showing receipt of the check, or similar evidence. The documentation must be included in the individual mortgage file.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcement                             | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-03</a> | March 29, 2016     |
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2014-07</a> | June 24, 2014      |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |



## **B3-4.3-07, Disaster Relief Grants or Loans (04/01/2009)**

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### Introduction

This topic contains information on disaster relief grants or loans.

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### Disaster Relief Grant or Loan

Borrowers may use lump-sum disaster relief grants or loans to satisfy Fannie Mae's minimum borrower contribution requirement. No borrower contribution is required.

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 **B3-4.3-08, Employer Assistance (09/29/2015)**

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### Introduction

This topic contains information on employer assistance, including:

- [Forms of Employer Assistance](#)
  - [Minimum Borrower Contribution Requirements](#)
  - [Documentation Requirements](#)
- 

### Forms of Employer Assistance

The employer assistance may be in the form of:

- a grant,
- a direct, fully repayable second mortgage or unsecured loan,
- a forgivable second mortgage or unsecured loan, or
- a deferred-payment second mortgage or unsecured loan.

A borrower of a mortgage loan secured by a principal residence may use funds provided by an employer to fund all or part of the down payment or closing costs subject to the minimum borrower contribution requirements below. Employer assistance can also be used for financial reserves for all types of assistance with the exception of unsecured loans (which may only be used for the down payment and closing costs). Employer assistance funds are not allowed on a second home or an investment property.

Funds must come directly from the employer, including through an employer-affiliated credit union.

When employer assistance is extended as a secured second mortgage, the transaction may be structured as a Community Seconds (see [B5-5.1-02, Community Seconds Loan Eligibility](#)) or it must satisfy Fannie Mae's eligibility criteria for mortgages that are subject to subordinate financing (see [B2-1.1-04, Subordinate Financing](#)).

If the secured second mortgage or unsecured loan does not require regular payments of either principal and interest or interest only, the lender does not need to calculate an equivalent payment for consideration as part of the borrower's monthly debt. If regular payments are required for the secured second mortgage, the payments must be included in the calculation of the debt-to-income ratio.

### Minimum Borrower Contribution Requirements

The following table describes the minimum borrower contribution requirements for transactions that contain employer assistance.

| LTV, CLTV, or HCLTV Ratio | Minimum Borrower Contribution Requirement from Borrower's Own Funds |   |
|---------------------------|---|---|
| 80% or less               | One- to four-unit principal residence                               | A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from employer assistance.  |
| Greater than 80%          | One-unit principal residence  | A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from employer assistance.  |
|                           | Two- to four-unit principal residence                               | The borrower must make a 5% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, employer assistance can be used to supplement the down payment, closing costs, and reserves (except for unsecured loans, which may not be applied to reserves).<br><br>See <a href="#">B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements</a> , for HomeReady mortgage minimum borrower contribution and down payment requirements. |

### Documentation Requirements

The lender must document:

- that the program is an established company program, not just an accommodation developed for an individual employee.
- the dollar amount of the employer's assistance.

- an unsecured loan from an employer with an award letter or legal agreement from the note holder and must disclose the terms and conditions of the loan.
- the terms of any other employee assistance being offered to the borrower (such as relocation benefits or gifts).
- that the borrower received the employer assistance funds directly from the employer (or through the employer-affiliated credit union).

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcement                             | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |



## **B3-4.3-09, Earnest Money Deposit (08/21/2012)**

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### Introduction

This topic contains information on the earnest money deposit, including:

- [Sales Contract Deposit](#)
- [Verification of Source of Funds](#)
- [Documentation for Receipt of the Deposit](#)

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### Sales Contract Deposit

The deposit on the sales contract (earnest money) for the purchase of the security property is an acceptable source of funds for both the down payment and the closing costs.

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### Verification of Source of Funds

If the deposit is being used as part of the borrower's minimum contribution requirement, the lender must verify that the funds are from an acceptable source. See [B3-4.2-01, Verification of Deposits and Assets](#).



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A *Request for Verification of Deposit* ([Form 1006](#) or [Form 1006\(S\)](#)) must indicate that the average balance for the past two months was large enough to support the amount of the deposit.

Bank statements must evidence that the average balance for the past two months was large enough to support the amount of the deposit. If a copy of the canceled deposit check is used to document the source of funds, the bank statements must cover the period up to (and including) the date the check cleared the bank account.

If it cannot be determined that these funds were withdrawn from the borrower's account, additional verification of the source and evidence that the funds have actually changed hands from the borrower to the seller, the realtor, the escrow agent, or the settlement attorney should be provided. Large earnest money deposits and deposits that exceed the amount customary for the area should be closely evaluated.

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### Documentation for Receipt of the Deposit

Receipt of the deposit must be verified by either a copy of the borrower's canceled check or a written statement from the holder of the deposit.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date      |
|--|-----------------|
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012 |



## **B3-4.3-10, Anticipated Sales Proceeds (02/23/2016)**

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### Introduction

This topic contains information on anticipated sales proceeds, including:

- [Anticipated Sales Proceeds](#)
- [Determining the Amount of Net Proceeds](#)
- [Sales Proceeds Needed for Down Payment and Closing Costs](#)
- [Like-Kind Exchanges](#)
- [Employee Relocation](#)

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### Anticipated Sales Proceeds

If the borrower's currently owned home is listed for sale but has not been sold, the lender may qualify the borrower on the basis of anticipated sales proceeds.

The lender must document the actual proceeds received by the borrower.

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### Determining the Amount of Net Proceeds

The following table describes how to determine the amount of net proceeds based on a borrower's anticipated equity.

| Sales Price Established? | Net Proceeds Calculation   |
|--------------------------|--|
| Yes                      | Sales Price – (Sales Costs + All Liens) = Estimated Proceeds   |
| No                       | 90% of Listing Price – All Liens = Estimated Proceeds<br><br><b>Note:</b> The 10% adjustment factor that is applied to the listing price must be changed depending on market conditions. |

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### Sales Proceeds Needed for Down Payment and Closing Costs

If the proceeds from the sale of a currently owned home are needed for the down payment and closing costs on the new house, the lender must verify the source of funds by obtaining a copy of the settlement statement on the existing home before, or simultaneously with, the settlement on the new home, showing sufficient net cash proceeds to consummate the purchase of the new home.

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### Like-Kind Exchanges

Assets for the down payment from a "like-kind exchange," also known as a 1031 exchange, are eligible if properly documented and in compliance with Internal Revenue Code Section 1031.

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### Employee Relocation

When the borrower's employer assumes responsibility for paying off the existing mortgage in connection with a relocation plan, the lender must obtain a copy of the executed buy-

out agreement to document the source of funds. A photocopy of a sales contract or a listing agreement is not considered an acceptable source of verification of proceeds from the sale.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015  |
| <a href="#">Announcement SEL-2014-06</a> | May 27, 2014      |



## B3-4.3-11, Trade Equity (12/01/2010)

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### Introduction

This topic contains information on trade equity, including:

- [Trade Equity](#)
- [Calculating the Equity Contribution](#)
- [Documentation Requirements](#)

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### Trade Equity

Trade equity is an acceptable source of funds to supplement the borrower's minimum borrower contribution provided the following requirements are met:

- The seller's equity contribution for the traded property must be a true-value consideration supported by a current appraisal.
- The borrower must make the minimum required contribution from his or her own funds unless:
  - the LTV or CLTV ratio is less than or equal to 80%; or
  - the borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution. See [B3-4.3-04, Personal Gifts](#); [B3-4.3-06, Donations From Entities](#); and [B3-4.3-08, Employer Assistance](#), for additional information.

These requirements apply to all transactions that involve property trades, including those that are evidenced by two separate contracts that have the buyer and the seller on one contract reversing roles on the second contract.

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### Calculating the Equity Contribution

The equity contribution is determined by subtracting the outstanding mortgage balance of the property being traded, plus any transfer costs, from the lesser of either the property's appraised value or the trade-in value agreed to by both parties.

For trade equity requirements for manufactured housing, see Section B5-2-03, Manufactured Housing Underwriting Requirements.

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### Documentation Requirements

For real property, the transfer deed must be recorded.

In addition, lenders must obtain the following:

- A search of the land records to verify the ownership of the property and to determine whether there are any existing liens on the property.
- Proof of title transfer and satisfaction of any existing mortgage liens for which the borrower was liable.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010 |



## **B3-4.3-12, Rent Credit for Option to Purchase (04/01/2009)**

### Introduction

This topic contains information on rent credit for option to purchase, including:

- [Rent Credit for Option to Purchase](#)
- [Documentation Requirements](#)

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### **Rent Credit for Option to Purchase**

Rent credit for option to purchase is an acceptable source of funds toward the down payment or minimum borrower contribution. Borrowers are not required to make a minimum borrower contribution from their own funds in order for the rental payments to be credited toward the down payment.

Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid for the last 12 months. The market rent is determined by the appraiser in the appraisal for the subject property.

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### **Documentation Requirements**

The lender must obtain the following documentation:

- A copy of the rental/purchase agreement evidencing a minimum original term of at least 12 months, clearly stating the monthly rental amount and specifying the terms of the lease.
  - Copies of the borrower's canceled checks or money order receipts for the last 12 months evidencing the rental payments.
  - Market rent as determined by the subject property appraisal.
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### **B3-4.3-13, Sweat Equity (04/15/2014)**

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#### **Introduction**

This topic contains information on sweat equity.

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#### **Sweat Equity**

Generally, sweat equity is not an acceptable source of funds for the down payment, closing costs, and reserves, since it is difficult to accurately assess the contributory value of sweat equity work. Only for specific transactions and if all eligibility requirements are met does Fannie Mae consider sweat equity to be an acceptable source of funds.

For further detail on the specific transactions and the eligibility requirements to be met, see Chapter B5–6, HomeReady Mortgage.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcement                             | Issue Date     |
|--|----------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014 |



## B3-4.3-14, Bridge/Swing Loans (04/01/2009)

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### Introduction

This topic contains information on bridge/swing loans.

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### Bridge/Swing Loans

A bridge (or swing) loan is an acceptable source of funds provided the following requirements are met:

- The bridge loan cannot be cross-collateralized against the new property.
- The lender must document the borrower's ability to successfully carry the payments for the new home, the current home, the bridge loan, and other obligations.

Fannie Mae does not have a specified limitation on the term of bridge loans. See [B3-6-05, Monthly Debt Obligations](#), for more information about how to treat the resulting contingent liability.



## B3-4.3-15, Borrowed Funds Secured by an Asset (10/30/2009)

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### Introduction

This topic contains information on borrowed funds secured by an asset, including:

- [Borrowed Funds Secured by an Asset](#)
- [Secured Loans as Debt](#)
- [Reducing the Asset by the Amount Borrowed](#)
- [Documentation Requirements](#)

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### **Borrowed Funds Secured by an Asset**

Borrowed funds secured by an asset are an acceptable source of funds for the down payment, closing costs, and reserves, since borrowed funds secured by an asset represent a return of equity.

Assets that may be used to secure funds include automobiles, artwork, collectibles, real estate, or financial assets, such as savings accounts, certificates of deposit, stocks, bonds, and 401(k) accounts.

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### **Secured Loans as Debt**

When qualifying the borrower, the lender must consider monthly payments for secured loans as a debt.

If a secured loan does not require monthly payments, the lender must calculate an equivalent amount and consider that amount as a recurring debt.

When loans are secured by the borrower's financial assets, monthly payments for the loan do not have to be considered as long-term debt.

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### **Reducing the Asset by the Amount Borrowed**

If the borrower uses the same financial asset as part of his or her financial reserves, the lender must reduce the value of the asset by the amount of proceeds and related fees for the secured loan.

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### **Documentation Requirements**

The lender must document the following:

- the terms of the secured loan,
- evidence that the party providing the secured loan is not a party to the sale, and
- evidence that the funds have been transferred to the borrower.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                      | Issue Date       |
|------------------------------------|------------------|
| <a href="#">Announcement 09-32</a> | October 30, 2009 |



## B3-4.3-16, Credit Card Financing (10/30/2009)

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### Introduction

This topic contains information on credit card financing.

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### Credit Card Financing

Fannie Mae permits certain costs that must be paid early in the application process, such as lock-in fees, origination fees, commitment fees, credit report fees, and appraisal fees, to be charged to the borrower's credit card because these fees do not represent extraordinary amounts and the credit card debt is considered in the borrower's total monthly debt-to-income ratio. Borrowers are not required to pay off these credit card charges before closing. Under no circumstances may credit card financing be used for the down payment.

Lenders may allow credit card financing for the payment of common and customary fees paid outside of closing up to a maximum of 2% of the loan amount if the lender:

- confirms that the borrower has sufficient liquid funds (financial reserves) to cover these charges (in addition to funds needed for other closing costs and the down payment that he or she will be paying); or
- recalculates the credit card payment, per [B3-6-05, Monthly Debt Obligations](#), to account for the new charges and includes the updated payment in the qualifying ratio calculation.

For DU, lenders must apply this policy manually, by either including the fees charged to the borrower's credit card on line f. Estimated Closing Costs of the Details of Transaction, and removing any "Borrower Paid Fees" entered in the Other Credits section of the Details of Transaction for the fees paid outside of closing; or by increasing the monthly credit card payment in the liabilities section of the loan casefile submitted to DU to include the charges if not reflected in the credit report.



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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                      | Issue Date   |
|------------------------------------|--------------|
| <a href="#">Announcement 09–19</a> | June 8, 2009 |



## B3-4.3-17, Personal Unsecured Loans (09/20/2010)

### Introduction

This topic contains information on personal unsecured loans.

### Personal Unsecured Loans

Personal unsecured loans are not an acceptable source of funds for the down payment, closing costs, or financial reserves.

Examples of personal unsecured loans include signature loans, lines of credit on credit cards, and overdraft protection on checking accounts.

## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcement                             | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2010–13</a> | September 20, 2010 |



## B3-4.3-18, Sale of Personal Assets (04/01/2009)

### Introduction

This topic contains information on the sale of personal assets, including:

- [Sale of Personal Assets](#)
- [Documentation Requirements](#)

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## Sale of Personal Assets

Proceeds from the sale of personal assets are an acceptable source of funds for the down payment, closing costs, and reserves provided the individual purchasing the asset is not a party to the property sale transaction or the mortgage financing transaction.

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## Documentation Requirements

The lender must document the following:

- The borrower's ownership of the asset.
- The value of the asset, as determined by an independent and reputable source.
- The transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser.
- The borrower's receipt of the sale proceeds from documents such as deposit slips, bank statements, or copies of the purchaser's canceled check.

Depending on the significance of the funds in question, the lender may accept alternatives to this required documentation, particularly when the proceeds of the sale represent a minor percentage of the borrower's overall financial contribution.



## **B3-4.3-19, Cash Value of Life Insurance (05/27/2014)**

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### Introduction

This topic contains information on the cash value of life insurance, including:

- [Cash Value of Life Insurance and Debt-to-Income Ratios](#)
- [Documenting Borrower Receipt of Funds](#)

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### Cash Value of Life Insurance and Debt-to-Income Ratios

Net proceeds from a loan against the cash value or from the surrender of a life insurance policy are an acceptable source of funds for the down payment, closing costs, and reserves.

The lender must assess repayment or additional obligation considerations to determine the impact on borrower qualification or reserves.

If penalties for failure to repay the loan are limited to the surrender of the policy, payments on a loan secured by the cash value of a borrower's life insurance policy do not have to be considered in the total debt-to-income ratio.

If additional obligations are indicated, the obligation amount must be factored into the total debt-to-income ratio, or subtracted from the borrower's financial reserves.

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### Documenting Borrower Receipt of Funds

If the funds are needed for the down payment or closing costs, lenders must document the borrower's receipt of the funds from the insurance company by obtaining either a copy of the check from the insurer or a copy of the payout statement issued by the insurer. If the cash-value of the life insurance is being used for reserves, the cash-value must be documented but does not need to be liquidated and received by the borrower.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date   |
|--|--------------|
| <a href="#">Announcement SEL-2014-06</a> | May 27, 2014 |



## **B3-4.3-20, Anticipated Savings and Cash-on-Hand (04/01/2009)**

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### Introduction

This topic contains information on:

- [Anticipated Savings](#)
- [Cash-on-Hand](#)

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### Anticipated Savings

The lender may preliminarily qualify a borrower on the basis that anticipated savings will be sufficient to meet the funds needed for closing. The lender must verify that savings are actually accumulated by the borrower before loan closing.

The estimate for a borrower's anticipated savings must be realistically developed. To calculate potential saved funds, the lender should reduce the borrower's expected after-tax income for the expected savings period by existing housing expenses, monthly debt expenses based on data from the credit report, and expected living expenses, such as food, transportation, etc.

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### **Cash-on-Hand**

Cash-on-hand is not an acceptable source of funds for the down payment or closing costs.

For HomeReady mortgages, cash-on-hand may be considered an acceptable source of funds for the down payment and closing cost. See Chapter B5–6, HomeReady Mortgage.

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## Section B3-4.4, DU Requirements for Asset Assessment



### B3-4.4-01, Asset Verification (06/24/2014)

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#### Introduction

This topic contains information on asset verification for mortgages underwritten with DU, including:

- [Liquid Assets](#)
  - [Non-Liquid Assets](#)
  - [Reserve Requirements](#)
  - [Asset Values in the DU Underwriting Findings Report](#)
  - [Non-Occupant Borrower Asset Requirements](#)
- 

#### Liquid Assets

DU analyzes the value of liquid assets entered in the online application in its risk assessment. Assets may be excluded from the online application if the borrower can qualify without them.

The online loan application provides the following categories of liquid assets: Bond, Bridge Loan, Cash-on-Hand (for HomeReady mortgages only), Certificate of Deposit, Checking Account, Gift, Gift of Equity, Money Market Fund, Mutual Fund, Net Equity, Other Liquid Asset, Retirement Fund, Savings Account, Secured Borrowed Funds, Stock, and Trust Funds.

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#### Non-Liquid Assets

DU does not consider the amount of non-liquid assets. Non-liquid assets do not have to be verified, and will not be identified in a verification message.

The online loan application provides the following categories of non-liquid assets: Cash Deposit on Sales, Net Worth of Business, and Other Non-Liquid Asset.

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#### Reserve Requirements

For loan casefiles underwritten with DU, DU will determine the reserve requirements based on the overall risk assessment of the loan casefile and the minimum reserves that may be required

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for the transaction. Reserves may be considered a compensating factor in DU's risk analysis, and may serve to improve the underwriting recommendation.

Refer to the following topics for additional requirements related to minimum reserves:

- [B2-2-03, Multiple Financed Properties for the Same Borrower](#)
- [B3-4.1-01, Minimum Reserve Requirements](#)

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### **Asset Values in the DU Underwriting Findings Report**

The DU Underwriting Findings report will identify the following values:

- “Total Available Assets,” which is the total of all borrower(s)’ liquid assets entered into DU;
- “Funds Required to Close,” which will include the cash needed to complete the transaction plus any debts marked paid by closing on purchase or limited cash-out refinance transactions, other than subject property mortgage(s);
- “Reserves Required to be Verified,” which is the amount of reserves that must be verified;
- “Total Funds to be Verified,” which is the sum of the “Funds Required to Close” and the “Reserves Required to be Verified”; and
- “Excess Available Assets, not required to be verified by DU,” which are liquid assets that DU is not requiring the lender to verify.

The Excess Available Assets, not required to be verified by DU (Excess Available Assets) amount represents the amount of assets remaining after subtracting the Total Funds to be Verified from the Total Available Assets. Excess Available Assets do not generally need to be verified; however, there are some transactions that will require verification of additional assets above and beyond the amount required by DU (for example, reserves for multiple financed properties and transactions that involve the conversion of a principal residence). For these loan casefiles, lenders can utilize the amount in this field to ensure that the borrower has the appropriate amount of assets and provides the required documentation as needed.

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### **Non-Occupant Borrower Asset Requirements**

Assets that are owned by a non-occupant borrower can be included in the 5% minimum borrower contribution requirement (when applicable), and those funds must be entered in the online loan application. Total liquid assets for the occupying borrower and non-occupant borrower are included in DU’s calculation of total available assets.

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| Announcements and Release Notes          | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2014-07</a> | June 24, 2014      |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">DU Version 9.0</a>           | July 24, 2012      |
| <a href="#">Announcement SEL-2012-01</a> | January 31, 2012   |
| <a href="#">Announcement SEL-2010-06</a> | April 30, 2010     |
| <a href="#">DU Version 8.0</a>           | September 22, 2009 |
| <a href="#">Announcement 09-02</a>       | February 6, 2009   |



## B3-4.4-02, Documentation Requirements (12/06/2016)

### Introduction

This topic contains information on DU documentation requirements, including:

- [Asset Verification Documentation](#)
- [Depository Assets](#)
- [Bridge Loan \(Liquid Asset\)](#)
- [Cash Deposit on Sales Contract \(Earnest Money\)](#)
- [Gifts](#)
- [Gifts of Equity](#)
- [Net Equity \(From Properties Pending Sale\)](#)
- [Net Worth of Business](#)
- [Other Liquid Asset](#)
- [Proceeds From Sold Properties](#)
- [Secured Borrowed Funds](#)

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### Asset Verification Documentation

DU indicates the minimum verification documentation requirements necessary for the lender to process the loan application. This level of documentation may not be adequate for every borrower and every situation. The lender must determine whether additional documentation is warranted.

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## Depository Assets

For depository assets (checking and savings accounts, money market funds, and certificates of deposit), DU will require two consecutive monthly bank statements (60 days of account activity).

Monthly bank statements must be dated within 45 days of the initial loan application date.

Quarterly bank statements must be dated within 90 days of the initial loan application date, and the lender must confirm that the funds in the account have not been transferred to another asset account that is verified with more current documentation.

A *Verification of Deposit* ([Form 1006](#) or [Form 1006\(S\)](#)) can be obtained in place of bank statements.

When DU validates assets, DU issues a message indicating the acceptable documentation. Compliance with the DU message satisfies the requirement for documenting assets. This documentation may differ from the requirements described above. See [B3-2-02, DU Validation Service](#)

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## Bridge Loan (Liquid Asset)

Enter the amount of a bridge/swing loan under Bridge Loan in Section VI Assets. Do not include the amount of the bridge loan in any other liquid asset. (For example, do not enter the amount of the loan both as a bridge loan and in a checking account, even if the loan funds have been deposited.)

Bridge loans should also be considered in the Net Equity calculation for properties that are Pending Sale. (In other words, the amount of the bridge loan should be subtracted from the net proceeds to avoid counting this asset twice.)

**Note:** It may also be necessary to enter the bridge loan as a recurring liability in Section VI, Liabilities, with the corresponding monthly payment. See the bridge loan liability discussion in [B3-6-05, Monthly Debt Obligations](#).

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## Cash Deposit on Sales Contract (Earnest Money)

When cash deposit on sales contract (earnest money) is entered in Section VI Assets, DU does not consider it liquid. Therefore, in order to give the borrower credit for earnest money that is not already reflected in a liquid account, the lender must enter the earnest money amount as follows:



- 
- If the earnest money check has not cleared the borrower's bank account, the amount can be included in a depository account, such as a checking or savings account.
  - If the earnest money check has cleared the borrower's bank account, the amount can be entered as Other Credit in Section VII, where it is assumed to be verified.

Do not enter the amount in both places.

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## Gifts

Gifts or donations from entities (grants) are permitted in accordance with [B3-4.3-04, Personal Gifts](#), and [B3-4.3-06, Donations From Entities](#). The entry of gifts or grants on the online loan application is as follows:

- When a gift is entered in Section VI Assets as a gift, the funds are included in available funds. It is important that the gift amount is identified separately as a gift even if the funds have already been deposited in a liquid asset account owned by the borrower (such as a checking or savings account). The balance of the liquid asset account entered in the loan application must be adjusted accordingly to prevent duplicate entry of funds. For example, if the borrower's verified checking account reflects a balance of \$15,000, and \$5,000 of that amount was from a gift, the checking account balance should be adjusted to reflect \$10,000, and the \$5,000 should be entered separately as a gift.
- When a gift is entered in Section II as a source of down payment, the funds are not included in the available funds.

**Note:** Gift funds are considered liquid only when the funds are entered as Gift in Section VI Assets.

Some loan origination systems (LOS) may not provide a "gift" data entry option, or the gift entry may not map correctly to DU. (For example, the LOS may identify the gift as a checking account when the data is transmitted to DU.) The lender must ensure that gift information has been properly identified in DU.

For gift documentation requirements, see [B3-4.3-04, Personal Gifts](#).

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## Gifts of Equity

Enter a gift of equity in Section VI A.

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A gift of equity must meet the gift of equity requirements defined in [B3-4.3-05, Gifts of Equity](#).

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### **Net Equity (From Properties Pending Sale)**

When full REO data is entered, DU automatically calculates the estimated net equity from properties marked Pending Sale in Section VI R using the following formula:

$$(\text{Present Market Value} \times 90\%) - \text{Amount of Mtgs. \& Liens}$$

However, because full REO data is not required, the lender can calculate the net equity outside of DU and enter the amount (positive or negative) as Net Equity in Section VI A.

If net equity is calculated from data in Section VI R and is also entered in Section VI A, DU will use the amount from Section VI A.

If a bridge loan is obtained, the amount of the bridge loan should be subtracted from the net proceeds.

When the net equity is positive, DU will add the amount to the funds available for closing. When the net equity is negative, DU will subtract the amount from the funds available for closing.

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### **Net Worth of Business**

When net worth of business is entered in Section VI A, DU does not consider it liquid. If the borrower is using proceeds from the sale of his or her business, the net proceeds should be entered in a depository account, such as a checking or savings account.

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### **Other Liquid Asset**

Enter the value of personal assets that will be converted to a liquid asset (or sold) prior to closing. For example, enter as Other Liquid Asset the net cash value of life insurance, automobiles, or other personal assets that will be sold, or the amount of pending tax refunds that will be received prior to closing. A verification message will require evidence of the value of the asset and confirmation that the asset was converted to cash.

**Note:** Some loan origination systems may not provide an asset type for other liquid assets, or the entry may not map correctly to DU. In such cases, assets that would otherwise have been entered as Other Liquid Asset should be included in a depository account, such as a checking or savings account, if the assets will be converted to cash prior to closing. Appropriate documentation should be included in the loan file.

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### Proceeds From Sold Properties

Proceeds from properties that have already been sold should be included in a depository account, such as a checking or savings account.

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### Secured Borrowed Funds

Borrowers can borrow against an asset they own, such as a 401(k) account or real estate, according to the requirements of [B3-6-05, Monthly Debt Obligations](#). The amount of the secured loan should be entered as Secured Borrowed Funds in Section VI A. The secured loan amount should be subtracted from the market value of the actual asset, and the net asset value should be entered in the appropriate field in Section VI A. For example, if the borrower has a vested value, less taxes and penalties, of \$30,000 in a 401(k) account and borrows \$10,000 against the 401(k), enter \$10,000 as secured borrowed funds and enter \$20,000 as retirement funds.

Loans that are secured against a liquid asset owned by the borrower (such as a 401(k) or mutual fund) do not have to be entered as liabilities in Section VI Liabilities if the appropriate documentation is provided.

Loans that are secured against real estate, or any other non-liquid asset, must be entered as liabilities in Section VI Liabilities.

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### Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 6, 2016   |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">DU Version 8.2</a>           | September 20, 2010 |
| <a href="#">Announcement SEL-2010-01</a> | March 2, 2010      |

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# Chapter B3-5, Credit Assessment



## Credit Assessment

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### Introduction

This chapter describes credit assessment for qualifying, underwriting, and documentation purposes.

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### In This Chapter

This chapter contains the following sections:

|   |     |
|---|-----|
| B3-5.1, Credit Scores .....                 | 507 |
| B3-5.2, Credit Reports .....                | 513 |
| B3-5.3, Traditional Credit History .....    | 522 |
| B3-5.4, Nontraditional Credit History ..... | 548 |

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## Section B3-5.1, Credit Scores



### **B3-5.1-01, General Requirements for Credit Scores (08/30/2016)**

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#### **Introduction**

This topic describes Fannie Mae's requirements for borrower credit scores, including:

- [Credit Score Versions](#)
  - [Minimum Credit Score Requirements](#)
  - [Exceptions to the Minimum Credit Score Requirement](#)
  - [DU Credit Score Requirements](#)
  - [Loan-Level Price Adjustments Based on Credit Score](#)
- 

#### **Credit Score Versions**

Credit scores are required for most mortgage loans purchased or securitized by Fannie Mae. The classic FICO credit score is produced from software developed by Fair Isaac Corporation and is available from the three major credit repositories. Fannie Mae requires the following versions of the classic FICO score for both DU and manually underwritten mortgage loans:

- Equifax Beacon® 5.0;
- Experian®/Fair Isaac Risk Model V2SM; and
- TransUnion FICO® Risk Score, Classic 04.

The lender must request these FICO credit scores for each borrower from each of the three major credit repositories when they order the three in-file merged credit report. If the borrower's credit file includes complete and accurate information to ensure the validity of the credit score, the lender does not need to further evaluate the borrower's creditworthiness.

**Note:** The credit report will indicate if a credit score could not be produced due to insufficient credit. The credit report must be maintained in the mortgage loan file, whether the report includes traditional credit and a credit score or indicates that a credit score could not be produced due to insufficient credit.

## Minimum Credit Score Requirements

Fannie Mae's minimum credit score requirements are published in the [Eligibility Matrix](#) and are based on the representative credit score for the transaction and the highest of the LTV, CLTV, or HCLTV ratios, as applicable. See [B3-5.1-02, Determining the Representative Credit Score for a Mortgage Loan](#) for additional information. The following requirements apply:

| Transaction Type   | Minimum Representative Credit Score  |
|--|--|
| Manually underwritten mortgage loans   | Per the <i>Eligibility Matrix</i> , but in no case will credit scores be lower than<br><br>620 — fixed-rate loans<br><br>640 — ARMs            |
| DU loan casefiles  | DU performs its own analysis of the credit report data, but in no case will credit scores be lower than<br><br>620 — fixed-rate loans and ARMs |
| Mortgage loans insured or guaranteed by a federal government agency (HUD, FHA, VA, and RD) | 620  |
| Loans delivered pursuant to any variance contained in the lender's Master Agreement        | Higher of 620 or the minimum credit score required by the variance   |

## Exceptions to the Minimum Credit Score Requirement

Certain transactions are not subject to the minimum credit score requirement, including:

- mortgage loans where no borrower has a credit score (see Section B3–5.4, Nontraditional Credit History);
- manually underwritten HomeReady mortgage loans that include a borrower with a low credit score (see [B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements](#)); and
- DU Refi Plus and Refi Plus mortgage loans except for certain Refi Plus transactions that have a minimum credit score requirement (see Underwriting Requirements — Refi Plus in [B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations](#)).

---

## **DU Credit Score Requirements**

Credit scores are not an integral part of DU's risk assessment because DU performs its own analysis of the credit report data. However, lenders must request credit scores for each borrower from each of the three credit repositories when they order the three in-file merged credit report, described in [B3-5.2-01, Requirements for Credit Reports](#). If one or two of the credit repositories do not contain any credit information for the borrowers who have traditional credit, the credit report is still acceptable as long as

- credit data is available from one repository,
- a credit score is obtained from that repository, and
- the lender requested a three in-file merged report.

If the transaction does not meet the above requirements, refer to Section B3–5.4, Nontraditional Credit History, for underwriting and eligibility requirements for DU loans in which one or more borrowers do not have a credit score.

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## **Loan-Level Price Adjustments Based on Credit Score**

Loan-level price adjustments (LLPAs) are assessed based on the “representative” credit score for the loan, in addition to other eligibility and loan features. See the [Loan-Level Price Adjustment \(LLPA\) Matrix](#) for additional information about LLPAs, including information about how LLPAs are assessed for loans that include borrowers without a credit score.

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016    |
| <a href="#">Announcement SEL-2015-02</a> | February 24, 2015  |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013    |
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012  |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">DU Version 9.0</a>           | July 24, 2012      |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012      |
| <a href="#">Announcement SEL-2011-13</a> | December 20, 2011  |
| <a href="#">Announcement SEL-2011-12</a> | November 15, 2011  |
| <a href="#">Announcement SEL-2010-06</a> | April 30, 2010     |
| <a href="#">Announcement 09-37</a>       | December 30, 2009  |
| <a href="#">Announcement 09-32</a>       | October 30, 2009   |
| <a href="#">Announcement 09-29</a>       | September 22, 2009 |
| <a href="#">Announcement 09-08R</a>      | June 8, 2009       |
| <a href="#">Announcement 09-12</a>       | May 4, 2009        |
| <a href="#">Announcement 09-04</a>       | March 4, 2009      |



## **B3-5.1-02, Determining the Representative Credit Score for a Mortgage Loan (08/30/2016)**

### Introduction

This topic contains requirements associated with determining the representative credit score, including:

- [Representative Credit Score](#)
- [Foreign Credit Reports and Credit Scores](#)



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## Representative Credit Score

The representative credit score for the mortgage loan is determined based on the credit scores of each borrower and is used to determine loan eligibility and for pricing purposes (i.e., assessing LLPAs). Follow these steps to calculate the representative credit score for a mortgage:

| Step | Description   |
|------|---|
| 1    | Fannie Mae recommends obtaining at least two credit scores for each borrower.   |
| 2    | Select a single applicable score for underwriting each borrower. <ul style="list-style-type: none"><li>• When two credit scores are obtained, choose the lower score.</li><li>• When three credit scores are obtained, choose the middle score. (If two of the three scores are the same, choose the middle of the three scores. For example: 700, 680, 680 = 680; 700, 700, 680 = 700)</li></ul>   |
| 3    | If there is only one borrower, the single applicable score used to underwrite that borrower is the representative credit score for the mortgage.<br>If there are multiple borrowers, determine the applicable credit score for each individual borrower and select the lowest applicable score from the group as the representative credit score for the mortgage. If there is a borrower on the loan who does not have a credit score, determine the representative credit score for the mortgage based on the credit scores of the other borrowers on the mortgage. |

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## Foreign Credit Reports and Credit Scores

With the exception of loan casefiles underwritten through DU, Fannie Mae permits the lender to use a credit report from a foreign country to document a borrower's credit history. (See [B3-5.2-01, Requirements for Credit Reports](#).) If a credit score is provided with the foreign credit report it cannot be used to establish eligibility unless the credit score is the classic FICO, as required by [B3-5.1-01, General Requirements for Credit Scores](#). In addition, the lender must not deliver the foreign credit score to Fannie Mae and it cannot be relied upon to establish eligibility (unless the credit score is the classic FICO). See Section B3–5.4, Nontraditional Credit History, for requirements that apply when a loan includes a borrower without an acceptable credit score.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b> |
|---|-------------------|
| <a href="#"><u>Announcement SEL-2016-07</u></a> | August 30, 2016   |
| <a href="#"><u>Announcement SEL-2012-07</u></a> | August 21, 2012   |
| <a href="#"><u>Announcement SEL-2012-06</u></a> | June 26, 2012     |
| <a href="#"><u>Announcement 09-32</u></a>       | October 30, 2009  |
| <a href="#"><u>Announcement 09-12</u></a>       | May 4, 2009       |

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## Section B3-5.2, Credit Reports



### **B3-5.2-01, Requirements for Credit Reports (12/06/2016)**

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#### **Introduction**

This topic describes requirements for credit reports, including:

- [Overview](#)
  - [General Requirements](#)
  - [Public Records Information](#)
  - [Acceptable and Unacceptable Changes](#)
  - [Required Creditor Information](#)
  - [Format for Reporting Payment History](#)
  - [Inquiries](#)
  - [Unreported Debts](#)
  - [Assessing Borrower Credit Management Skills](#)
  - [Credit Report Requirements in Desktop Underwriter](#)
  - [Credit Score Requirements](#)
- 

#### **Overview**

The lender must obtain a credit report for each borrower on the loan application who has an individual credit record. The credit report must be based on data provided by the national credit repositories. Acceptable credit report formats are described in [B3-5.2-02, Types of Credit Reports](#). For credit report requirements in DU see below.

A nontraditional mortgage credit report or other form of alternative credit verification may be used if the borrower

- does not have sufficient credit to enable the development of a credit score, or
- does not use the type of credit that is reported to credit repositories.

See Section B3-5.4, Nontraditional Credit History, for additional information.

---

#### **General Requirements**

Credit reports must meet the following general requirements:

- 
- The report must include both credit and public record information for each locality in which the borrower has resided during the most recent two-year period.

If the lender relies on credit reports from foreign countries to document borrower credit histories, the credit report must meet the requirements and standards for domestic reports, and must be completed in English or include an English translation. (See [B3-5.1-02, Determining the Representative Credit Score for a Mortgage Loan](#) for information about credit scores in foreign credit reports.)

- The report must include all discovered credit and legal information that is not considered obsolete under the Fair Credit Reporting Act. Although the Fair Credit Reporting Act currently specifies that credit information is not considered obsolete until after seven years, and bankruptcy information after ten years, Fannie Mae requires only a seven-year history to be reviewed for all credit and public record information.
- The report must be an original report, with no erasures, white-outs, or alterations. An automated credit report or one that is transmitted by fax is considered to be an “original” report.
- The report must include the full name, address, and telephone number of the credit reporting agency, as well as the names of the national repositories that the agency used to provide information for the report.
- The credit reporting agency must make responsive statements about all items on the credit report—indicating “unable to verify” or “employer refused to verify,” when appropriate.

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### **Public Records Information**

The report must include all available public records information, identify the sources of the public records information, and disclose whether any judgments, foreclosures, tax liens, or bankruptcies were discovered (with these adverse items reported in accordance with the Fair Credit Reporting Act).

Public records information must be obtained from two sources, which may include any combination of the following:

- national repositories of accumulated credit records,
- direct searches of court records by employees of the lender or the consumer reporting agency, or
- record searches made by other public records search firms.

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### **Acceptable and Unacceptable Changes**

Collected credit report information should not be changed. However, it is permissible to delete duplicate information, translate codes to plain language, and make appropriate adjustments to resolve conflicting information to ensure the clarity of the report.

The following types of changes are unacceptable:

- deleting tradelines that pertain to a borrower's bankruptcy,
- adding a payment amount to a creditor's tradeline when the creditor does not require a payment, or
- restricting information collection to a shorter time period than Fannie Mae requires.

Credit repositories should only change the information called to its attention by a creditor or a party that is not associated with either the real estate sale or purchase transaction or the mortgage financing.

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### **Required Creditor Information**

For each debt listed, the report must provide:

- the creditor's name,
- the date the account was opened,
- the amount of the highest credit,
- the current status of the account,
- the required payment amount,
- the unpaid balance, and
- a payment history.

The report must indicate the dates that accounts were last updated with the creditors. Each account with a balance must have been checked with the creditor within 90 days of the date of the credit report.

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### **Format for Reporting Payment History**

All data must be presented in a format that is easy to read and that is understandable without the need for code translations.

The report must list the historical status of each account. This status must be presented in a “number of times past due” format and include the dates of the delinquencies.

The preferred format is “0 x 30, 0 x 60, 0 x 90 days” late. The following formats are also acceptable:

- “R1, R2, R3, ...,” if it also gives historical negative ratings, such as “was R3 in 6/05.”
- a consecutive numbering sequence, such as “0001000 ...,” provided the meaning is clear from the report.

Statements such as “current,” “satisfactory,” or “as agreed” are not satisfactory by themselves.

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### **Inquiries**

The report must list all inquiries that were made in the previous 90 days.

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### **Unreported Debts**

If the credit report does not include a reference for each significant open debt on the application, the lender must obtain a separate written verification for each unreported debt. The lender also needs to verify separately accounts listed as “will rate by mail only” or “need written authorization.”

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### **Assessing Borrower Credit Management Skills**

The borrower’s credit management skills can be assessed by analyzing repayment patterns, credit utilization, and level of experience in using credit.

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### **Credit Report Requirements in Desktop Underwriter**

Lenders are required to request a three in-file merged credit report from one of the [credit information providers](#) listed on Fannie Mae's website. The credit report used by DU in the final loan casefile submission must be maintained in the mortgage loan file. A DU observation

message will identify all of the credit reports evaluated by DU during the loan submission. The version of the credit report received by DU must be one that supports trended credit data. Trended credit data is expanded information on a borrower's credit history at a tradeline level on several monthly factors, including: amount owed, minimum payment, and payment made.

**Note:** The borrower's present address must be within the U.S., U.S. territories, or an APO, FPO, or DPO military address located within the U.S. in order to obtain a credit report that is compatible with DU loan casefile requirements. Borrowers with foreign credit reports must be manually underwritten.

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### Credit Score Requirements

See [B3-5.1-01, General Requirements for Credit Scores](#), for additional information about credit report requirements related to credit scores.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 06, 2016 |
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016   |
| <a href="#">Announcement SEL-2016-04</a> | May 31, 2016      |
| <a href="#">Announcement 09-32</a>       | October 30, 2009  |



## **B3-5.2-02, Types of Credit Reports (08/30/2016)**

### Introduction

This topic contains information on the types of credit reports that are accepted by Fannie Mae, including:

- [In-File Credit Reports](#)
- [Automated Merged Credit Reports](#)
- [Residential Mortgage Credit Reports](#)

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## **In-File Credit Reports**

An in-file credit report provides credit and public record information obtained from one or more credit repositories. The report contains “as is” information, which typically has not been updated or re-verified as a result of the credit inquiry.

The report must meet the following requirements:

- The report should include all information from three different credit repositories, or two repositories, if that is the extent of the data available for the borrower. If only one in-file credit report is available for a borrower, this is acceptable if the lender is able to obtain a credit score for the borrower and the lender requested information from three credit repositories.
- If the report does not include a reference for each significant debt reported by the borrower on the loan application, the lender must obtain a separate written verification for each unreported (or unrated) debt.
- If the report lists accounts that were not checked with the creditor within 90 days of the date of the in-file report, the lender must obtain an updated credit report or a separate written verification for those accounts.

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## **Automated Merged Credit Reports**

An automated merged credit report combines the in-file credit reports from multiple repositories into a single report. A joint merged credit report includes all credit repository credit data on more than one individual applicant.

The report must meet the following requirements:

- The report must include all information from three different credit repositories, or two repositories, if that is the extent of the data available for the borrower. If information from only one credit repository is available, this is acceptable if the lender is able to obtain a credit score for the borrower and the lender requested information from three different credit repositories.
- The report cannot be provided by a credit reporting agency that is affiliated with the lender in any way.
- The report must include all information reported for the borrower from the in-file credit reports.
- The report must identify the repositories that were used for the in-file credit reports.



- 
- The report does not have to repeat duplicate information that is in in-file credit reports. However, if duplicate information is not exactly the same on each report, the automated merged report must either repeat the information or include the most derogatory of the duplicate information that pertains to payment history and/or current payment status.

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## **Residential Mortgage Credit Reports**

A residential mortgage credit report is a detailed account of the borrower's credit, employment, and residency history, as well as public records information.

The report must meet the following requirements:

- The credit reporting agency must contact at least two national repositories of accumulated credit records for each locality in which the borrower has lived during the most recent two-year period.
- All information must be obtained from, or verified by, sources other than the borrower. When co-borrowers have individually obtained credit, separate repository inquiries are necessary, although the results of both reports may be combined in one report, as long as the report clearly indicates that this has been done.
- The credit reporting agency must verify, either in writing or by telephone, the borrower's current employment and income (if it can be obtained). If the borrower has changed jobs in the past two years, the credit report also must mention the borrower's previous employment and income.
- The report must include a positive statement that the employment was verified, the date of the verification, and the name of the individual who confirmed the employment. If this information was not obtained by an employer interview, the credit reporting agency must indicate why that was not done.
- The report must include the name of the party who ordered the report. If another party paid for the report, the credit report must provide that party's name, unless the lender ordered the report and the billed party has a documented agent or corporate relationship with the lender.
- The original report must be delivered to the office of the party who requested it, using any means acceptable under the Fair Credit Reporting Act or other similar regulations, such as sending it through the U.S. postal system, by messenger, over a fax machine, or through other automated means.
- The report must include a certification that it meets the standards for a residential mortgage credit report.

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When the credit reporting agency has incomplete information, discovers that the borrower might not have disclosed all information that should be found in the public records, or obtains other information that indicates the possible existence of undisclosed credit records, the credit reporting agency must interview the borrower(s) to obtain additional information that is needed to provide an accurate report or perform additional research to verify whether the purported undisclosed records actually exist.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcement                             | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016    |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |

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## **B3-5.2-03, Accuracy of Credit Information in a Credit Report (03/31/2015)**

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### Introduction

This topic contains information on the accuracy of credit information in a credit report.

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### Accuracy of Credit Information in a Credit Report

For all mortgage loans (including DU loan casefiles and manually underwritten loans), the lender is responsible for reviewing the credit report, as well as all credit information, to determine that the credit report meets Fannie Mae's requirements and that the data evaluated by DU was accurate.

If a borrower indicates that any significant information in the credit file is inaccurate—such as reported accounts that do not belong to the borrower or derogatory information that is reported in error—the lender should carefully review the credit information with the borrower, then request the credit reporting company that provided the information to confirm its accuracy.

If the credit reporting company confirms that the disputed information is incorrect or incomplete and underwriting of the application needs to be completed before the credit files can be

corrected, the lender cannot use the credit score(s) in the underwriting of the application. Instead, the credit risk assessment must be based on a review of the borrower's traditional credit history.

For manually underwritten loans, if there are multiple disputed tradelines or a dispute on a mortgage tradeline, the lender should obtain correspondence directly from the borrower indicating the reason for the dispute. The aspect of the tradeline—such as balance, payment history, etc.—that is being disputed is of particular interest when considering the impact to the borrower's overall credit profile.

**Note:** If DU does not issue the disputed message, the lender is not required to further investigate.

The lender is responsible for determining whether the borrower's explanation is reasonable and/or whether additional documentation is necessary to disprove the adverse information (e.g., canceled checks).

See [B3-2-09, Erroneous Credit Report Data](#); [B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report](#); and [B3-5.3-09, DU Credit Report Analysis](#), for additional information.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2015-03</a> | March 31, 2015   |
| <a href="#">Announcement SEL-2014-11</a> | August 26, 2014  |
| <a href="#">Announcement 09-32</a>       | October 30, 2009 |

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## Section B3-5.3, Traditional Credit History



### **B3-5.3-01, Number and Age of Accounts (04/01/2009)**

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#### **Introduction**

This topic contains information on the number and age of accounts.

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#### **Number and Age of Accounts**

The lender must review the borrower's credit report to determine whether he or she has an older established credit history or a newly established credit history, and whether there are a significant number of recently opened accounts or a mix of new accounts and older accounts.

Credit histories that include older, established accounts generally represent lower credit risk. However, an older, established credit history that includes a significant number of recently opened accounts may indicate that the borrower is overextended, and thus will represent a higher credit risk.

A newly established credit history does not automatically represent a higher credit risk, since making payments as agreed on newly opened accounts represents less of a risk than not making payments as agreed on older, established accounts.

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### **B3-5.3-02, Payment History (04/01/2009)**

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#### **Introduction**

This topic contains information on the borrower's payment history.

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#### **Payment History**

The lender must review the borrower's credit report to determine the current status of each credit account (including mortgage accounts), the timeliness of payments, and the frequency, recency, and severity of any delinquent payments.

- 
- Credit histories that include no late payments, collection or charged-off accounts, foreclosures, deeds-in-lieu, bankruptcies, or other public records information represent a lower credit risk.
  - Credit histories that include recent late payments represent a higher credit risk than those with late payments that occurred more than 24 months ago. When there are payments that were 30, 60, or 90 days (or longer) past due, the lender must determine whether the late payments represent isolated incidences or frequent occurrences. Delinquent payments must be evaluated in the context of the borrower's overall credit history, including the number and age of accounts, credit utilization, and recent attempts to obtain new credit. For example, a credit history that includes delinquent payments along with recent inquiries and a high balances-to-limits ratio indicates a high credit risk.
  - Credit histories that include foreclosures, deeds-in-lieu, and public records information (such as bankruptcies, judgments, and liens) represent a higher credit risk. The greater the number of such incidences and the more recently they occurred, the higher the credit risk.

For information about mortgage payment history, see [B3-5.3-03, Previous Mortgage Payment History](#).

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## **B3-5.3-03, Previous Mortgage Payment History (04/01/2009)**

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### **Introduction**

This topic contains information on previous mortgage payment history requirements, including:

- [Documenting Previous Mortgage History](#)
  - [Standard Mortgage Verifications from Servicers](#)
  - [Existing Mortgage Payment Requirements](#)
  - [Excessive Mortgage Delinquency](#)
- 

### **Documenting Previous Mortgage History**

The lender must review the borrower's credit report to determine the status of all mortgage accounts. If a borrower had previous mortgages, the lender does not have to independently verify the mortgage's payment history provided the credit report includes a reference to the mortgage (or mortgages) and reflects 12 months of the most recent payment activity.

If adequate mortgage payment history is not included in the borrower's credit report, the lender must use the following to verify the borrower's payment history on a previous mortgage(s):

- a standard mortgage verification;
  - loan payment history from the servicer;
  - the borrower's canceled checks for the last 12 months; or
  - the borrower's year-end mortgage account statement, provided the statement includes a payment receipt history, and, if applicable, canceled checks for the months elapsed since the year-end mortgage account statement was issued.
- 

### **Standard Mortgage Verifications from Servicers**

When a lender relies on standard mortgage verifications from servicers or holders, it must ensure that the verifications include:

- the unpaid principal balance of the mortgage and monthly payment amount;
- the present status of the mortgage, such as current, 30 days' delinquent, etc.; and
- the borrower's payment history.

When a servicer fails to provide all of the requested information, the lender must rely on information provided through the borrower's canceled checks. The checks must:

- be legible,
  - identify the mortgage servicer or mortgage holder as the payee,
  - indicate that the servicer or holder endorsed the check for deposit, and
  - indicate the date the servicer or holder deposited the check.
- 

### **Existing Mortgage Payment Requirements**

On the date of the loan application, the borrower's existing mortgage must be current, which means that no more than 45 days may have elapsed since the last paid installment date.

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### **Excessive Mortgage Delinquency**

The lender must review the borrower's credit history to determine previous mortgage delinquency, severity (e.g., 30, 60, or 90 days), and recency of the delinquency. Loans with

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excessive prior mortgage delinquencies are not eligible for delivery to Fannie Mae. Excessive prior mortgage delinquency is defined as any mortgage tradeline that has one or more 60-, 90-, 120-, or 150-day delinquency reported within the 12 months prior to the credit report date. See [B3-5.3-02, Payment History](#), and [B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit](#) for additional information.

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## **B3-5.3-04, Inquiries: Recent Attempts to Obtain New Credit (04/01/2009)**

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### **Introduction**

This topic contains information on inquiries: recent attempts to obtain new credit.

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### **Inquiries: Recent Attempts to Obtain New Credit**

The lender must review the section of the borrower's credit report that indicates the presence of creditor inquiries to determine the number and recency of the inquiries.

Recent inquiries may indicate that the borrower has been actively seeking new credit accounts. The presence of a large number of unrelated inquiries represents higher credit risk (whether or not the borrower actually obtained credit as a result of the inquiry). The presence of many recent inquiries in combination with a significant number of recently opened accounts or delinquent accounts represents a high credit risk.

When the credit report indicates that recent inquiries took place, the lender must confirm that the borrower has not obtained any additional credit that is not reflected in the credit report or the mortgage application. If additional credit was obtained, a verification of that debt must be provided and the borrower must be qualified with the monthly payment.

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## **B3-5.3-05, Credit Utilization (05/31/2016)**

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### **Introduction**

This topic contains information on credit utilization.

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## Credit Utilization

When manually underwriting a loan, the lender must review the borrower's credit report to evaluate his or her use of revolving credit by comparing the current balance on each open account to the amount of credit that is available to determine whether the borrower has a pattern of using revolving accounts up to (or approaching) the credit limit. Patterns of revolving credit spending are credit risk indicative.

Credit histories that include revolving accounts with a low balances-to-limits ratio generally represent a lower credit risk, while those that include accounts with a high balances-to-limits ratio represent a higher credit risk.

A credit history that includes recently opened accounts that are at or near their limits may indicate that the borrower is overextended or overly reliant on the use of revolving credit—and, when this is combined with a delinquent payment history, it is generally an indication that the borrower has not managed his or her credit successfully.

**Note:** Lenders are not required to analyze trended credit data in the credit report. See [B3-5.2-01, Requirements for Credit Reports](#), for additional information.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date   |
|--|--------------|
| <a href="#">Announcement SEL-2016-04</a> | May 31, 2016 |



## **B3-5.3-06, Authorized Users of Credit (10/30/2009)**

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### Introduction

This topic contains information on authorized users of credit

- [Authorized Users of Credit](#)
- [Consideration of Authorized User Accounts](#)



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## Authorized Users of Credit

When a credit account owner permits another person, typically a family member who is managing credit for the first time, to have access to and use an account, the user is referred to as an authorized user of the account. This practice is intended to assist related individuals in legitimately establishing a credit history and credit score based on the account and payment history of the account owner, even though the authorized user is not the account owner.

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## Consideration of Authorized User Accounts

For manually underwritten loans, credit report tradelines that list a borrower as an authorized user cannot be considered in the underwriting decision, except as outlined below.

An authorized user tradeline may be considered if:

- another borrower in the mortgage transaction is the owner of the tradeline; or
- the borrower can provide written documentation (e.g., canceled checks, payment receipts, etc.) that he or she has been the actual and sole payer of the monthly payment on the account for at least 12 months preceding the date of the application.

If written documentation of the borrower's monthly payments on the authorized user tradeline is provided, then the payment history — particularly any late payments that are indicated — must be considered in the credit analysis and the monthly payment obligation must be included in the debt-to-income ratio.

An authorized user tradeline must be considered if the owner of the tradeline is the borrower's spouse and the spouse is not a borrower in the mortgage transaction.

These requirements do not apply to loan casefiles underwritten through DU. For DU requirements, see [B3-5.3-09, DU Credit Report Analysis](#).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements      | Issue Date       |
|--------------------|------------------|
| Announcement 09–32 | October 30, 2009 |
| Announcement 08–01 | January 31, 2008 |



## **B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit (07/29/2014)**

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### **Introduction**

This topic contains information on the waiting periods for significant derogatory credit events, including:

- [General Information](#)
  - [Identification of Significant Derogatory Credit Events in the Credit Report](#)
  - [Bankruptcy \(Chapter 7 or Chapter 11\)](#)
  - [Bankruptcy \(Chapter 13\)](#)
  - [Multiple Bankruptcy Filings](#)
  - [Foreclosure](#)
  - [Foreclosure and Bankruptcy on the Same Mortgage](#)
  - [Deed-in-Lieu of Foreclosure, Preforeclosure Sale, and Charge-Off of a Mortgage Account](#)
  - [Summary — All Waiting Period Requirements](#)
  - [Requirements for Re-establishing Credit](#)
- 

### **General Information**

The presence of significant derogatory credit events dramatically increases the likelihood of a future default and represents a significantly higher level of default risk. Examples of significant derogatory credit events include bankruptcies, foreclosures, deeds-in-lieu of foreclosure, preforeclosure sales, short sales, and charge-offs of mortgage accounts.

**Note:** The terms “preforeclosure sale” and “short sale” are used interchangeably in this Guide and have the same meaning (see Deed-in-Lieu of Foreclosure, Preforeclosure Sale, and Charge-Off of a Mortgage Account below).

The lender must determine the cause and significance of the derogatory information, verify that sufficient time has elapsed since the date of the last derogatory information, and confirm that the borrower has re-established an acceptable credit history. The lender must make the final decision about the acceptability of a borrower’s credit history when significant derogatory credit information exists.

This topic describes the amount of time that must elapse (the “waiting period”) after a significant derogatory credit event before the borrower is eligible for a new loan salable to Fannie Mae.

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The waiting period commences on the completion, discharge, or dismissal date (as applicable) of the derogatory credit event and ends on the disbursement date of the new loan for manually underwritten loans. See [B3-5.3-09, DU Credit Report Analysis](#), for additional information pertaining to DU loan casefiles, including how the waiting period is determined. Also see [B3-5.3-08, Extenuating Circumstances for Derogatory Credit](#), for additional information.

**Note:** The requirements pertaining to significant derogatory credit are not applicable to DU Refi Plus or Refi Plus mortgage loans. (See [B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations](#).)

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### Identification of Significant Derogatory Credit Events in the Credit Report

Lenders must review the credit report and Section VIII, Declarations, of the loan application to identify instances of significant derogatory credit events. Lenders must review the public records section of the credit report and all tradelines, including mortgage accounts (first liens, second liens, home improvement loans, HELOCs, and manufactured home loans), to identify previous foreclosures, deeds-in-lieu, preforeclosure sales, charge-offs of mortgage accounts, and bankruptcies. Lenders must carefully review the current status of each tradeline, manner of payment codes, and remarks to identify these types of significant derogatory credit events. Remarks Codes are descriptive text or codes that appear on a tradeline, such as “Foreclosure,” “Forfeit deed-in-lieu of foreclosure,” and “Settled for less than full balance.”

Significant derogatory credit events may not be accurately reported or consistently reported in the same manner by all creditors or credit reporting agencies. If not clearly identified in the credit report, the lender must obtain copies of appropriate documentation. The documentation must establish the completion date of a previous foreclosure, deed-in-lieu or preforeclosure sale, or date of the charge-off of a mortgage account; confirm the bankruptcy discharge or dismissal date; and identify debts that were not satisfied by the bankruptcy. Debts that were not satisfied by a bankruptcy must be paid off or have an acceptable, established repayment schedule.

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### Bankruptcy (Chapter 7 or Chapter 11)

A four-year waiting period is required, measured from the discharge or dismissal date of the bankruptcy action.

#### *Exceptions for Extenuating Circumstances*

A two-year waiting period is permitted if extenuating circumstances can be documented, and is measured from the discharge or dismissal date of the bankruptcy action.

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## **Bankruptcy (Chapter 13)**

A distinction is made between Chapter 13 bankruptcies that were discharged and those that were dismissed. The waiting period required for Chapter 13 bankruptcy actions is measured as follows:

- two years from the discharge date, or
- four years from the dismissal date.

The shorter waiting period based on the discharge date recognizes that borrowers have already met a portion of the waiting period within the time needed for the successful completion of a Chapter 13 plan and subsequent discharge. A borrower who was unable to complete the Chapter 13 plan and received a dismissal will be held to a four-year waiting period.

### *Exceptions for Extenuating Circumstances*

A two-year waiting period is permitted after a Chapter 13 dismissal, if extenuating circumstances can be documented. There are no exceptions permitted to the two-year waiting period after a Chapter 13 discharge.

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## **Multiple Bankruptcy Filings**

For a borrower with more than one bankruptcy filing within the past seven years, a five-year waiting period is required, measured from the most recent dismissal or discharge date.

**Note:** The presence of multiple bankruptcies in the borrower's credit history is evidence of significant derogatory credit and increases the likelihood of future default. Two or more borrowers with individual bankruptcies are not cumulative, and do not constitute multiple bankruptcies. For example, if the borrower has one bankruptcy and the co-borrower has one bankruptcy this is not considered a multiple bankruptcy.

### *Exceptions for Extenuating Circumstances*

A three-year waiting period is permitted if extenuating circumstances can be documented, and is measured from the most recent bankruptcy discharge or dismissal date. The most recent bankruptcy filing must have been the result of extenuating circumstances.

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## **Foreclosure**

A seven-year waiting period is required, and is measured from the completion date of the foreclosure action as reported on the credit report or other foreclosure documents provided by the borrower.

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### *Exceptions for Extenuating Circumstances*

A three-year waiting period is permitted if extenuating circumstances can be documented, and is measured from the completion date of the foreclosure action. Additional requirements apply between three and seven years, which include:

- Maximum LTV, CLTV, or HCLTV ratios of the lesser of 90% or the maximum LTV, CLTV, or HCLTV ratios for the transaction per the *Eligibility Matrix*.
- The purchase of a principal residence is permitted.
- Limited cash-out refinances are permitted for all occupancy types pursuant to the eligibility requirements in effect at that time.

**Note:** The purchase of second homes or investment properties and cash-out refinances (any occupancy type) are not permitted until a seven-year waiting period has elapsed.

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### **Foreclosure and Bankruptcy on the Same Mortgage**

If a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied if the lender obtains the appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied.

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### **Deed-in-Lieu of Foreclosure, Preforeclosure Sale, and Charge-Off of a Mortgage Account**

These transaction types are completed as alternatives to foreclosure.

- A deed-in-lieu of foreclosure is a transaction in which the deed to the real property is transferred back to the servicer. These are typically identified on the credit report through Remarks Codes such as “Forfeit deed-in-lieu of foreclosure.”
- A preforeclosure sale or short sale is the sale of a property in lieu of a foreclosure resulting in a payoff of less than the total amount owed, which was pre-approved by the servicer. These are typically identified on the credit report through Remarks Codes such as “Settled for less than full balance.”
- A charge-off of a mortgage account occurs when a creditor has determined that there is little (or no) likelihood that the mortgage debt will be collected. A charge-off is typically reported after an account reaches a certain delinquency status, and is identified on the credit report with a manner of payment (MOP) code of “9.”

A four-year waiting period is required from the completion date of the deed-in-lieu of foreclosure, preforeclosure sale, or charge-off as reported on the credit report or other documents provided by the borrower.

*Exceptions for Extenuating Circumstances*

A two-year waiting period is permitted if extenuating circumstances can be documented.

**Note:** Deeds-in-lieu and preforeclosure sales may not be accurately or consistently reported in the same manner by all creditors or credit reporting agencies. See Identification of Significant Derogatory Credit Events in the Credit Report above for additional information.

**Summary — All Waiting Period Requirements**

The following table summarizes the waiting period requirements for all significant derogatory credit events.

| <b>Derogatory Event</b>                           | <b>Waiting Period Requirements</b>   | <b>Waiting Period with Extenuating Circumstances</b>   |
|---|--|--|
| Bankruptcy — Chapter 7 or 11                      | 4 years  | 2 years  |
| Bankruptcy — Chapter 13                           | <ul style="list-style-type: none"> <li>• 2 years from discharge date</li> <li>• 4 years from dismissal date</li> </ul> | <ul style="list-style-type: none"> <li>• 2 years from discharge date</li> <li>• 2 years from dismissal date</li> </ul>   |
| Multiple Bankruptcy Filings                       | 5 years if more than one filing within the past 7 years  | 3 years from the most recent discharge or dismissal date   |
| Foreclosure <sup>a</sup>                          | 7 years  | 3 years<br><br>Additional requirements after 3 years up to 7 years: <ul style="list-style-type: none"> <li>• 90% maximum LTV ratios<sup>b</sup></li> <li>• Purchase, principal residence</li> <li>• Limited cash-out refinance, all occupancy types</li> </ul> |
| Deed-in-Lieu of Foreclosure, Preforeclosure Sale, | 4 years  | 2 years  |

|                                      |  |
|--------------------------------------|--|
| or Charge-Off of<br>Mortgage Account |  |
|--------------------------------------|--|

<sup>a</sup>When both a bankruptcy and foreclosure are disclosed on the loan application, or when both appear on the credit report, the lender may apply the bankruptcy waiting period if the lender obtains the appropriate documentation to verify that the mortgage loan in question was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied.

<sup>b</sup>References to LTV ratios include LTV, CLTV, and HCLTV ratios. The maximum LTV ratios permitted are the lesser of the LTV ratios in this table or the maximum LTV ratios for the transaction per the *Eligibility Matrix*.

### Requirements for Re-establishing Credit

After a bankruptcy, foreclosure, deed-in-lieu of foreclosure, preforeclosure sale, or charge-off of a mortgage account, the borrower’s credit will be considered re-established if all of the following are met:

- The waiting period and the related additional requirements are met.
- The loan receives a recommendation from DU that is acceptable for delivery to Fannie Mae or, if manually underwritten, meets the minimum credit score requirements based on the parameters of the loan and the established eligibility requirements.
- The borrower has traditional credit as outlined in Section B3–5.3, Traditional Credit History. Nontraditional credit or “thin files” are not acceptable.

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2014–10</a> | July 29, 2014     |
| <a href="#">Announcement SEL-2013–04</a> | May 28, 2013      |
| <a href="#">Announcement SEL-2012–04</a> | May 15, 2012      |
| <a href="#">Announcement SEL-2011–13</a> | December 20, 2011 |
| <a href="#">Announcement SEL-2011–12</a> | November 15, 2011 |
| <a href="#">Announcement SEL-2011–04</a> | May 24, 2011      |
| <a href="#">Announcement SEL-2010–09</a> | June 30, 2010     |
| <a href="#">Announcement SEL-2010–08</a> | June 23, 2010     |
| <a href="#">Announcement SEL–2010–06</a> | April 30, 2010    |
| <a href="#">Announcement SEL–2010–05</a> | April 14, 2010    |



## **B3-5.3-08, Extenuating Circumstances for Derogatory Credit (12/16/2014)**

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### **Introduction**

This topic provides information on extenuating circumstances for derogatory credit information.

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### **Extenuating Circumstances**

Extenuating circumstances are nonrecurring events that are beyond the borrower's control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations.

If a borrower claims that derogatory information is the result of extenuating circumstances, the lender must substantiate the borrower's claim. Examples of documentation that can be used to support extenuating circumstances include

- documents that confirm the event
  - such as a copy of a divorce decree, medical reports or bills, notice of job layoff, job severance papers, etc.; and
- documents that illustrate factors that contributed to the borrower's inability to resolve the problems that resulted from the event
  - such as a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns (covering the periods prior to, during, and after a loss of employment), etc.

The lender must obtain a written explanation from the borrower explaining the relevance of the documentation. The written explanation must support the claims of extenuating circumstances, confirm the nature of the event that led to the bankruptcy or foreclosure-related action, and illustrate that the borrower had no reasonable options other than to default on his or her financial obligations. The written explanation may be in the form of a letter from the borrower, an email from the borrower, or some other form of written documentation provided by the borrower.



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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Dates       |
|--|-------------------|
| <a href="#">Announcement SEL-2014–16</a> | December 16, 2014 |



## B3-5.3-09, DU Credit Report Analysis (10/24/2016)

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### Introduction

This topic describes how DU analyzes credit report data and requirements lenders must follow in response to the credit-related Findings messages. This topic includes:

- [Inquiries](#)
- [Trended Credit Data](#)
- [Omitted Accounts](#)
- [Possible Non-applicant Debts](#)
- [Authorized User Tradelines](#)
- [Disputed Credit Report Tradelines](#)
- [DU Debt Comparison](#)
- [Contradictory, Derogatory, or Erroneous Information](#)
- [Duplicate Public Records](#)
- [Judgments and Liens](#)
- [Mortgage Delinquencies](#)
- [Past-Due, Collection, and Charge-Off of Non-Mortgage Accounts](#)
- [Prior Bankruptcy, Foreclosure, Deed-in-Lieu of Foreclosure, Preforeclosure Sales, and Charge-Off of Mortgage Accounts](#)
- [Bankruptcy](#)
- [Foreclosure](#)
- [Deed-in-Lieu of Foreclosure](#)
- [Preforeclosure Sales or Short Sales](#)
- [Charge-Off of Mortgage Accounts](#)

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### Inquiries

The lender should examine inquiries to determine whether they represent potential sources of undisclosed credit. If new debt was obtained, the lender may need to correct the loan application and resubmit it.

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### **Trended Credit Data**

Lenders are not required to analyze trended credit data in the credit report. For more information, see [B3-2-03, Risk Factors Evaluated by DU](#).

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### **Omitted Accounts**

Supporting documentation is required when a credit report liability with a balance greater than zero is omitted from the loan application.

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### **Possible Non-applicant Debts**

The DU Underwriting Findings report will list any debts that are identified as “possible non-applicant debts” on the credit report. The possible non-applicant accounts will be included in the credit risk assessment and, if the debts are on the loan application, DU will include them in the DTI ratio. If the debts do not belong to the borrower, the lender may provide supporting documentation, remove the debts from the loan application, and resubmit the loan casefile to DU in order for the DTI ratio to be updated to exclude the non-applicant debts. See [B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report](#), for additional information about non-applicant debts.

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### **Authorized User Tradelines**

DU takes credit report tradelines designated as authorized user tradelines into consideration as part of the DU credit risk assessment. However the lender must review credit report tradelines in which the applicant has been designated as an authorized user in order to ensure the tradelines are an accurate reflection of the borrower's credit history. If the lender believes the authorized user tradelines are not an accurate reflection of the borrower's credit history, the lender should evaluate the borrower's credit history without the benefit of these tradelines and use prudent underwriting judgment when making its final underwriting decision. In order to assist the lender in its review of authorized user tradelines, DU issues a message providing the name of the creditor and account number for each authorized user tradeline identified.

When ensuring tradelines are an accurate reflection of the borrower's credit history, as a general guide, if the borrower has several authorized user accounts but only has a few accounts of his/her own, the lender should establish:

- the relationship of the borrower to the owner of the account,
- if the borrower uses the account, and

- if the borrower makes the payments on the account.

If the authorized user tradeline belongs to another borrower on the mortgage loan, no additional investigation is needed. On the other hand, if the borrower has several tradelines in good standing and only a minor number of authorized user accounts, the lender could make the determination that:

- the authorized user accounts had minimal, if any, impact on the borrower's overall credit profile; and
- the information reported on the credit report is an accurate reflection of the borrower's credit history.

The lender is not required to review an authorized user tradelines that belongs to the borrower's spouse when the spouse is not on the mortgage transaction.

For manual underwriting consideration of authorized users of credit, see [B3-5.3-06, Authorized Users of Credit](#).

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### **Disputed Credit Report Tradelines**

DU will issue the disputed tradeline message when a disputed tradeline is identified and that tradeline contains derogatory payment information (a 30-day or more delinquency) reported within two years prior to the credit report date. When DU issues this message, the message will list the disputed tradeline with a reported derogatory payment within the last two years, and state that the lender must confirm the accuracy and completeness of the information reported on the borrower's credit report for the disputed tradeline. If it is determined that the disputed tradeline information is accurate and complete, the lender must ensure the disputed tradelines are considered in the credit risk assessment by either obtaining a new credit report with the tradeline no longer reported as disputed and resubmitting the loan casefile to DU, or manually underwriting the loan.

#### **Sample Scenarios:**

The following scenarios are examples of when the lender would not need to obtain an updated credit report or manually underwrite the loan, provided the borrower can provide documentation to support the claim:

- A borrower's account was referred for collection by the creditor. Subsequently, the borrower paid off the account, but the pay-off was not reported on the tradeline. The borrower requested that a dispute be placed on the tradeline. The tradeline information was accurate, but because it did not reflect that the borrower paid off the account, it may be considered incomplete. The borrower must provide documentation that the account was paid in full.

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- A borrower and his son have the same name (Sr. and Jr.). The borrower's credit report contains a tradeline that actually belongs to the son. The tradeline is reported as disputed. The borrower can provide confirmation that he is not obligated on the account.
  - The servicer of the loan being disputed indicates a late payment in January of the previous year. The borrower can provide documentation (for example, canceled checks, bank statements) that indicates that the payment was made on time.

The following scenario would require the lender to either obtain an updated credit report and resubmit the loan casefile to DU, or manually underwrite the loan:

- The credit report indicates a disputed tradeline on the borrower's mortgage being refinanced. The tradeline indicates a 60-day late payment in January of the previous year. The borrower cannot provide any documentation to support that the payment was made on time.

If DU does not issue the disputed tradeline message, the lender is not required to

- further investigate the disputed tradeline on the credit report,
- obtain an updated credit report (with the undisputed tradeline), or
- manually underwrite the loan.

However, the lender is required to ensure that the payment for the tradeline, if any, is included in the debt-to-income ratio if the account does belong to the borrower.

**Note:** Tradelines reported as medical debt are not shown in the disputed tradeline message. Therefore, lenders are not required to investigate the disputed medical tradeline.

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## DU Debt Comparison

DU compares the balances and payments of the debts on the credit report with the debts on the loan application. If material differences are found, the lender must confirm that all debts from the credit report are included on the loan application and provide documentation to support the use of payments and balances lower than those on the credit report. If the debt affects the debt-to-income ratio by more than the allowable tolerances, the lender must add the debt to the loan application and resubmit the loan. Otherwise, the lender is expected to provide documentation that supports the omission from the loan application. See [B3-6-02, Debt-to-Income Ratios](#), and [B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report](#), for additional information.)

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### **Contradictory, Derogatory, or Erroneous Information**

Lenders are obligated to take action when contradictory, derogatory, or erroneous information would justify additional investigation or would provide grounds for a decision that is different from the recommendation DU delivers. For example, if the credit report reflects a previous foreclosure but the information was not accurately mapped to DU, the lender must consider this when making its final underwriting decision.

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### **Duplicate Public Records**

Items that typically appear in the Public Records section of the credit report (judgments, bankruptcies, foreclosures, and tax liens) are often duplicated because the credit agencies may not attempt to merge items of this severe nature. As a result, these items may also appear in more than one verification message in the Underwriting Findings report. If it is clear from the credit report data that the items are duplicates (identical account numbers, date filed, and dollar amounts), the lender can disregard the duplicates and document the item once. However, if it is unclear from the credit report whether any of the items are duplicated, the lender should treat each item individually and obtain the required documentation for each item, as indicated in the verification messages.

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### **Judgments and Liens**

Open judgments and all outstanding liens that are in the Public Records section of the credit report will be identified in the Underwriting Findings report, and must be paid off at or prior to closing. Documentation of the satisfaction of these liabilities, along with verification of funds sufficient to satisfy these obligations, must also be maintained in the permanent loan file.

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### **Mortgage Delinquencies**

DU applies the following guidelines to the processing of loans with mortgage delinquencies:

- If any borrower's credit report contains a mortgage tradeline that is 60 or more days past due when the account was last reported by the creditor and the account was reported within the 12 months prior to the credit report date, the loan casefile will receive a Refer with Caution recommendation and will be ineligible for delivery to Fannie Mae.
- If there is a mortgage that is disclosed on the loan application but not reported on the credit report, or the mortgage is on the credit report with an outstanding balance but the payment history has not been reported in the last six months, DU will issue a message requiring the lender to confirm that the account is not two or more payments past due as of the date of the application and that it has not been past due by two or more payments in the last 12 months. If

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the lender determines that the borrower does have a mortgage that is past due by two or more payments or has been past due by two or more payments in the last 12 months, then the loan casefile is not eligible for delivery to Fannie Mae.

- Borrowers may not bring past-due mortgage accounts current prior to closing in order to circumvent Fannie Mae’s policy regarding past-due mortgages. However, the lender may apply some discretion with regard to the application of this policy if it determines and documents that the past-due account status was not the fault of the borrower—for example, if the servicer misapplied or lost the borrower’s payment.
- Loan casefiles will receive an Ineligible recommendation due to excessive prior mortgage delinquency if the borrower has a mortgage tradeline on his or her credit report that has one or more 60-, 90-, 120-, or 150-day delinquency reported within the 12 months prior to the credit report date.

The above policies will apply to all mortgage tradelines, including first liens, second liens, home improvement loans, HELOCs, and manufactured home loans.

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### **Past-Due, Collection, and Charge-Off of Non-Mortgage Accounts**

Accounts that are reported as past due (not reported as collection accounts) must be brought current.

- For one-unit, principal residence properties, borrowers are not required to pay off outstanding collections or non-mortgage charge-offs—regardless of the amount.

**Note:** If the lender marks the collection account Paid By Close in the online loan application, DU will issue a message in the DU Underwriting Findings report stating that the collection must be paid.

- For two- to four-unit owner-occupied and second home properties, collections and non-mortgage charge-offs totaling more than \$5,000 must be paid in full prior to or at closing.
- For investment properties, individual collection and non-mortgage charge-off accounts equal to or greater than \$250 and accounts that total more than \$1,000 must be paid in full prior to or at closing.

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### **Prior Bankruptcy, Foreclosure, Deed-in-Lieu of Foreclosure, Preforeclosure Sales, and Charge-Off of Mortgage Accounts**

Per the requirements of [B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit](#), an amount of time must elapse (the “waiting period”) after a significant

derogatory credit event before the borrower is eligible for a new loan salable to Fannie Mae. The waiting period commences on the completion, discharge, or dismissal date (as applicable) of the derogatory credit event and ends on the disbursement date of the new loan. Because DU does not have the disbursement date of the subject loan, DU uses the date of the credit report to measure whether or not the applicable waiting period has been met. However, because the credit report date may not result in an accurate calculation of the waiting period (it is earlier than the disbursement date), the lender may use the disbursement date to confirm that the waiting period has been met. See the table below for additional information.

| Event                         | Measurement of Waiting Period  |
|-------------------------------|--|
| Bankruptcy<br><br>Foreclosure | <ul style="list-style-type: none"> <li>• If the completion, discharge, or dismissal dates (as applicable) reflected in the credit report are complete and appear to comply with the applicable waiting period requirements, DU will issue a recommendation, but the lender must still confirm that the waiting period has been met and may base its determination on the disbursement date of the new loan.</li> <li>• If the completion, discharge, or dismissal dates (as applicable) reflected in the credit report are complete, but do not appear to comply with the applicable waiting period requirements, a Refer with Caution recommendation will be issued. DU uses the date of the credit report to determine whether or not the applicable waiting period has been met. The lender may obtain an updated credit report and resubmit the loan casefile to DU after the required time has elapsed or manually underwrite the loan using the disbursement date to confirm that the waiting period has been met.</li> <li>• If the completion, discharge, or dismissal dates (as applicable) reflected in the credit report are incomplete, the lender must confirm that the waiting period has been met and may base its determination on the disbursement date of the new loan.</li> </ul> |

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| Event   | Measurement of Waiting Period  |
|---|--|
| Deed-in-Lieu of Foreclosure<br>Preforeclosure Sale<br>Mortgage Charge-Off | <ul style="list-style-type: none"><li>• DU will determine if the date of the event was within the applicable waiting period. However, the recommendation will not be changed and the lender must confirm the waiting period requirement has been met, and may base its determination on the disbursement date of the new loan.</li></ul> |

**Note:** See [B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit](#), for additional information regarding significant derogatory events. DU is not able to identify whether the borrower’s derogatory credit event(s) was the result of extenuating circumstances. See below for information on how to treat extenuating circumstances and [B3-5.3-08, Extenuating Circumstances for Derogatory Credit](#), for additional information.

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## Bankruptcy

DU applies the following guidelines to prior bankruptcies:

- If a Chapter 13 bankruptcy was discharged within the last two years, dismissed within the last four years, or filed but neither discharged nor dismissed within the last four years, the loan casefile will receive a Refer with Caution recommendation and will be ineligible for delivery to Fannie Mae.
- If a non-Chapter 13 bankruptcy was filed, discharged, or dismissed within the last four years, the loan casefile will receive a Refer with Caution recommendation and will be ineligible for delivery to Fannie Mae.
- DU will not take bankruptcy information in the public record section of the credit report into account if the bankruptcy is dated more than seven years prior to the credit report date.
- DU will not take tradeline accounts that are reported with a bankruptcy status code or manner of payment (MOP) code of “7” into account if there is at least one bankruptcy reported in a public record within seven years of the credit report date. In this scenario, DU assumes the date filed and the date discharged in the public record are more accurate than the dates in the tradeline; i.e., specific filed and discharged dates do not exist in the tradeline.
- DU will use tradeline accounts that are reported with a bankruptcy status code or MOP code of “7” if there is not a bankruptcy reported in a public record within seven years of the credit



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report date. In this scenario, the lender will need to verify the actual filed and discharged dates to determine that the bankruptcy meets the DU bankruptcy policy.

- DU is not able to determine if multiple filings have occurred due to the manner in which bankruptcies are reported to the credit report. DU will issue a message when it appears that there may have been multiple bankruptcy filings. This message will list each of the bankruptcies seen on the credit report, and will instruct lenders to ensure the loan casefile meets the criteria for underwriting loan casefiles with multiple bankruptcies.

#### *Underwriting when Extenuating Circumstances Exist*

- Loan casefiles that receive a Refer with Caution recommendation due to a bankruptcy action that was caused by extenuating circumstances may be manually underwritten if the lender has the appropriate documentation that the event occurred, the applicable minimum time period has elapsed, and the loan meets all requirements of this *Selling Guide* that pertain to manually underwritten loans.

---

## **Foreclosure**

DU applies the following guidelines to prior foreclosures:

- Mortgage accounts, including first liens, second liens, home improvement loans, HELOCs, and manufactured home loans, will be identified as a foreclosure if there is an MOP code of “8,” or a Remarks Code that indicates a foreclosure is present in the credit report data and associated to the tradeline.
- If a foreclosure was reported within the seven-year period prior to the credit report date, the loan casefile will receive a Refer with Caution recommendation and will be ineligible for delivery to Fannie Mae.
- If the filed date and the satisfied date of the foreclosure are both unknown, but it appears that the foreclosure occurred within the seven-year period prior to the credit report date, the lender must confirm that the foreclosure did not occur within the most recent seven-year period.
- Foreclosure laws vary by state and the time it takes to complete the process may vary by state. DU assumes that the date the foreclosure was reported in the tradeline is the date of the foreclosure sale or liquidation. The lender must confirm that all foreclosures are satisfied.
- Mortgage accounts that are identified as a deed-in-lieu of foreclosure or preforeclosure sale will not be identified as a foreclosure.

#### *Underwriting when Inaccurate Foreclosure Information Exists*

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- When DU identifies a foreclosure on a credit report tradeline and the foreclosure information on that tradeline is inaccurate, the lender may instruct DU to disregard the foreclosure information on the credit report in the eligibility assessment. This is done by entering “Confirmed CR FC Incorrect” in the Explanation field for question c. in the Declarations section of the online loan application and resubmitting the loan casefile to DU. When the loan casefile is resubmitted to DU, the foreclosure information on the credit report tradeline will not be used in the eligibility assessment.
  - If the lender enters “Confirmed CR FC Incorrect,” the lender must then document the foreclosure was completed seven or more years from the disbursement date of the new loan, or that the account was not subject to foreclosure and the loan complies with all other applicable requirements.

#### *Underwriting when Extenuating Circumstances Exist*

- When DU identifies a foreclosure on a credit report tradeline and that foreclosure was due to extenuating circumstances, the lender may instruct DU to disregard the foreclosure information on the credit report in the eligibility assessment. This is done by entering “Confirmed CR FC EC” in the Explanation field for question c. in the Declarations section of the online loan application and resubmitting the loan casefile to DU. When the loan casefile is resubmitted to DU, the foreclosure information on the credit report tradeline will not be used in the eligibility assessment.
- If the lender enters “Confirmed CR FC EC,” the lender must then document that the foreclosure was due to extenuating circumstances, the foreclosure was completed three or more years from the disbursement date of the new loan, and the loan complies with all other requirements specific to a foreclosure due to extenuating circumstances.

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#### **Deed-in-Lieu of Foreclosure**

DU applies the following guidelines to prior DILs:

- DU will determine if a mortgage tradeline is a DIL by using specific Remarks Codes that are present in the credit report data and associated to the tradeline.
- When DU identifies a DIL, the lender must document that the event was completed four or more years from the disbursement date of the new loan, or two or more years from the disbursement date of the new loan when the lender confirms that the mortgage loan meets the applicable time frames and eligibility requirements for a deed-in-lieu of foreclosure due to extenuating circumstances.

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#### **Preforeclosure Sales or Short Sales**

- DU will determine if a mortgage tradeline is a PFS by using specific Remarks Codes that are present in the credit report data and associated to the tradeline.
  - When DU identifies a PFS, the lender must document that the event was completed four or more years from the disbursement date of the new loan, or two or more years from the disbursement date of the new loan when the lender confirms that the mortgage loan meets the applicable time frames and eligibility requirements for a preforeclosure sale due to extenuating circumstances.
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### **Charge-Off of Mortgage Accounts**

- Mortgage accounts, including first liens, second liens, home improvements loans, HELOCs, and manufactured home loans, will be identified as a charge-off if there is an MOP code of “9” (collection or charge-off) and there is no information indicating the account may also be subject to a foreclosure (MOP code “8” or foreclosure Remarks Code), a deed-in-lieu of foreclosure (DIL Remarks Code), or a preforeclosure sale (PFS Remarks Code).
- When DU identifies a charge-off on a mortgage tradeline, the lender must document that the event was completed four or more years from the disbursement date of the new loan, or two or more years from the disbursement date of the new loan when the lender confirms that the mortgage loan meets the applicable time frames and eligibility requirements for a charge-off due to extenuating circumstances.

## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 2, 2016    |
| <a href="#">Announcement SEL-2016-04</a> | May 31, 2016       |
| <a href="#">Announcement SEL-2015-12</a> | November 19, 2015  |
| <a href="#">Announcement SEL-2015-03</a> | March 31, 2015     |
| <a href="#">Announcement SEL-2015-01</a> | January 29, 2015   |
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014      |
| <a href="#">DU Version 9.1</a>           | June 17, 2014      |
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014     |
| <a href="#">Announcement SEL-2013-07</a> | September 17, 2013 |
| <a href="#">Announcement SEL-2013-04</a> | May 28, 2013       |
| <a href="#">Announcement SEL-2012-13</a> | November 19, 2012  |
| <a href="#">Announcement SEL-2012-07</a> | August 2, 2012     |
| <a href="#">DU Version 9.0</a>           | July 24, 2012      |
| <a href="#">Announcement SEL-2012-04</a> | May 15, 2012       |
| <a href="#">Announcement SEL-2011-11</a> | October 2, 2011    |
| <a href="#">Announcement SEL-2011-04</a> | May 24, 2011       |
| <a href="#">Announcement SEL-2011-01</a> | January 29, 2011   |
| <a href="#">Announcement SEL-2010-13</a> | September 17, 2010 |
| <a href="#">DU Version 8.2</a>           | September 17, 2010 |
| <a href="#">Announcement SEL-2010-11</a> | August 1, 2010     |
| <a href="#">Announcement SEL-2010-08</a> | June 23, 2010      |
| <a href="#">Announcement SEL-2010-06</a> | April 30, 2010     |
| <a href="#">Announcement SEL-2010-05</a> | April 14, 2010     |
| <a href="#">Announcement SEL-2010-02</a> | March 2, 2010      |
| <a href="#">Announcement 09-32</a>       | October 2, 2009    |
| <a href="#">DU Version 8.0</a>           | September 17, 2009 |
| <a href="#">DU Version 7.1</a>           | October 2, 2008    |



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## Section B3-5.4, Nontraditional Credit History



### B3-5.4-01, Eligibility Requirements for Loans with Nontraditional Credit (08/30/2016)

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#### Introduction

This topic contains information on nontraditional credit eligibility requirements, including:

- [Overview](#)
  - [Unacceptable Uses](#)
  - [Manual Underwriting: At Least One Borrower Has No Credit Score](#)
  - [DU Loan Casefiles: No Borrower Has a Credit Score](#)
  - [DU Loan Casefiles: At Least One Borrower Has No Credit Score and Another Borrower Has a Credit Score](#)
  - [Pre-purchase Homeownership Education](#)
- 

#### Overview

If one or more borrowers do not have a credit score due to insufficient credit, the lender must establish an acceptable nontraditional credit profile. The lender must first check all three major credit repositories to verify the borrower's credit history and confirm that the borrower does not have a credit score.

The credit report will indicate if a credit score could not be produced due to insufficient credit. Lenders must ensure that the credit report accurately reflects the borrower's information, such as the name, Social Security number, and current residence of the borrower to confirm that the lack of traditional credit was not erroneously reported because incorrect information was used to order the credit report.

**Note:** For certain loan transactions, one or more borrower(s) are required to have traditional credit as evidenced by a credit score. See below for additional information.

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#### Unacceptable Uses

The establishment of a nontraditional credit history is not acceptable for the following scenarios:

- 
- The lender is able to obtain a credit score for the borrower despite the borrower's limited use of credit.
  - The borrower has a sufficient amount of credit to obtain a credit score and the representative credit score is less than the minimum required.

**Note:** An exception is permitted for certain HomeReady loans for borrowers with low credit scores. See [B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements](#), for additional information.

- The borrower's traditional credit history indicates significant derogatory references, such as a prior bankruptcy or foreclosure. In these cases, the borrower must have re-established credit in accordance with [B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit](#), including the establishment of traditional credit and a credit score.

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### **Manual Underwriting: At Least One Borrower Has No Credit Score**

If one or more borrowers on the loan does not have a credit score and is relying on nontraditional credit to qualify, the following requirements apply:

- The property must be a one-unit, principal residence.
- The transaction must be a purchase or limited cash-out refinance.
- The loan amount must meet the general loan limits—high-balance mortgage loans are not eligible.
- The maximum debt-to-income ratio is 36%.
- There is no minimum reserve requirement if at least one borrower can document a rental payment history as one source of nontraditional credit. Otherwise, a minimum of 12 months reserves is required. See [B3-5.4-02, Number and Types of Nontraditional Credit Sources](#), for additional information.
- Non-occupant co-borrowers are permitted, provided the requirements described in [B2-2-04, Guarantors, Co-Signers, or Non-Occupant Borrowers](#), are met in addition to the eligibility requirements described above.
- A nontraditional credit history must be documented for each borrower without a credit score. See [B3-5.4-03, Documentation and Assessment of a Nontraditional Credit History](#), for additional information.

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### **DU Loan Casefiles: No Borrower Has a Credit Score**

Lenders may submit loan casefiles to DU when no borrower has a credit score. DU will apply the following requirements:

- The property must be a one-unit, principal residence, and all borrowers must occupy the property.
- All property types are permitted, with the exception of manufactured housing.
- The transaction must be a purchase or limited cash-out refinance.
- The loan amount must meet the general loan limits—high-balance mortgage loans are not eligible.
- The loan must be a fixed-rate mortgage.
- The maximum LTV, CLTV, and HCLTV ratios are 90%.
- The debt-to-income ratio must be less than 40%.
- Reserves may be required as determined by DU.
- A nontraditional credit history must be documented for each borrower without a credit score. See [B3-5.4-03, Documentation and Assessment of a Nontraditional Credit History](#), for additional information.

If a loan casefile does not receive an Approve/Eligible recommendation, the loan may still be eligible for manual underwriting. The lender must determine whether the loan meets the requirements for a manually underwritten loan that includes a borrower without a credit score.

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### **DU Loan Casefiles: At Least One Borrower Has No Credit Score and Another Borrower Has a Credit Score**

If one (or more) borrower(s) has a credit score and at least one borrower does not have a credit score, then DU will apply the following requirements:

- The property must be a one-unit, principal residence, and all borrowers must occupy the property.
- The transaction must be a purchase or limited cash-out refinance.



- The loan amount must meet the general loan limits—high-balance mortgage loans are not eligible.
- Reserves may be required as determined by DU.
- If the borrower(s) with a credit score is contributing more than 50% of the qualifying income, the lender is not required to document a nontraditional credit history for the borrower(s) without a credit score.
- If the borrower(s) with a credit score is contributing 50% or less of the qualifying income, the lender must document a nontraditional credit history for each borrower without a credit score. See [B3-5.4-03, Documentation and Assessment of a Nontraditional Credit History](#), for additional information.

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### Pre-purchase Homeownership Education

If all borrowers on the loan are relying solely on nontraditional credit to qualify, at least one borrower must complete pre-purchase homeownership education prior to loan closing. See [B2-2-06, Homeownership Education and Housing Counseling](#), for the requirements.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date      |
|--|-----------------|
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016 |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012 |
| <a href="#">Announcement 09-12</a>       | May 4, 2009     |



## **B3-5.4-02, Number and Types of Nontraditional Credit Sources (08/30/2016)**

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### Introduction

This topic contains information on nontraditional credit sources, including

- [Number of Nontraditional Credit Sources Required](#)
- [Eligible Types of Nontraditional Credit](#)

### Number of Nontraditional Credit Sources Required

The number of nontraditional credit sources that must be documented for a borrower without a credit score differs depending on the underwriting method and loan product, as described in the table below:

| Underwriting Method           | Number of Nontraditional Credit Sources Required   |  |
|-------------------------------|--|--|
|                               | Loans other than HomeReady Loans   | HomeReady Loans  |
| Manually underwritten loans   | <ul style="list-style-type: none"> <li>Four sources for each borrower without a credit score</li> </ul>  | <ul style="list-style-type: none"> <li>Three sources for each borrower without a credit score</li> <li>If there is a borrower on the loan without a credit score who cannot document a nontraditional credit profile (because the borrower has no nontraditional credit sources), the transaction is still eligible, provided no more than 30% of the qualifying income for the mortgage loan comes from that borrower.</li> </ul> |
| Loans underwritten through DU | <ul style="list-style-type: none"> <li>If no borrower has a credit score                             <ul style="list-style-type: none"> <li>at least two sources for each borrower</li> </ul> </li> <li>If the borrower(s) with a credit score contributes                             <ul style="list-style-type: none"> <li>50% or less of qualifying income, at least two sources for each borrower without a credit score.</li> <li>more than 50% of qualifying income, then no nontraditional credit history is required for the borrower(s) without a credit score.</li> </ul> </li> </ul> |  |

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## Eligible Types of Nontraditional Credit

The types of credit that can be used to develop a nontraditional credit history are those that require the borrower to make periodic payments on a regular basis with intervals that are no longer than every three months.

The lender must conduct an informational interview with the borrower to identify all of the sources from which the borrower obtained credit over the most recent consecutive 12 months. If the lender is requesting a nontraditional mortgage credit report from a consumer reporting agency, the agency will conduct the borrower interview and obtain the list of available nontraditional credit sources.

In all cases, the payment history for each credit reference must be documented for the most recent consecutive 12-month period. All credit sources must be included, not just those that reflect acceptable performance.

The following nontraditional credit sources may be used to develop a nontraditional credit history for the borrower:

- Rental housing payments. This includes payments made to a landlord or management company. Also included are payments made on a privately-held mortgage loan that is not reported to the credit bureaus, contract for deed payments and other similar arrangements, provided the payments are related to the borrower's housing.
  - Loans underwritten through DU where a nontraditional credit history is required must include rental housing payments as one source of nontraditional credit.
  - Manually underwritten loans do not require that one source of nontraditional credit be rental housing payments. However, if no borrower on the loan is able to document a rental payment history, a minimum of 12 months' reserves must be documented.
- Utilities, such as electricity, gas, water, telephone service, television, and internet service providers. If utilities are included in the rental housing payment, they cannot be considered a separate source of nontraditional credit. Utilities can be considered a source of nontraditional credit only if the payment history can be separately documented.
- Medical insurance coverage (excluding payroll deductions)
- Automobile insurance payments
- Cell phone payments

- Life insurance policies (excluding payroll deductions)
  - Payments for household or renter’s insurance
  - Payments to local stores, such as department stores, furniture stores, appliance stores
  - Rental payments for durable goods, such as automobiles
  - Payment of medical bills
  - Payment of school tuition
  - Payments for child care
  - A loan obtained from an individual, provided the repayment terms can be documented in a written agreement
  - Checking account, savings account, voluntary payments made to a payroll savings plan or contributions to a stock purchase plan, provided the records reflect an increasing balance as a result of periodic deposits over at least the most recent 12 months. Contributions must have been made no less than quarterly.
  - Wire remittance statements demonstrating a consistent amount of funds remitted over the most recent 12-month period.
- 

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcement</b>                      | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016   |
| <a href="#">Announcement 09-12</a>       | May 4, 2009       |

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## **B3-5.4-03, Documentation and Assessment of a Nontraditional Credit History (08/30/2016)**

### **Introduction**

This topic contains information on the documentation and assessment of a nontraditional credit history, including:

- [General Documentation Requirements](#)
- [Rental Payment History](#)
- [Standards for Individual Credit References Obtained Directly from a Creditor](#)
- [Standards for Documenting Payment History Obtained From the Borrower](#)
- [Verification of Bank Accounts and Wire Remittance Statements](#)
- [Borrowers with Disabilities](#)
- [Non-U.S. Citizen and Foreign Borrowers](#)
- [Assessment of the Payment History for Nontraditional Credit Sources](#)

### **General Documentation Requirements**

The lender can document the borrower's nontraditional credit history directly from the borrower or the creditor, or by obtaining a nontraditional mortgage credit report from a consumer reporting agency.

### **Rental Payment History**

The borrower's rental payment history must be documented for the most recent consecutive 12-month period. The following documentation is acceptable:

- Canceled checks can be provided. In lieu of canceled checks, the lender may use the borrower's bank statements, copies of money orders, or other reasonable methods for documenting the timely payment of rent. The documentation must clearly indicate the payee and amount being paid, and reflect that payments were made on a consistent basis.
- Direct verification of the payment of rent from the landlord. Direct landlord verification is acceptable whether the landlord is an individual or a professional management company.

If at least one borrower on the loan can document a rental housing payment as a source of nontraditional credit, the loan has met the rental payment history requirement. The lender is not required to obtain documentation of a rental payment history for other nontraditional credit borrowers on the loan. However, the lender must still document the minimum number of nontraditional credit sources required for each nontraditional credit borrower.

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If two or more borrowers on a loan share the housing-related source (for example, they are both named on the lease for the property in which they are living), that documentation counts as one source of nontraditional credit documentation for each borrower, even if only one borrower has been making the payments.

**Note:** If the credit report contains a rental payment reference and it includes the required information, including payment history, then the lender may use that rental payment reference as an acceptable nontraditional credit reference.

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### **Standards for Individual Credit References Obtained Directly from a Creditor**

Individual credit references (other than rental housing payments) from a creditor must include the following:

- the creditor’s name,
- the name of the individual providing the reference,
- the date the account was opened,
- the amount of highest credit,
- the current status of the account,
- the required payment amount,
- the unpaid balance, and
- the payment history.

The historical status of each account must be stated in a “number of times past due” format using “0 X 30, 0 X 60, 0 X 90” days late.

**Note:** Vague statements such as “current,” “satisfactory,” or “pays as agreed” are not acceptable by themselves.

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### **Standards for Documenting Payment History Obtained From the Borrower**

For documentation obtained directly from the borrower, the following standards must be met:

- documentation that describes the terms of the debt repayment or contract together with canceled checks or copies of bills marked “paid” that reflect the borrower’s payment history over the most recent consecutive 12 months.

- 
- withdrawals or debits on the borrower's bank statements that show the payee information clearly listed for the creditor and that payments were made on a consistent basis over the most recent consecutive 12 months.
- 

### **Verification of Bank Accounts and Wire Remittance Statements**

Account statements can be used to document the borrower's checking account, savings account, voluntary payments made to a payroll savings plan, or contributions to a stock purchase plan. The account statements must reflect an increasing balance as a result of periodic deposits over at least the most recent consecutive 12-month period, with contributions being made no less than quarterly. If the account statements demonstrate overdraft activity, that information suggests a weakness in the borrower's ability to meet financial obligations. The lender must assess the significance of this information relative to the borrower's overall credit risk.

Wire remittance statements can be used to document a source of nontraditional credit, provided they demonstrate a consistent amount of funds being remitted over the most recent consecutive 12-month period.

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### **Borrowers with Disabilities**

If a borrower with disabilities does not have a credit score and a nontraditional credit history is being developed, the lender may use documentation provided by a court-appointed guardian, a Social Security Administration (SSA) representative payee, or a parent, provided that this party:

- manages the borrower's financial transactions,
- maintains records on the borrower's behalf, and
- uses credit accounts held jointly in the name of the person with disabilities to pay financial obligations.

The lender can use the documentation provided either to request a nontraditional mortgage credit report from a consumer reporting agency, or to establish a nontraditional credit history for the borrower, as described in this topic.

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### **Non-U.S. Citizen and Foreign Borrowers**

If a non-U.S. citizen or foreign borrower lacks sufficient credit references in the United States to satisfy Fannie Mae requirements, the lender must use credit references from foreign countries to achieve the required number of nontraditional credit references and establish a nontraditional credit profile.

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### Assessment of the Payment History for Nontraditional Credit Sources

For each nontraditional credit source, the following requirements must be met:

- There cannot be any delinquency on rental housing payments within the past 12 months.
- Only one account, excluding rental housing payments, can have a 30-day delinquency in the past 12 months.
- No collections (other than medical collections) or judgments have been filed in the past 24 months.
- Judgments, liens, collections, and charge-offs of non-mortgage accounts must be satisfied in accordance with [B3-6-07, Debts Paid Off At or Prior to Closing](#) (for manually underwritten loans), or [B3-5.3-09, DU Credit Report Analysis](#) (for loans underwritten with DU).

**Note:** A borrower may lack sufficient credit to obtain a credit score. However, the lender must still consider any derogatory credit references that appear on the credit report.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcement                             | Issue Date      |
|--|-----------------|
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016 |

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# Chapter B3-6, Liability Assessment



## Liability Assessment

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### Introduction

This chapter describes liability assessment for qualifying, underwriting, and documentation purposes.

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### In This Chapter

This chapter contains the following sections:

|  |     |
|--|-----|
| B3-6-01, General Information on Liabilities (06/30/2015) .....           | 559 |
| B3-6-02, Debt-to-Income Ratios (08/30/2016) .....                        | 561 |
| B3-6-03, Monthly Housing Expense (05/28/2013) .....                      | 566 |
| B3-6-04, Qualifying Payment Requirements (04/15/2014) .....              | 568 |
| B3-6-05, Monthly Debt Obligations (10/24/2016) .....                     | 570 |
| B3-6-06, Qualifying Impact of Other Real Estate Owned (06/30/2015) ..... | 576 |
| B3-6-07, Debts Paid Off At or Prior to Closing (10/24/2016) .....        | 578 |
| B3-6-08, DU: Requirements for Liability Assessment (01/27/2015) .....    | 580 |

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## B3-6-01, General Information on Liabilities (06/30/2015)

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### Introduction

This topic contains information on liabilities, including:

- [General Information on Liabilities](#)
  - [Monthly Obligations Not Included in Liabilities](#)
- 

### General Information on Liabilities

The lender's risk analysis must include all liabilities affecting income or assets that will affect the borrower's ability to fulfill the mortgage payment obligation.

A borrower's liabilities include the following:

- 
- housing expense on the borrower’s principal residence,
  - all revolving charge accounts,
  - installment loan debts with a remaining payment term greater than 10 months,
  - lease payments,
  - real estate loans,
  - HELOCs,
  - alimony and child support,
  - maintenance payments, and
  - all other debts of a recurring nature.

For each liability, the lender must determine the unpaid balance, the terms of repayment, and the borrower’s payment history, and verify any other liability that is not shown on a credit report by obtaining documentation from the borrower or creditor.

If the credit report does not contain a reference for each significant open debt shown on the loan application—including outstanding mortgage debt, bank, student, or credit union loans—the lender must provide separate credit verification.

If a current liability appears on the credit report that is not shown on the loan application, the borrower should provide a reasonable explanation for the undisclosed debt. Documentation may be required to support the borrower’s explanation.

If the borrower discloses, or the lender discovers, additional liabilities after the underwriting decision has been made, up to and concurrent with closing, the lender must recalculate the borrower's debt-to-income ratio. (See [B3-6-02, Debt-to-Income Ratios](#), for additional information.)

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### **Monthly Obligations Not Included in Liabilities**

Some obligations, often identified on a borrower’s paystub, are not considered a liability and will not be included as a debt or deducted from the borrower’s gross income when calculating the borrower’s debt-to-income ratio. These obligations include items such as

- federal, state, and local taxes;
- Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts (including repayment of debt secured by these funds);

- commuting costs;
- union dues; and
- voluntary deductions.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcement                             | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015      |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">Announcement SEL-2010-11</a> | August 13, 2010    |
| <a href="#">Announcement SEL-2010-01</a> | March 2, 2010      |



## **B3-6-02, Debt-to-Income Ratios (08/30/2016)**

### Introduction

This topic contains information on the use of the debt-to-income (DTI) ratio, including:

- [DTI Ratios](#)
- [Exceptions to the Maximum DTI Ratio](#)
- [Calculating Total Monthly Obligation](#)
- [DTI Ratio Tolerance and Re-Underwriting Criteria](#)
- [Applying the Re-underwriting Criteria](#)

For additional information, see [B3-1-01, Comprehensive Risk Assessment](#).

---

### DTI Ratios

The DTI ratio consists of two components:

- total monthly obligations, which includes the qualifying payment for the subject mortgage loan and other long-term and significant short-term monthly debts (see [Calculating Total Monthly Obligation](#) below); and
- total monthly income of all borrowers, to the extent the income is used to qualify for the mortgage (see [Chapter B3-3, Income Assessment](#)).

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For manually underwritten loans, Fannie Mae's maximum total DTI ratio is 36% of the borrower's stable monthly income. The maximum can be exceeded up to 45% if the borrower meets the credit score and reserve requirements reflected in the [Eligibility Matrix](#).

For loan casefiles underwritten through DU, DU determines the maximum allowable DTI ratio based on the overall risk assessment of the loan casefile. DU will apply a maximum allowable DTI of 45%, with flexibilities offered up to 50% for certain loan casefiles with strong compensating factors.

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### Exceptions to the Maximum DTI Ratio

Fannie Mae makes exceptions to the maximum allowable DTI ratios for particular mortgage transactions, including:

- DU Refi Plus and Refi Plus — ratios may exceed 45% except for certain Refi Plus transactions that have a maximum DTI ratio requirement. See [B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations](#), for additional information;
- borrowers who do not have a credit score — the maximum ratio may be lower for manually underwritten loans and DU loan casefiles (see [B3-5.4-01, Eligibility Requirements for Loans with Nontraditional Credit](#));
- non-occupant borrowers — the maximum ratio is lower than 45% for the occupying borrower for manually underwritten loans (see [B2-2-04, Guarantors, Co-Signers, or Non-Occupant Borrowers](#)); and
- government mortgage loans — lenders must follow the requirements for the respective government agency.

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### Calculating Total Monthly Obligation

The total monthly obligation is the sum of the following:

- the monthly housing expense of the borrower's principal residence (or the qualifying payment amount if the subject mortgage loan is secured by the borrower's principal residence (see [B3-6-03, Monthly Housing Expense](#)));
- the qualifying payment amount if the subject mortgage loan is secured by a second home or investment property (see [B3-6-04, Qualifying Payment Requirements](#));
- monthly payments on installment debts and other mortgage debts that extend beyond ten months;

- 
- monthly payments on installment debts and other mortgage debts that extend ten months or less if the payments significantly affect the borrower's ability to meet credit obligations;
  - monthly payments on revolving debts;
  - monthly payments on lease agreements, regardless of the expiration date of the lease;
  - monthly alimony, child support, or maintenance payments that extend beyond ten months;
  - monthly payments for other recurring monthly obligations; and
  - any net loss from a rental property.

**Note:** Fannie Mae acknowledges that lenders may sometimes apply a more conservative approach when qualifying borrowers. This is acceptable as long as Fannie Mae's minimum requirements are met, and lenders consistently apply the same approach to similar loans. For example, a lender might calculate a higher minimum payment on a credit card account than what Fannie Mae requires, which is acceptable as long as the lender consistently applies this calculation to all mortgage applications with revolving debts.

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### **DTI Ratio Tolerance and Re-Underwriting Criteria**

Fannie Mae expects lenders to have in place processes to facilitate borrower disclosure of changes in financial circumstances throughout the origination process and prefunding quality control processes to increase the likelihood of discovering material undisclosed debts. See [D1-2-01, Lender Prefunding Quality Control Review Process](#).

As a result of the lender's normal processes and controls, the lender may need to re-underwrite the loan after initial underwriting. If the borrower discloses or the lender discovers additional debt(s) or reduced income after the underwriting decision was made up to and concurrent with loan closing, the loan must be re-underwritten if the new information causes the DTI ratio:

- to exceed 45%; or
- if the recalculated DTI ratio does not exceed 45%, to increase by 3 percentage points or more.

In all cases, if the lender determines that there is new subordinate financing on the subject property during the loan process, the mortgage loan must be re-underwritten.

**Note:** Re-underwriting means that loan casefiles must be resubmitted to DU with updated information; and for manually underwritten loans, a comprehensive risk and eligibility assessment must be performed.

### Applying the Re-underwriting Criteria

The following steps are required if the borrower discloses or the lender discovers additional debt(s) or reduced income after the underwriting decision was made up to and concurrent with loan closing:

| Step | Description   |
|------|---|
| 1    | <p>The lender must document the additional debt(s) and reduced income in accordance with <a href="#">B3-6-01, General Information on Liabilities</a> or <a href="#">Chapter B3-3, Income Assessment</a>, as applicable.</p> <p>Note: The lender is not required to obtain a new credit report to verify the additional debt(s). However, if the lender chooses to obtain a new credit report after the initial underwriting decision was made, the loan must be re-underwritten.</p>  |
| 2    | <p>If there is new subordinate debt on the subject property, the mortgage loan must be re-underwritten.</p>   |
| 3    | <p>The lender must recalculate the DTI ratio. For DU loan casefiles, the DTI ratio should be recalculated outside of DU.</p>  |
| 4    | <p>If the recalculated DTI ratio exceeds 45%:</p> <ul style="list-style-type: none"> <li>• DU loan casefiles (other than those underwritten as DU Refi Plus): The online loan application must be updated with the new information and the loan casefile must be re-underwritten through DU. DU offers flexibilities in the maximum allowable DTI ratios for loan casefiles with strong compensating factors.</li> <li>• DU Refi Plus loan casefiles: If the recalculated DTI ratio increases by 3 percentage points or more, the online loan application must be updated with the new information and the loan casefile must be re-underwritten through DU. DU offers flexibilities in the maximum allowable DTI ratios for DU Refi Plus loan casefiles.</li> <li>• Manually underwritten loans: Unless other factors have changed that have a positive impact on the DTI ratio (e.g., increased income), no re-underwriting is required because the loan is not eligible for delivery to Fannie Mae.</li> </ul> |
| 5    | <p>If the recalculated DTI ratio does not exceed 45%, but it increases by 3 percentage points or more:</p> <ul style="list-style-type: none"> <li>• DU loan casefiles (including DU Refi Plus): The online loan application must be updated with the new information and the loan casefile must be re-underwritten through DU.</li> </ul>   |

|   |   |
|---|---|
|   | <ul style="list-style-type: none"> <li>Manually underwritten loans: The mortgage loan must be reunderwritten with the updated information to determine if the loan is still eligible for delivery. (Note that if the increase in the DTI ratio moves the DTI ratio above the 36% threshold, the loan must meet the credit score and/or reserve requirements in the <i>Eligibility Matrix</i> that apply to DTI ratios greater than 36% up to 45%.)</li> </ul> |
| 6 | The final loan application signed by the borrower must include all income and debts verified, disclosed, or identified during the mortgage process.   |
| 7 | Upon delivery to Fannie Mae, the lender must deliver the qualifying monthly income and expense amounts that are on the final loan application. See <a href="#">C1-2-02, Loan Data and Documentation Delivery Requirements</a> .   |

These requirements are not applicable to Refi Plus loans with payment increases less than 20% since lenders are not required to calculate the borrower's DTI ratio to determine eligibility. See [B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations](#), for additional information.

For additional information about DU resubmission tolerances, see [B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report](#).

### Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| Announcements and Release Notes          | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016    |
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2015-06</a> | May 26, 2015       |
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015   |
| <a href="#">Announcement SEL-2012-10</a> | October 2, 2012    |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">DU Version 9.0</a>           | July 24, 2012      |
| <a href="#">Announcement SEL-2011-13</a> | December 20, 2011  |
| <a href="#">Announcement SEL-2011-12</a> | November 15, 2011  |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">DU Version 8.2</a>           | September 20, 2010 |
| <a href="#">DU Version 8.0</a>           | September 22, 2009 |
| <a href="#">Announcement 08-35</a>       | December 18, 2008  |



## **B3-6-03, Monthly Housing Expense (05/28/2013)**

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### **Introduction**

This topic contains information about the following:

- [Monthly Housing Expense](#)
  - [Calculating Monthly Real Estate Tax Payment](#)
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### **Monthly Housing Expense**

Monthly housing expense is the sum of the following and is referred to as PITIA:

- principal and interest (P&I);
- property, flood, and mortgage insurance premiums (as applicable);
- real estate taxes;
- ground rent;
- special assessments;
- any owners' association dues (including utility charges that are attributable to the common areas, but excluding any utility charges that apply to the individual unit);
- any monthly co-op corporation fee (less the *pro rata* share of the master utility charges for servicing individual units that is attributable to the borrower's unit);
- any subordinate financing payments on mortgages secured by the subject property.

Lenders must enter all components of the monthly housing expense on the application including other financing P&I, property insurance, real estate taxes, mortgage insurance, homeowners' association dues, and other proposed housing expenses.

If the subject mortgage is secured by the borrower's principal residence, the monthly housing expense is based on the qualifying payment required in accordance with [B3-6-04, Qualifying Payment Requirements](#). This amount is the monthly housing expense used to calculate the debt-to-income (DTI) ratio.



If the subject mortgage is secured by a second home or an investment property, the qualifying payment amount is considered one of the borrower's monthly debt obligations when calculating the DTI ratio. The monthly housing expense in these cases represents the PITIA associated with the borrower's principal residence.

Refer to the Qualifying Payment Requirements for details on calculating the qualifying payment.

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### Calculating Monthly Real Estate Tax Payment

The lender must base its calculation of real estate taxes for borrower qualification on no less than the current assessed value. (The taxes are listed on the title commitment.) However, the lender may (or must in some circumstances) project the real estate taxes if it can document one of the following:

- The amount of taxes will be reduced based on federal, state, or local jurisdictional requirements. However, the taxes may not be reduced if an appeal to reduce them is only pending and has not been approved.
- If the transaction is new construction, the lender must use a reasonable estimate of the real estate taxes based on the value of the land and completed improvements.
- There is a tax abatement on the subject property that will last for no less than 5 years from the note date. For example:
  - for a municipality with a 10-year abatement, the lender may qualify the borrower with the reduced tax amount;
  - for a municipality with a 10-year abatement and with annual real estate tax increases in years 1 through 10, the lender must qualify the borrower with the annual taxes that will be required at the end of the 5<sup>th</sup> year after the first mortgage payment date.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2013-04</a> | May 28, 2013      |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012   |
| <a href="#">Announcement 09-02</a>       | February 6, 2009  |



## B3-6-04, Qualifying Payment Requirements (04/15/2014)

### Introduction

This topic contains information on determining the borrower's monthly PITIA used for qualifying purposes, including:

- [Qualifying Payment Amount](#)
- [Additional Information About ARM Qualifying for DU Loan Casefiles](#)
- [Additional Qualifying Considerations for Specific Products](#)

### Qualifying Payment Amount

The calculation of the qualifying payment amount for the subject property will differ based on the transaction type (as shown in the following table).

These policies apply to both manually underwritten loans and DU loan casefiles. In all cases, qualification must consider the borrower's current obligations and other mortgage-related obligations, i.e. PITIA.

Mortgage loans subject to temporary interest rate buydowns must be qualified without consideration of the bought-down rate, based on the transaction type below.

| Qualifying Interest Rate Requirements                             |  |
|---|--|
| Transaction Type  | DU and Manual Underwriting                                 |
| Fixed-rate mortgages  | Note rate  |
| ARMs with an initial fixed-rate period of five years or less      | Greater of the note rate plus 2% or the fully indexed rate |
| ARMs with an initial fixed-rate period of greater than five years | Greater of the note rate or the fully indexed rate         |

### Additional Information About ARM Qualifying for DU Loan Casefiles

For DU loan casefiles, the fully indexed rate is defined as the index plus the margin as entered in the online loan application. The index and margin are required for all ARM loans submitted to DU.

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If “Lender ARM Plan” is used in DU, DU uses the interest rate entered in the ARM Qualifying Rate field. If no interest rate is entered in that field, DU uses the note rate plus 2% to qualify the borrower.

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### **Additional Qualifying Considerations for Specific Products**

For additional temporary interest rate buydown requirements, see [B2-1.3-05, Temporary Interest Rate Buydowns](#).

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### **Related Announcements**

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014     |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013    |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">DU Version 9.0</a>           | July 24, 2012      |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012      |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">Announcement SEL-2010-06</a> | April 30, 2010     |
| <a href="#">Announcement 09-32</a>       | October 30, 2009   |
| <a href="#">Announcement 09-29</a>       | September 22, 2009 |
| <a href="#">Announcement 09-24</a>       | July 10, 2009      |
| <a href="#">Announcement 09-19</a>       | June 8, 2009       |

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## **B3-6-05, Monthly Debt Obligations (10/24/2016)**

### **Introduction**

This topic describes obligations that should be considered in underwriting the loan, including:

- [Alimony/Child Support/Separate Maintenance Payments](#)
- [Business Debt in Borrower's Name](#)
- [Court-Ordered Assignment of Debt](#)
- [Co-Signed Loans](#)
- [Deferred Installment Debt](#)
- [Home Equity Lines of Credit](#)
- [Garnishments](#)
- [Installment Debt](#)
- [Lease Payments](#)
- [Loans Secured by Financial Assets](#)
- [Open 30-Day Charge Accounts](#)
- [Other Real Estate Owned—Qualifying Impact](#)
- [Revolving Charge/Lines of Credit](#)
- [Student Loans](#)
- [Unreimbursed Employee Business Expenses](#)

### **Alimony/Child Support/Separate Maintenance Payments**

When the borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement—and those payments must continue to be made for more than ten months—the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration.

### **Business Debt in Borrower's Name**

When a self-employed borrower claims that a monthly obligation that appears on his or her personal credit report is being paid by the borrower's business, the lender must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis of the borrower's business.

The account payment does not need to be considered as part of the borrower's individual recurring monthly debt obligations if:

- the account in question does not have a history of delinquency,

- 
- the business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of canceled company checks), and
  - the lender's cash flow analysis of the business took payment of the obligation into consideration.

The account payment does need to be considered as part of the borrower's individual recurring monthly debt obligations in any of the following situations:

- If the business does not provide sufficient evidence that the obligation was paid out of company funds.
- If the business provides acceptable evidence of its payment of the obligation, but the lender's cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense—and taxes and insurance, if applicable—equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.
- If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the lender should adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that relates to the account in question.

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### **Court-Ordered Assignment of Debt**

When a borrower has outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement) and the creditor does not release the borrower from liability, the borrower has a contingent liability. The lender is not required to count this contingent liability as part of the borrower's recurring monthly debt obligations.

The lender is not required to evaluate the payment history for the assigned debt after the effective date of the assignment. The lender cannot disregard the borrower's payment history for the debt before its assignment.

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### **Co-Signed Loans**

When a borrower co-signs for a loan to enable another party (the primary obligor) to obtain credit—but is not the party who is actually repaying the debt—the borrower has a contingent liability.

The liability does not need to be considered as part of the borrower's recurring monthly debt obligations if the lender can verify a history of documented payments on the co-signed debt by the primary obligor and ascertain that there is not a history of delinquent payments for that debt

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(since this could be an indication that the co-signer might have to assume the obligation at some point in the future).

Generally, the primary obligor should have been making payments on the debt for at least 12 months (although shorter payment histories may be considered on a case-by-case basis).

The liability does need to be considered as part of the borrower's recurring monthly debt obligations if:

- payment by the primary obligor cannot be sufficiently documented,
- a sufficient payment history has not been established for the debt, or
- the primary obligor has a history of being delinquent in making payments on the debt.

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### **Deferred Installment Debt**

Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations. For deferred installment debts other than student loans, if the borrower's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, the lender must obtain copies of the borrower's payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the borrower's total monthly obligations.

For information about deferred student loans, see Student Loans below.

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### **Home Equity Lines of Credit**

When the mortgage that will be delivered to Fannie Mae also has a home equity line of credit (HELOC) that provides for a monthly payment of principal and interest or interest only, the payment on the HELOC must be considered as part of the borrower's recurring monthly debt obligations. If the HELOC does not require a payment, there is no recurring monthly debt obligation so the lender does not need to develop an equivalent payment amount.

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### **Garnishments**

All garnishments with more than ten months remaining must be included in the borrower's recurring monthly debt obligations for qualifying purposes.

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### **Installment Debt**

All installment debt that is not secured by a financial asset—including student loans, automobile loans, and home equity loans—must be considered part of the borrower's recurring monthly debt

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obligations if there are more than ten monthly payments remaining. However, an installment debt with fewer monthly payments remaining also should be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet his or her credit obligations.

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### **Lease Payments**

Lease payments must be considered as recurring monthly debt obligations regardless of the number of months remaining on the lease. This is because the expiration of a lease agreement for rental housing or an automobile typically leads to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle or house.

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### **Loans Secured by Financial Assets**

When a borrower uses his or her financial assets—life insurance policies, 401(k) accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.—as security for a loan, the borrower has a contingent liability.

The lender is not required to include this contingent liability as part of the borrower's recurring monthly debt obligations provided the lender obtains a copy of the applicable loan instrument that shows the borrower's financial asset as collateral for the loan. If the borrower intends to use the same asset to satisfy financial reserve requirements, the lender must reduce the value of the asset (the account balance, in most cases) by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.

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### **Open 30-Day Charge Accounts**

Open 30-day charge accounts require the balance to be paid in full every month. Fannie Mae does not require open 30-day charge accounts to be included in the debt-to-income ratio.

See [B3-6-07, Debts Paid Off At or Prior to Closing](#), for additional information on open 30-day charge accounts.

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### **Other Real Estate Owned—Qualifying Impact**

For details regarding the qualifying impact of other real estate owned, see [B3-6-06, Qualifying Impact of Other Real Estate Owned](#).

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### **Revolving Charge/Lines of Credit**

Revolving charge accounts and unsecured lines of credit are open-ended and should be treated as long-term debts and must be considered part of the borrower's recurring monthly debt

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obligations. These tradelines include credit cards, department store charge cards, and personal lines of credit. Equity lines of credit secured by real estate should be included in the housing expense.

If the credit report does not show a required minimum payment amount and there is no supplemental documentation to support a payment of less than 5%, the lender must use 5% of the outstanding balance as the borrower's recurring monthly debt obligation.

For DU loan casefiles, if a revolving debt is provided on the loan application without a monthly payment amount, DU will use the greater of \$10 or 5% of the outstanding balance as the monthly payment when calculating the total debt-to-income ratio.

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### Student Loans

For all student loans, whether deferred, in forbearance, or in repayment (not deferred), the lender must include a monthly payment in the borrower's recurring monthly debt obligation when qualifying the borrower. The lender must use one of the options below to determine the repayment amount:

- 1% of the outstanding balance;
- the actual payment that will fully amortize the loan(s) as documented in the credit report, by the student loan lender, or in documentation supplied by the borrower;
- a calculated payment that will fully amortize the loan(s) based on the documented loan repayment terms; or
- if the repayment terms are unknown, a calculated payment that will fully amortize the loan(s) based on the current prevailing student loan interest rate and the allowable repayment period shown in the table below.

The “current prevailing student loan interest rate” can be found on a variety of websites. For example, see U.S. Department of Education Federal Student Aid in [E-1-03, List of Contacts](#).

The following table specifies the repayment period to be used when calculating a fully amortizing payment.

| Calculating a Student Loan Repayment           |                  |
|--|------------------|
| Total outstanding balance of all student loans | Repayment Period |
| \$1 — \$7,499                                  | 10 years         |



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| Calculating a Student Loan Repayment |          |
|--------------------------------------|----------|
| \$7,500 — \$9,999                    | 12 years |
| \$10,000 — \$19,999                  | 15 years |
| \$20,000 — \$39,999                  | 20 years |
| \$40,000 — \$59,999                  | 25 years |
| \$60,000 +                           | 30 years |

**Note:** The lender is responsible for determining that the payment on the credit report or other documents provided by the student loan lender or borrower are fully amortizing payments.

#### **Example: Calculating an Amortizing Payment**

Balance: \$17,500

Repayment period: 15 years

Interest rate: 4.29%

Monthly Amortizing Payment: \$132.00

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#### **Unreimbursed Employee Business Expenses**

The lender must determine whether the borrower has unreimbursed employee business expenses for the following scenarios:

- when a borrower has commission income that represents 25% or more of the borrower's total annual employment income, or
- when an automobile allowance is included in the borrower's monthly qualifying income.

The lender must determine the borrower's recurring monthly debt obligation for such expenses by developing a 24-month average of the expenses, using information from the borrower's IRS Form 1040 including all schedules (Schedule A and IRS Form 2106). Automobile depreciation claimed on IRS Form 2106 should be netted out of this calculation.

For both of the above scenarios when calculating the total debt-to-income ratio, the monthly average for unreimbursed expenses should be subtracted from the borrower's stable monthly income. Automobile lease or loan payments are not subtracted from the borrower's income; they are always considered part of the borrower's recurring monthly debt obligations.

See [B3-3.1-09, Other Sources of Income](#), for additional information regarding automobile allowances.

## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue</b>   |
|--|----------------|
| <a href="#">Announcement SEL-2016-08</a> | October 2016   |
| <a href="#">Announcement SEL-2016-04</a> | May 2016       |
| <a href="#">Announcement SEL-2015-07</a> | June 2015      |
| <a href="#">Announcement SEL-2014-16</a> | December 2014  |
| <a href="#">Announcement SEL-2011-04</a> | May 2011       |
| <a href="#">Announcement SEL-2010-13</a> | September 2010 |
| <a href="#">DU Version 8.2</a>           | September 2010 |
| <a href="#">Announcement 09-32</a>       | October 2009   |
| <a href="#">Announcement 09-02</a>       | February 2009  |



## **B3-6-06, Qualifying Impact of Other Real Estate Owned (06/30/2015)**

### Introduction

This topic describes the qualifying impact of other real estate owned, including:

- [Qualifying Considerations](#)
- [Mortgage Assumption](#)
- [Property Settlement Buyout](#)
- [Current Principal Residence Pending Sale](#)

### Qualifying Considerations

When the borrower owns mortgaged real estate, the status of the property determines how the existing property's PITIA must be considered in qualifying for the new mortgage transaction. If the mortgaged property owned by the borrower is

- 
- an existing investment property or a current principal residence converting to investment use, the borrower must be qualified in accordance with, but not limited to, the policies in topics [B3-3.1-08, Rental Income](#), [B3-4.1-01, Minimum Reserve Requirements](#), and, if applicable [B2-2-03, Multiple Financed Properties for the Same Borrower](#);
  - an existing second home or a current principal residence converting to a second home, the PITIA of the second home must also be counted as part of the borrower's recurring monthly debt obligations; or
  - the borrower's current principal residence that is pending sale but will not close (with title transfer to the new owner) prior to the subject transaction, the lender must comply with the policies in this topic.

In conjunction with the policies in this topic, the lender must also comply with the policies in [B2-2-03, Multiple Financed Properties for the Same Borrower](#), [B3-3.1-08, Rental Income](#), and [B3-4.1-01, Minimum Reserve Requirements](#), as applicable.

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### **Mortgage Assumption**

When a borrower sells a mortgaged property and the property purchaser assumes the outstanding mortgage debt without a release of liability, the borrower has a contingent liability.

The lender is not required to count this contingent liability (PITIA) as part of the borrower's recurring monthly debt obligations if the lender verifies that the property purchaser has at least a 12-month history of making regular, timely payments for the mortgage. The lender can document this by obtaining

- evidence of the transfer of ownership;
- a copy of the formal, executed assumption agreement; and
- a credit report indicating that consistent and timely payments were made for the assumed mortgage.

If the lender cannot document timely payments during the most recent 12-month period, the applicable mortgage payment must be counted as part of the borrower's recurring monthly debt obligations.

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### **Property Settlement Buyout**

When a borrower's interest in a property is bought out by another co-owner of the property, as often happens in a divorce settlement, but the lender does not release the borrower from liability under the mortgage, the borrower has a contingent liability.

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If the lender obtains documentation to confirm the transfer of title to the property, this liability does not have to be considered as part of the borrower's recurring monthly debt obligations.

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### **Current Principal Residence Pending Sale**

If the borrower's current principal residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the subject transaction, and the borrower is purchasing a new principal residence, the current PITIA and the proposed PITIA must be used in qualifying the borrower for the new mortgage loan.

However, Fannie Mae will not require the current principal residence's PITIA to be used in qualifying the borrower as long as the following documentation is provided:

- the executed sales contract for the current residence, and
  - confirmation that any financing contingencies have been cleared.
- 

### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015     |
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012 |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012   |
| <a href="#">Announcement 09-32</a>       | October 30, 2009  |
| <a href="#">Announcement 09-02</a>       | February 6, 2009  |

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## **B3-6-07, Debts Paid Off At or Prior to Closing (10/24/2016)**

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### **Introduction**

This topic contains information on debts paid off at or prior to closing, including:

- [Payoff or Paydown of Debt for Qualification](#)
- [Open 30-Day Charge Accounts](#)
- [Collections, Charge-Offs of Non-Mortgage Accounts, Judgments, and Liens](#)

---

### Payoff or Paydown of Debt for Qualification

Payoff or paydown of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. Generally

- Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments do not need to be included in the borrower's long-term debt.
- If a revolving account balance is to be paid off at or prior to closing, a monthly payment on the current outstanding balance does not need to be included in the borrower's long-term debt, i.e., not included in the debt-to-income (DTI) ratio. Such accounts do not need to be closed as a condition of excluding the payment from the DTI ratio.

See [B3-6-02, Debt-to-Income Ratios](#) for additional guidance on calculating total monthly obligations for qualifying purposes.

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### Open 30-Day Charge Accounts

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, lenders must verify borrower funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves.

**Note:** DU will include the balance of the 30-day charge accounts on the loan application in the Reserves Required to be Verified amount shown on the DU Underwriting Findings report. However, for transactions that do not require the verification of reserves, the balance of 30-day charge accounts in the Reserves Required to be Verified amount will be reduced by any cash out the borrower will receive through the transaction.

If the borrower paid off the account balance prior to closing, the lender may provide proof of payoff in lieu of verifying funds to cover the account balance.

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### Collections, Charge-Offs of Non-Mortgage Accounts, Judgments, and Liens

Delinquent credit—including taxes, judgments, charge-offs of non-mortgage accounts (see below for exceptions), tax liens, mechanics' or materialmen's liens, and liens that have the potential to affect Fannie Mae's lien position or diminish the borrower's equity—must be paid off at or prior to closing.

For manually underwritten loans, collection accounts and charge-offs on non-mortgage accounts do not have to be paid off at or prior to closing if the balance of an individual account is less than \$250 or the total balance of all accounts is \$1,000 or less. Collection accounts and charge-offs on non-mortgage accounts that exceed these limits do not have to be paid off at or prior to closing, provided the lender can document a strong credit profile, and meaningful financial reserves.

For DU underwritten loans, refer to [B3-5.3-09, DU Credit Report Analysis](#).

### Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016   |
| <a href="#">Announcement SEL-2015-06</a> | May 26, 2015       |
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014      |
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014     |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013      |
| <a href="#">DU Version 9.0</a>           | March 19, 2013     |
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012  |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">DU Version 9.0</a>           | July 24, 2012      |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">DU Version 8.2</a>           | September 20, 2010 |



## **B3-6-08, DU: Requirements for Liability Assessment (01/27/2015)**

### Introduction

This topic contains information on DU requirements for liability assessment, including:

- [Reconciling the Loan Application with the Credit Report](#)
- [Auto-Populating DU Liabilities From the Credit Report](#)

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## Reconciling the Loan Application with the Credit Report

DU uses liabilities from the loan application, not debts from the credit report, to calculate the debt-to-income ratio.

To help ensure that all appropriate liabilities are included in the debt-to-income ratio, DU performs a series of reasonableness tests comparing loan application balances and payments with the credit report balances and payments. If the values on the loan application are less than the values on the credit report by more than selected tolerances, the lender must justify the discrepancies between the two. The lender must update the loan application values if the values are needed to calculate accurate ratios. The information must be updated either with verified values from the credit report or with independent, outside verifications.

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## Auto-Populating DU Liabilities From the Credit Report

The lender can automatically copy the borrower's liabilities from the credit report to Section VI Liabilities by selecting the auto-populate liabilities option from DU when the credit report is ordered. If the lender's loan origination system does not offer this option, or if the lender elects not to use it, the liabilities must be entered manually in Section VI Liabilities.

When the auto-populate option is selected, it is not necessary to obtain additional borrower disclosure for tradelines appearing on the credit report. The lender is still required to obtain full disclosure from all borrowers, including borrowers who do not have traditional credit, of all existing credit obligations. Liabilities that do not appear on the credit report, such as monthly housing expenses for taxes, insurance, etc., must be disclosed in Section VI Liabilities prior to final submission to DU.

If the auto-populate liabilities option is selected BEFORE liabilities have been manually entered in the loan application:

- Open accounts will be automatically copied to Section VI Liabilities of the loan application.
- Closed accounts on the credit report are not automatically copied to the loan application. If the account has an outstanding balance, the lender must manually enter the liability in Section VI Liabilities and include the monthly payment in the debt-to-income ratio.
- Collection accounts on the credit report are not automatically copied to the loan application.

If the auto-populate liabilities option is selected AFTER liabilities have been manually entered in the loan application:

- 
- DU will attempt to match existing liability accounts listed on Section VI Liabilities of the loan application to the credit report liabilities by using a combination of account name and account number.
  - Open accounts from the credit report that were not manually entered on the loan application will be automatically copied to the loan application.
  - DU will use the information on the loan application to calculate the debt-to-income ratio.

If duplicate accounts or accounts that do not belong to the borrower were copied to the loan application and included in the debt-to-income ratio, they may be omitted from Section VI Liabilities. Debts that are omitted will not be counted in the debt-to-income ratio.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcement</b>                      | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015  |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010  |

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# Subpart B4, Underwriting Property



## Underwriting Property

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### Introduction

This subpart contains property underwriting and appraisal requirements for conventional loans.

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### In This Subpart

This subpart contains the following chapters:

|  |     |
|--|-----|
| <a href="#">B4-1, Appraisal Requirements</a> ..... | 584 |
| <a href="#">B4-2, Project Standards</a> .....      | 686 |

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# Chapter B4-1, Appraisal Requirements



## Appraisal Requirements

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### Introduction

This chapter explains Fannie Mae's appraisal requirements and guidelines.

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### In This Chapter

This chapter contains the following sections:

|  |     |
|--|-----|
| B4-1.1, General Appraisal Requirements .....                       | 585 |
| B4-1.2, Documentation Standards .....                              | 601 |
| B4-1.3, Appraisal Report Assessment .....                          | 614 |
| B4-1.4, Special Appraisal and Other Valuation Considerations ..... | 660 |

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## Section B4-1.1, General Appraisal Requirements



### B4-1.1-01, Definition of Market Value (04/15/2014)

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#### Introduction

This topic contains information on the definition of market value.

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#### Definition of Market Value

Market value is the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- buyer and seller are typically motivated;
- both parties are well informed or well advised, and each acting in what he or she considers his/her own best interest;
- a reasonable time is allowed for exposure in the open market;
- payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

**Note:** Adjustments to the comparables must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs that are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable because the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to

financing terms offered by a third-party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar cost of the financing or concession, but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment.

## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date     |
|--|----------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014 |



## B4-1.1-02, Lender Responsibilities (12/06/2016)

### Introduction

This topic contains information on lender requirements, including:

- [Lender Responsibilities](#)
- [Confirmation and Documentation of the Current Owner](#)
- [Objective and Unbiased Appraisals](#)
- [Reporting Unfavorable Conditions](#)

### Lender Responsibilities

The lender is responsible for ensuring that the subject property provides adequate collateral for the mortgage. For most loans, Fannie Mae requires that the lender obtain a signed and complete appraisal report that accurately reflects the market value, condition, and marketability of the property. Some loans may be eligible for a property inspection waiver (PIW), and an appraisal is not required if the lender exercises the waiver and complies with the related requirements. (See [B4-1.4-10, Property Inspection Waivers \(PIW\)](#), for additional information.)

If an appraisal is obtained, the lender is responsible for

- compliance with the [Appraiser Independence Requirements](#);

- selection of the appraiser (see [B4-1.1-03, Appraiser Selection Criteria](#));
- compliance with the Uniform Appraisal Dataset (UAD) when applicable (see [B4-1.1-06, Uniform Appraisal Dataset \(UAD\) and the Uniform Collateral Data Portal \(UCDP\)](#));
- ensuring the appraiser has utilized sound reasoning and provided evidence to support the methodology chosen to develop the value opinion, particularly in cases that are not covered by Fannie Mae policy;
- successful submission of the appraisal through the UCDP prior to delivery (see [B4-1.1-06, Uniform Appraisal Dataset \(UAD\) and the Uniform Collateral Data Portal \(UCDP\)](#)); and
- continually evaluating the appraiser's work through the quality control process (see [B4-1.3-12, Quality Assurance](#)).

**Note:** If an applicable law, regulation, or lender's policy requires the lender to obtain more than one appraisal in connection with a mortgage loan, for loans delivered to Fannie Mae, the lender must select and use the single most accurate appraisal for underwriting purposes and that appraisal must be delivered through the [UCDP](#).

For certain loans, the lender is relieved of a number of responsibilities related to the appraisal and subject property value. See [A2-2.1-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU](#), for additional information.

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### **Confirmation and Documentation of the Current Owner**

Confirmation that the property seller in a purchase money transaction (or the borrower in a refinance transaction) is the owner of the subject property based on publicly available information helps to identify property flipping schemes, which typically involve various combinations of transactions and result in a sale of a recently acquired property for significant profit based on a misleading or fraudulent appraisal with an inflated property value.

Lenders must confirm and document in the mortgage file that the property seller in a purchase money transaction or the borrower in a refinance transaction is the owner of the subject property when an appraisal is required. Examples of acceptable documentation include, but are not limited to:

- a copy of a recorded deed, mortgage, or deed of trust,

- a recent property tax bill or tax assessment notice,
- a title report,
- a title commitment or binder, or
- a property sale history report.

This documentation is especially important for transactions involving an assignment (or sale) of a contract for sale and back-to-back, simultaneous, double transaction closings, or double escrows to support the property acquisition, financing, and closing.

When the transaction is part of an employee relocation, the relocation company may be the assignee of the seller, which should be indicated on the sales contract. Additionally, the appraiser must comment on this condition in the appraisal report.

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### **Objective and Unbiased Appraisals**

A lender must ensure that the appraiser

- described the property and the neighborhood in factual, unbiased, and specific terms;
- considered all factors that have an effect on value; and
- was objective and unbiased in the development of the opinion of market value in the appraisal report.

A number of federal, state, and local laws prohibit discrimination in the appraisal of housing. Fannie Mae expects professional appraisers to fully understand that discriminatory valuation and appraisal reporting practices are not only illegal, but also unethical. Unintentional discrimination can occur as the result of what an appraiser states, or fails to state, in his or her appraisal report. The lender and the appraiser must ensure that the integrity of the loan decision is not influenced by subjective, racial, or stereotypical terms, phrases or comments in the appraisal report.

Prohibited practices include:

- use of unsupported, descriptive comments or drawing unsupported conclusions from subjective observations. These actions may have a discriminatory effect;
- use of unsupported assumptions, interjections of personal opinion, or perceptions about factors in the valuation process. These actions may have a discriminatory effect, and may or may not affect the use and value of a property;

- use of subjective terminology, including, but not limited to:
    - “pride of ownership,” “no pride of ownership,” and “lack of pride of ownership”;
    - “poor neighborhood”;
    - “good neighborhood”;
    - “crime-ridden area”;
    - “desirable neighborhood or location”; or
    - “undesirable neighborhood or location”;
  - use of subjective terminology that can result in erroneous conclusions;
  - actions that may have a discriminatory effect or may affect the use and value of the property;  
or
  - basing the analysis or opinion of market value (either partially or completely) on the race, color, religion, sex, handicap, familial status, or national origin, of either the prospective owners or occupants of the property being appraised or the present owners or occupants of the properties in the vicinity of that property.
- 

### **Reporting Unfavorable Conditions**

The lender must ensure that appraiser comments regarding unfavorable conditions, such as the existence of an adverse environmental or economic factor, also discuss how the condition affects the value or marketability of the property being appraised and explain how the condition was taken into consideration in the valuation process. In such cases, the appraiser’s analysis must reflect and include comparable sales that are similarly affected whenever possible. The appraiser must address the impact these factors may have, if any, on the value and marketability of the subject property. (See [B4-1.3-06, Property Condition and Quality of Construction of the Improvements](#), for further information).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 6, 2016  |
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016  |
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013   |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011     |
| <a href="#">Announcement SEL-2011-01</a> | January 27, 2011  |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010  |



## B4-1.1-03, Appraiser Selection Criteria (01/31/2017)

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### Introduction

This topic contains general information on appraiser selection, including:

- [Appraiser License and Certification](#)
- [Appraiser Trainees](#)
- [Knowledge and Experience](#)
- [Selection of the Appraiser](#)
- [Supervisory Appraiser](#)

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### Appraiser License and Certification

Fannie Mae requires a lender (or its authorized agent) to use appraisers or supervisory appraisers that are state-licensed or state-certified (in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and all applicable state laws). The lender (or its authorized agent) must document that the appraisers it uses are licensed or certified as appropriate under the applicable state law. The lender must ensure that the state license or state certification is active as of the effective date of the appraisal report. The appraiser must note his or her license or certification number on the individual appraisal report forms,



in compliance with the Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements.

Fannie Mae's appraisal report forms identify the appraiser as the individual who

- personally inspected the property being appraised,
- inspected the exterior of the comparables,
- performed the analysis, and
- prepared and signed the appraisal report as the appraiser.

This does not preclude appraisers from relying on individuals who are not state-licensed or state-certified to provide significant professional assistance, such as an appraiser trainee or an employee of the appraiser doing market data research or data verification in the development of the appraisal. Under some state laws, a lender's use of an unlicensed or uncertified appraiser that is working as an employee or sub-contractor of a licensed or certified appraiser will satisfy the state's licensing and certification requirement, as long as the appraisal report is signed by a state-licensed or state-certified supervisory or review appraiser. The state-licensed or state-certified appraiser that signs the appraisal report must acknowledge in the report the extent of the professional assistance provided by others and the specific tasks performed by each individual, and must certify that each named individual is qualified to perform the tasks.

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### **Appraiser Trainees**

Fannie Mae allows an unlicensed or uncertified appraiser, or trainee (or other similar classification) to perform a significant amount of the appraisal (or the entire appraisal if he or she is qualified to do so). If an unlicensed or uncertified individual provides significant professional assistance, he or she must sign the left side of the appraiser certification as the Appraiser if

- he or she is working under the supervision of a state-licensed or state-certified appraiser as an employee or sub-contractor,
- the right side of the appraiser certification is signed by that supervisory appraiser, and
- it is acceptable under state law.

If the jurisdiction does not provide license numbers for trainees, the term "Trainee" should be entered in the "Other" field in the Appraiser Certification section.

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### **Knowledge and Experience**

Lenders must use appraisers that

- 
- have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and particular property type; and
  - have the requisite knowledge about, and access to, the necessary and appropriate data sources for the area in which the appraisal assignment is located.

Appraisers that are not familiar with specific real estate markets may not have adequate information available to perform a reliable appraisal. Although the Uniform Standards of Professional Appraisal Practice (USPAP) allows an appraiser that does not have the appropriate knowledge and experience to accept an appraisal assignment by providing procedures with which the appraiser can complete the assignment, Fannie Mae does not allow the USPAP flexibility.

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### **Selection of the Appraiser**

The lender

- is responsible for the selection of appraisers and for the qualifications and quality of work provided by the appraisers that are selected;
- may not use appraisals ordered or received by borrowers or other parties with an interest in the transaction, such as the property seller or real estate broker. Fannie Mae does allow lenders to use third-party vendors (for example, appraisal management companies) to manage the appraiser selection process. However, it should be noted that if a lender enters into a contract with any vendor, contractor, or third-party service provider, the lender is accountable for the quality of the work performed as if it was performed by an employee of the lender.

The lender (or its authorized agent)

- must establish policies and procedures to ensure that qualified individuals are being selected in accordance with Fannie Mae requirements, including the [Appraiser Independence Requirements](#).
- must ensure that an appraiser has demonstrated the ability to perform high quality appraisals before using an appraiser's services. The quality of an appraiser's work is a key criterion that must be used in determining which appraiser the lender (or its authorized agent) uses for its assignments. The requirement for an appraiser to produce a high quality work product must always outweigh fee or turnaround time considerations.

Delegating these responsibilities to a third party does not relieve the lender of its responsibilities related to the appraisal or the value, condition, and marketability of the property. See [B4-1.3-12, Quality Assurance](#), for information related to ongoing review of appraisals.

**Note:** Fannie Mae does not approve appraisers. Therefore, when selecting appraisers, lenders must not give any consideration to an appraiser's representation that he or she is approved or qualified by Fannie Mae.

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### **Supervisory Appraiser**

As noted in the License and Certification section in this topic, Fannie Mae allows an unlicensed or uncertified appraiser, or trainee (or other similar classification) that works as an employee or subcontractor of a licensed or certified appraiser, to perform a significant amount of the appraisal (or the entire appraisal if he or she is qualified to do so), as long as the appraisal report is signed by a licensed or certified supervisory or review appraiser and is acceptable under state law.

If a supervisory appraiser is used, the supervisory appraiser does not need to physically inspect the subject property or comparables, but must sign the right side of the report and certify that he or she

- directly supervised the appraiser that prepared the appraisal report,
- has reviewed the appraisal report,
- agrees with the statements and conclusions of the appraiser,
- agrees to be bound by certifications as set forth in Fannie Mae's appraisal report forms, and
- takes full responsibility for the appraisal report.

A supervisory appraiser may not sign the left hand side of the appraisal report unless he or she has met the requirements of the appraiser as noted in the License and Certification section in this topic.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2017-01</a> | January 31, 2017  |
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010  |
| <a href="#">Announcement SEL-2010-09</a> | June 30, 2010     |
| <a href="#">Announcement 09-19</a>       | June 8, 2009      |
| <a href="#">Announcement 08-30</a>       | November 14, 2008 |



## **B4-1.1-04, Unacceptable Appraisal Practices (04/15/2014)**

### Introduction

This topic contains examples of unacceptable practices, many of which are reflected in the appraiser's certifications on the appraisal reports.

### Unacceptable Appraisal Practices

The following are examples of unacceptable appraisal practices:

- development of or reporting an opinion of market value that is not supportable by market data or is misleading;
- development of a valuation conclusion based either partially or completely on the sex, race, color, religion, handicap, national origin, familial status, or other protected classes of either the prospective owners or occupants of the subject property or the present owners or occupants of the properties in the vicinity of the subject property;
- development of a valuation conclusion based on factors that local, state, or federal law designate as discriminatory, and thus, prohibited;
- misrepresentation of the physical characteristics of the subject property, improvements, or comparable sales;

- 
- failure to comment on negative factors with respect to the subject neighborhood, the subject property, or proximity of the subject property to adverse influences;
  - failure to adequately analyze and report any current contract of sale, option, offering, or listing of the subject property and the prior sales of the subject property and the comparable sales;
  - selection and use of inappropriate comparable sales;
  - failure to use comparable sales that are the most locationally and physically similar to the subject property;
  - creation of comparable sales by combining vacant land sales with the contract purchase price of a home that has been built or will be built on the land;
  - use of comparable sales in the valuation process when the appraiser has not personally inspected the exterior of the comparable property;
  - use of adjustments to comparable sales that do not reflect market reaction to the differences between the subject property and the comparable sales;
  - not supporting adjustments in the sales comparison approach;
  - failure to make adjustments when they are clearly indicated;
  - use of data, particularly comparable sales data, provided by parties that have a financial interest in the sale or in the financing of the subject property without the appraiser's verification of the information from a disinterested source;
  - development of an appraisal or reporting an appraisal in a manner or direction that favors the cause of either the client or any related party, the amount of the opinion of value, the attainment of a specific result, or the occurrence of a subsequent event in order to receive compensation or employment for performing the appraisal or in anticipation of receiving future assignments; or
  - development of or reporting an appraisal in a manner that is inconsistent with the requirements of the USPAP in place as of the effective date of the appraisal.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |



## **B4-1.1-05, Disclosure of Information to Appraisers (12/06/2016)**

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### **Introduction**

This topic contains information on lender disclosure of information to appraisers, including:

- [Overview](#)
  - [Sales Contract Information](#)
  - [Information Disclosed to the Appraiser](#)
  - [Contract Changes After the Appraisal is Completed](#)
- 

### **Overview**

Any and all information about the subject property that the lender is aware of must be disclosed to the appraiser. The appraiser must determine if the information could affect either the marketability of the property or the opinion of the market value of the property.

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### **Sales Contract Information**

All financing data and sales concessions for the subject property that will be or have been granted by anyone associated with the transaction must be disclosed to the appraiser, as appropriate. Typically, this information is provided in the sales contract. Therefore, the lender must provide, or ensure that the appraiser is provided with, a copy of the complete, ratified sales contract and all addenda for the property that is to be appraised.

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### **Information Disclosed to the Appraiser**

#### **Financial Information**

The list below includes items that must be disclosed to the appraiser on purchase transactions, if applicable:

- settlement charges,
  - loan fees or charges,
  - discounts to the sales price,
-

- interest rate buydowns,
- below-market-rate financing,
- terms of any subordinate financing provided by interested parties,
- credits or refunds of borrower expenses,
- absorption of monthly payments,
- assignment of rent payments, and
- any other information not listed above that impacts property value.

### **Property Information**

The list below includes items that must be disclosed, if applicable:

- condo or PUD fees;
  - non-realty items included in the transaction;
  - any environmental hazard in or on the subject property or in the vicinity of the property that the lender is aware of or learns from the borrower, the real estate broker, or any other party to the transaction (see [B4-1.4-08, Environmental Hazards Appraisal Requirements](#)); and
  - any other items that affect the safety, soundness, or structural integrity of a property of which the lender may be aware.
- 

### **Contract Changes After the Appraisal is Completed**

If the contract is amended *after* the effective date of the appraisal in a way that does not affect the description of the property, then the lender is not required to provide the amended contract to the appraiser nor obtain a revised appraisal. Some examples of amendments that do not require the lender to provide the amended contract nor obtain revisions to the already-completed appraisal report include:

- sale price,
- transaction terms,
- financing concessions,
- seller-paid closing costs,

- names or initials,
- closing date, and
- correction of minor clerical errors such as misspellings.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 06, 2016 |
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |
| <a href="#">Announcement 08-30</a>       | November 14, 2008 |



## **B4-1.1-06, Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP) (01/27/2015)**

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### Introduction

This topic contains information on the Uniform Appraisal Dataset and the Uniform Collateral Data Portal, including:

- [Uniform Appraisal Dataset \(UAD\)](#)
- [Uniform Collateral Data Portal \(UCDP\)](#)

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### Uniform Appraisal Dataset (UAD)

The UAD standardizes appraisal data elements for a subset of fields on specific appraisal report forms and includes all data elements required to complete these forms. Fannie Mae requires that the following appraisal report forms are completed utilizing Appendix D of the UAD Specification when reporting the results of an appraisal for a conventional mortgage loan:

- *Uniform Residential Appraisal Report* ([Form 1004](#)),
- *Individual Condominium Unit Appraisal Report* ([Form 1073](#)),
- *Exterior-Only Inspection Individual Condominium Unit Appraisal Report* ([Form 1075](#))\*, and



- *Exterior-Only Inspection Residential Appraisal Report* ([Form 2055](#))\*.

Other appraisal report forms may be completed using the standards contained in the UAD Specification to the extent those standards are applicable to that particular form. Lenders may obtain the most recent version of Appendix D of the Uniform Appraisal Dataset Specification on Fannie Mae’s website. Additional information concerning UAD may be found on [Fannie Mae’s website](#).

\* These forms are currently not fieldwork options offered in DU.

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### **Uniform Collateral Data Portal (UCDP)**

The UCDP is a portal through which lenders are required to electronically submit appraisal reports for conventional mortgage loans delivered to Fannie Mae. The following appraisal report forms including all exhibits, addenda (including the *Market Conditions Addendum to the Appraisal Report* ([Form 1004MC](#)), and photographs, must be submitted through the UCDP and receive a “Successful” status from the UCDP prior to the delivery date of the loan:

- *Uniform Residential Appraisal Report* (Form 1004),
- *Manufactured Home Appraisal Report* ([Form 1004C](#)),
- *Small Residential Income Property Appraisal Report* ([Form 1025](#)),
- *Individual Condominium Unit Appraisal Report* (Form 1073),
- *Exterior-Only Inspection Individual Condominium Unit Appraisal Report* (Form 1075)\*,
- *Exterior-Only Inspection Residential Appraisal Report* (Form 2055)\*,
- *Individual Cooperative Interest Appraisal Report* ([Form 2090](#)),
- *Exterior-Only Inspection Individual Cooperative Interest Appraisal Report* ([Form 2095](#)) \*.

If there are subsequent revisions to the appraisal report, the final version of the report that was utilized in making the underwriting decision must be submitted through the UCDP and receive a “Successful” status from the UCDP prior to the delivery of the loan. When submitting an appraisal report through the UCDP, lenders must ensure that it is the unaltered report submitted by the identified appraiser.

Additionally, for loans that require an appraisal, lenders must ensure that the appraised value as indicated on the appraisal submitted in UCDP matches the appraised value as reported at delivery. An exception is allowed for this requirement when the appraisal used to underwrite the

loan is a desk or field review of an existing appraisal because those types of reports cannot be up-loaded to UCDP. In those instances, the appraised value reported at delivery will reflect the value as stated in the desk or field review. However, the original appraisal that was the subject of review must have been submitted to UCDP.

Appraisal report forms not listed above must not be delivered through UCDP. Lenders must maintain the applicable appraisal report and attachments in the mortgage loan file as part of the underwriting documents in accordance with [A2-5.1-02, Individual Mortgage Loan Files](#). Lenders may obtain detailed information on the [UCDP](#) page on Fannie Mae's website.

\* These forms are currently not fieldwork options offered in DU.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015  |
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014 |
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011  |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011     |

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## Section B4-1.2, Documentation Standards



### B4-1.2-01, Appraisal Report Forms and Exhibits (04/15/2014)

#### Introduction

This topic contains information on appraisal report forms and exhibits, including:

- [Scope of Work](#)
- [List of Appraisal Report Forms](#)
- [Exhibits for Appraisals](#)
- [Exhibits for Appraisals with Exterior-Only Property Inspections](#)
- [Appraiser Certifications and Limiting Conditions](#)

#### Scope of Work

Appraisers must use the most recent version of the appraisal report forms and include any other information, either as an attachment or addendum to the appraisal report form, needed to adequately support the opinion of market value. Although the scope of work for the appraisal or the extent of the appraisal process is guided by Fannie Mae's appraisal report forms, the forms do not limit or control the appraisal process. The appraiser's analysis should go beyond any limitations of the forms, with additional comments and exhibits being used if they are needed to adequately describe the subject property, document the analysis and valuation process, or support the appraiser's conclusions. The extent of the appraiser's data collection, analysis, and reporting must be determined by the complexity of the appraisal assignment.

#### List of Appraisal Report Forms

Lenders must ensure that appraisal reports are completed on one of the following Fannie Mae forms. The table below provides Fannie Mae's acceptable appraisal report forms (see [Single-Family Forms](#) for a complete list).

| Form  | Purpose  |
|---|--|
| <i>Uniform Residential Appraisal Report</i> ( <a href="#">Form 1004</a> ) | For appraisals of one-unit properties and units in PUDs (including those that have an illegal second unit or accessory apartment) based on interior and exterior property inspections. Form 1004 also may be used for two-unit properties, if each of the units is occupied by one |

| <b>Form</b>   | <b>Purpose</b>  |
|---|---|
|   | of the co-borrowers as his or her principal residence or if the value of the legal second unit is relatively insignificant in relation to the total value of the property (as might be the case for a basement unit or a unit over a garage). In addition, appraisals for units in condo projects that consist solely of detached dwellings may be documented on Form 1004, if the appraiser includes an adequate description of the project and information about the homeowners' association fees and the quality of the project maintenance. Appraisals reported on Form 1004 must be completed in accordance with the <a href="#">UAD Specification</a> . |
| <i>Exterior-Only Inspection Residential Appraisal Report (Form 2055)*</i>                     | For appraisals of one-unit properties and units in PUDs based on exterior-only property inspections. Appraisals reported on Form 2055 must be completed in accordance with the UAD Specification.   |
| <i>Manufactured Home Appraisal Report (Form 1004C)</i>  | For appraisals of one-unit manufactured homes (including manufactured homes in a PUD, condo, or co-op project) based on interior and exterior property inspections.   |
| <i>Individual Condominium Unit Appraisal Report (Form 1073)</i>                               | For appraisals of one-unit properties in condo projects based on interior and exterior property inspections. Appraisals reported on Form 1073 must be completed in accordance with the UAD Specification.   |
| <i>Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Form 1075)*</i>     | For appraisals of one-unit properties in condo projects based on exterior-only property inspections. Appraisals reported on Form 1075 must be completed in accordance with the UAD Specification.   |
| <i>Individual Cooperative Interest Appraisal Report (Form 2090)</i>                           | For appraisals of one-unit properties in co-op projects based on interior and exterior property inspections   |
| <i>Exterior-Only Inspection Individual Cooperative Interest Appraisal Report (Form 2095)*</i> | For appraisals of one-unit properties in co-op projects based on exterior-only property inspections.  |
| <i>Small Residential Income Property Appraisal Report (Form 1025)</i>                         | For appraisals of two- to four-unit properties (including two- to four-unit properties in PUD, condo, or co-op projects) based on interior and exterior property inspections.   |
| <i>Appraisal Update and/or Completion Report (Form 1004D)</i>                                 | For appraisal updates and/or completion reports for all one- to four-unit appraisal reports.  |

\*These forms are currently not fieldwork options offered in DU.

### Exhibits for Appraisals

The exhibits in the following table must accompany the appraisal report. It should be noted that, in addition to these requirements, the appraiser is expected to provide any additional attachments or addenda to the appraisal report necessary to provide an adequately supported opinion of market value.

| Exhibit   | Requirements  |
|---|---|
| <i>Market Conditions Addendum</i> ( <a href="#">Form 1004MC</a> ) | Required for all one- to four-unit properties. Form 1004MC is intended to provide the lender with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood. The form provides the appraiser with a structured format to report the data and to more easily identify current market trends and conditions. There are several shaded areas in the form to recognize that all the requested data may not be available from the data sources used by the appraiser and therefore the information may not be provided. The lack of completion of these areas is acceptable as long as the appraiser provides an explanation as to why these sections of the form are not complete. However, if the data is available, the appraiser must include the data in the analysis. |
| Building sketch and calculations                                  | An exterior building sketch that indicates dimensions and calculations that demonstrate how the estimate for gross living area is derived.<br><br>If the floor plan is atypical or functionally obsolete, thus limiting the market appeal for the property in comparison to competitive properties in the neighborhood, Fannie Mae requires a floor plan sketch that includes the interior walls.<br><br>For a unit in a condo or co-op project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions (dimensions and estimates for gross living area shown in the condo documents are acceptable).   |
| Street map  | Showing the location of the subject property and the comparables that the appraiser used.   |
| Exterior photographs  | Clear, descriptive photographs showing the front, back, and a street scene of the subject property and the front of each comparable. The subject and all comparables must be appropriately identified.  |

| Exhibit   | Requirements   |
|---|--|
|   | <p>Acceptable photographs include original images from photographs or electronic images, copies of photographs from a multiple listing service, or copies from the appraiser’s files.</p> <p>Photographs of comparable rentals utilized in the <i>Small Income Residential Appraisal Report</i> (Form 1025) are not required.</p>  |
| Interior photographs  | <p>At a minimum, the report must include photographs of the following:</p> <ul style="list-style-type: none"> <li>• the kitchen;</li> <li>• all bathrooms;</li> <li>• main living area;</li> <li>• examples of physical deterioration, if present; and</li> <li>• examples of recent updates, such as restoration, remodeling, and renovation, if present.</li> </ul> <p><b>Note:</b> Interior photographs on proposed or under construction properties may be taken by the appraiser at the time of the inspection for the Certification of Completion, and provided with the Form 1004D.</p> |
| <i>Appraisal Update and/or Completion Report</i> ( <a href="#">Form 1004D</a> ) | At a minimum, when completing the Appraisal Update portion of the report, a photograph of the front of the subject property must be included.  |
| <i>Single-Family Comparable Rent Schedule</i> ( <a href="#">Form 1007</a> )     | Required if the property is a one-unit investment property and the borrower is using rental income to qualify. Otherwise, Form 1007 is not required. (The lender may obtain this form for the purpose of reporting gross monthly rent at delivery. See <a href="#">A3-4-02, Data Quality and Integrity</a> .)  |

### Exhibits for Appraisals with Exterior-Only Property Inspections

The following exhibits are required for appraisals with exterior-only property inspections:

- street map that shows the location of both the subject property and the comparable sales, and
- a photograph that shows the front scene of the subject property.

**Note:** When appraisals based on exterior-only inspections are used in connection with a one-unit investment property, Form 1007 must accompany the appraisal if the borrower is using rental income to qualify. Otherwise, Form 1007 is not required.

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### **Appraiser Certifications and Limiting Conditions**

Each Fannie Mae appraisal report form includes an appraiser's certification (and, if applicable, a supervisory appraiser's certification) and a statement of assumptions and limiting conditions. Appraisers may not add limiting conditions.

The appraiser may not make changes or deletions to the existing certifications; however the appraiser may make additional certifications that can be included on a separate page or form. Acceptable additional certifications might include:

- those required by state law;
- those related to the appraiser's continuing education or membership in an appraisal organization; or
- those related to the appraiser's compliance with privacy laws and regulations in the development, reporting, and storage of an appraisal and the information on which it is based.

Lenders are responsible for reviewing any additional certifications made by appraisers to ensure that they do not conflict with Fannie Mae's policies or standard certifications on Fannie Mae appraisal forms.

The appraiser's certification #23 is an acknowledgment by the appraiser that certain parties to a mortgage finance transaction that are not the lender/client and/or intended user may rely on the appraisal report. This certification clarifies that such other parties include the borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government-sponsored enterprises, and other secondary market participants.

Fannie Mae will accept the following additional notice or statement when appraisers believe the lender/client is the only intended user:

“The intended user of this appraisal report is the lender/client. The intended use is to evaluate the property that is the subject of this appraisal for a mortgage finance transaction, subject to the stated scope of work, purpose of the appraisal, reporting requirements of this appraisal report form, and definition of market value. No additional intended users are identified by the appraiser.”

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014     |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012      |
| <a href="#">Announcement SEL-2011-10</a> | September 27, 2011 |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011      |
| <a href="#">Announcement SEL-2010-09</a> | June 30, 2010      |
| Announcement 08-30                       | November 14, 2008  |



## **B4-1.2-02, Appraisal Age and Use Requirements (10/24/2016)**

### Introduction

This topic contains information on the age of collateral documents, update requirements, and the use of an appraisal for a subsequent transaction, including:

- [Age of Appraisal and Appraisal Update Requirements](#)
- [Use of an Appraisal for a Subsequent Transaction](#)

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### Age of Appraisal and Appraisal Update Requirements

When an appraisal is obtained, the property must be appraised within the 12 months that precede the date of the note and mortgage.

When an appraisal report will be more than four months old on the date of the note and mortgage, regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. This inspection and results of the analysis must be reported on the *Appraisal Update and/or Completion Report* ([Form 1004D](#)).



- If the appraiser indicates on the Form 1004D that the property value has declined, then the lender must obtain a new appraisal for the property.
- If the appraiser indicates on the Form 1004D that the property value has *not* declined, then the lender may proceed with the loan in process without requiring any additional fieldwork.

**Note:** The appraisal update must occur within the four months that precede the date of the note and mortgage.

The original appraiser should complete the appraisal update; however, lenders may use substitute appraisers. When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. The lender must note in the file why the original appraiser was not used.

See [B4-1.3-12, Quality Assurance](#), for information concerning changes to the appraised value. See [B2-1.4-02, Mortgage Loan Eligibility](#), for information regarding property valuation requirements for mortgage loans sold to Fannie Mae more than four months from the note date.

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### **Use of an Appraisal for a Subsequent Transaction**

Fannie Mae will allow the use of an origination appraisal for a subsequent transaction if the following requirements are met:

- The subsequent transaction may only be a Limited Cash-Out Refinance.
- The appraisal report must not be more than 12 months old on the note date of the subsequent transaction. If the appraisal report is greater than 4 months old on the date of the note and mortgage, then an appraisal update is required. See preceding section, Age of Appraisal and Appraisal Update Requirements, for requirements for completing an appraisal update.
- The lender must ensure that the property has not undergone any significant remodeling, renovation, or deterioration to the extent that the improvement or deterioration of the property would materially affect the market value of the subject property.
- The borrower and the lender/client must be the same on the original and subsequent transaction.

**Note:** The appraisal must comply with all other requirements in the Underwriting Property section of the *Selling Guide*.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016 |
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014   |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013    |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011    |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011   |
| <a href="#">Announcement SEL-2010-09</a> | June 30, 2010    |
| <a href="#">Announcement 09-19</a>       | June 8, 2009     |



## **B4-1.2-03, Requirements for Postponed Improvements (03/29/2016)**

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### Introduction

This topic contains information on postponed improvements, including:

- [Overview](#)
- [Requirements for New or Proposed Construction](#)
- [Requirements for Existing Construction](#)
- [Requirements for HomeStyle Energy Improvements on Existing Construction](#)

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### Overview

Improvements for the subject property must be complete when the mortgage is delivered to Fannie Mae. However, in some circumstances, Fannie Mae does allow a loan to be delivered prior to improvements being completed.

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### Requirements for New or Proposed Construction

When the property securing the mortgage is new or proposed construction, the appraisal may be based on either plans and specifications or an existing model home. The table below describes

requirements related to properties that are new or proposed construction that are not complete when the mortgage is delivered to Fannie Mae.

| ✓ | <b>Requirements for New or Proposed Construction</b>  |
|---|---|
|   | <p>Mortgages may be delivered before postponed items are complete; however, the postponed improvements must be completed within 180 days of the date of the mortgage note. Acceptable postponed items include items that:</p> <ul style="list-style-type: none"> <li>• are part of the sales contract (third-party contracts are not permissible);</li> <li>• are postponed for a valid reason, such as inclement weather or a shortage of building materials; and</li> <li>• do not affect the ability to obtain an occupancy permit.</li> </ul> |
|   | <p>A certification of completion must be obtained to verify the work was completed and must:</p> <ul style="list-style-type: none"> <li>• be completed by the appraiser,</li> <li>• state that the improvements were completed in accordance with the requirements and conditions in the original appraisal report, and</li> <li>• be accompanied by photographs of the completed improvements.</li> </ul>  |
|   | <p>The cost of completing improvements must not represent more than 10% of the “as completed” appraised value of the property.</p>  |
|   | <p>Lenders must establish a completion escrow for the postponed improvements, by withholding from the purchase proceeds funds equal to 120% of the estimated cost for completing the improvements. However, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.</p>  |
|   | <p>Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed.</p>   |
|   | <p>The completion escrow may not adversely affect the mortgage insurance or title insurance.</p>  |
|   | <p>Once a certificate of completion is obtained, the lender must release the final draw from the escrow account, which should include any funds in excess of the amount needed to pay for completion of the postponed items.</p>  |
|   | <p>Lenders must obtain a final title report, which must not show any outstanding mechanic’s liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the</p>  |

|   |  |
|---|--|
| ✓ | <b>Requirements for New or Proposed Construction</b>   |
|   | completion of the improvements, lenders must obtain an endorsement to the title policy that ensures the priority of Fannie Mae’s lien. |

**Requirements for Existing Construction**

Lenders must review the appraisal to ensure that the property does not have minor conditions or deferred maintenance items that affect the safety, soundness, or structural integrity of the subject property. See [B4-1.3-06, Property Condition and Quality of Construction of the Improvements](#), for information concerning property condition and quality of construction ratings.

The tables below provide requirements related to existing properties that have physical deficiencies, minor conditions, or deferred maintenance items that may or may not affect the safety, soundness, or structural integrity of the property.

|   |   |
|---|---|
| ✓ | <b>Requirements for Existing Construction</b>   |
|   | <b>When There are Minor Conditions or Deferred Maintenance Items that Do Not Affect the Safety, Soundness, or Structural Integrity of the Property</b>  |
|   | If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the safety, soundness, or structural integrity of the property, the appraiser may complete the appraisal “as is” and these items must be reflected in the appraiser’s opinion of value. Minor conditions and deferred maintenance items include, but are not limited to, worn floor finishes or carpet, minor plumbing leaks, holes in window screens, or cracked window glass and are typically due to normal wear and tear. The lender is not required to ensure that the borrower has had this work completed prior to delivery of the loan to Fannie Mae. |
|   | If there are minor conditions or deferred maintenance items to be remedied or completed after closing, the lender may escrow for these items at its own discretion and still deliver the loan to Fannie Mae prior to the release of the escrow as long as the lender can ensure that these items do not affect the safety, soundness, or structural integrity of the property.  |

|   |   |
|---|---|
| ✓ | <b>Requirements for Existing Construction</b>   |
|   | <b>When There are Incomplete Items or Conditions that Do Affect the Safety, Soundness, or Structural Integrity of the Property</b>  |
|   | When there are incomplete items or conditions that do affect the safety, soundness, or structural integrity of the property, the property must be appraised subject to completion of the specific alterations or repairs. These items can include a partially completed |

| ✓ | <b>Requirements for Existing Construction</b><br><br><b>When There are Incomplete Items or Conditions that Do Affect the Safety, Soundness, or Structural Integrity of the Property</b>   |
|---|---|
|   | <p>addition or renovation, or physical deficiencies that could affect the safety, soundness, or structural integrity of the improvements, including but not limited to, cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, or inadequate electrical service or plumbing fixtures. In such cases, the lender must obtain a certificate of completion from the appraiser before the mortgage is delivered to Fannie Mae. Although the original appraiser should complete any required certification of completion, the lender may use a substitute appraiser.</p> <p>See <a href="#">B4-1.2-02, Appraisal Age and Use Requirements</a>, for certifications completed by substitute appraisers.</p> |
|   | <p>The certification does not need to include photographs of the property unless those that accompanied the original appraisal report are no longer representative of the completed property.</p>   |

### **Requirements for HomeStyle Energy Improvements on Existing Construction**

The table below provides the postponed improvement requirements for a loan with HomeStyle Energy improvement feature(s). See [B5-3.3-01, HomeStyle Energy for Energy Improvements on Existing Properties](#), for other requirements related to loans with energy improvement features.

| ✓ | <b>Requirements for HomeStyle Energy Improvements</b><br><br><b>on Existing Construction</b>   |
|---|--|
|   | <p>Mortgages may be delivered before the energy improvements are complete; however, the postponed improvements must be completed within 180 days of the date of the mortgage note. Acceptable postponed items include items that will not prevent the issuance of an occupancy permit.</p>   |
|   | <p>A certification of completion must be obtained to verify the work was completed and must:</p> <ul style="list-style-type: none"> <li>• be completed by the appraiser,</li> <li>• state that the improvements were completed in accordance with the requirements and conditions in the original appraisal report, and</li> <li>• be accompanied by photographs of the completed improvements.</li> </ul> |

| ✓ | <p align="center"><b>Requirements for HomeStyle Energy Improvements<br/>           on Existing Construction</b></p>   |
|---|---|
|   | <p>For HomeStyle Energy mortgage loans: The cost of the improvements must not represent more than 15% of the “as completed” appraised value of the property.</p> <p>For HomeStyle Renovation mortgage loans that include energy improvement renovations: The total cost of the improvements must not represent more than 50% of the “as completed” appraised value of the property.</p>   |
|   | <p>Lenders must establish a completion escrow for the postponed energy improvements by withholding funds equal to 120% of the estimated cost for completing the improvements. However, if the contractor offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.</p>  |
|   | <p>Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed.</p>   |
|   | <p>The completion escrow may not adversely affect the mortgage insurance or title insurance.</p>  |
|   | <p>Once a certificate of completion is obtained, the lender must release the final draw from the escrow account, which should include any funds in excess of the amount needed to pay for completion of the postponed items. Any funds remaining in the escrow account after the work is completed must be applied to reduce the unpaid principal balance of the mortgage loan. The value of sweat equity and Do It Yourself improvements are not reimbursable.</p> |
|   | <p>Lenders must obtain a final title report, which must not show any outstanding mechanic’s liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the completion of the improvements, lenders must obtain an endorsement to the title policy that ensures the priority of Fannie Mae’s lien.</p>   |

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b> |
|---|-------------------|
| <a href="#"><u>Announcement SEL-2016-03</u></a> | March 29, 2016    |
| <a href="#"><u>Announcement SEL-2014-03</u></a> | April 15, 2014    |
| <a href="#"><u>Announcement SEL-2013-03</u></a> | April 9, 2013     |
| <a href="#"><u>Announcement SEL-2011-06</u></a> | July 26, 2011     |
| <a href="#"><u>Announcement SEL-2010-15</u></a> | December 1, 2010  |
| <a href="#"><u>Announcement 08-30</u></a>       | November 14, 2008 |

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## Section B4-1.3, Appraisal Report Assessment



### **B4-1.3-01, Review of the Appraisal Report (10/24/2016)**

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#### **Introduction**

This topic contains information on reviewing the appraisal report, including:

- [Overview](#)
  - [Appraisal Report Analysis](#)
- 

#### **Overview**

Fannie Mae's appraisal report forms and the appraisal review requirements for one- to four-unit properties have been developed with the intent that the USPAP standards are followed and that Fannie Mae's policies are entirely consistent with, and supportive of, fair lending practices. This topic provides lender requirements related to the transaction details and the property and appraisal eligibility analysis.

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#### **Appraisal Report Analysis**

When an appraisal is obtained, the lender must analyze the

- current contract for sale for purchase money transactions,
- current offering or listing for sale for both purchase and refinance transactions when the home was listed for sale,
- comparable sales for both purchase and refinance transactions, and
- current ownership for the subject property (see [B4-1.1-02, Lender Responsibilities](#), for further information).

The lender is responsible for validating that

- the property meets Fannie Mae's eligibility criteria (see [B2-3-01, General Property Eligibility](#), for eligibility requirements); and



- the appraiser has provided an accurate and reliable opinion of value that reflects the market value, condition, and marketability of the subject property in compliance with Fannie Mae's *Selling Guide* requirements. (See [B4-1.3-12, Quality Assurance](#), for further information).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016 |
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014   |



## **B4-1.3-02, Subject and Contract Sections of the Appraisal Report (04/15/2014)**

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### Introduction

This topic contains information on reviewing the Subject and Contract sections of the appraisal report form, including:

- [Subject Section](#)
- [Contract Section](#)

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### Subject Section

The appraiser must identify the subject property by its complete property address and legal description. The appraiser must enter the physical property address, including the unit number for a condo, in a format that conforms to the United States Postal Service (USPS) address standards in Publication 28 – Postal Addressing Standards (pub28) for complete addresses. Address standards can be found at [usps.com](http://usps.com). The subject address must be populated consistently throughout the form.

When the legal description is lengthy, the appraiser may attach the full legal description as an addendum to the appraisal report. The appraiser must also identify the property rights to be appraised. (For eligibility requirements, see [B2-3-01, General Property Eligibility](#).)

Fannie Mae's appraisal report forms require the appraiser to research and identify whether the subject property is currently for sale or if it has been offered for sale in the 12 months prior to the effective date of the appraisal by selecting either the 'Yes' or the 'No' checkbox. If the answer is 'No,' the data source(s) used must be provided. If the answer is 'Yes,' the appraiser must report on each occurrence or listing and provide the following information:

- offering price(s),
- offering date(s), and
- data source(s) used.

For example, if the subject property is currently listed for sale and was previously listed eight months ago, the appraiser must report on both offerings.

**Note:** For appraisals required to be UAD compliant, Days on Market (DOM) must be reported.

See [Fannie Mae and Freddie Mac Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements](#), and the associated FAQ's, for additional information and examples regarding these topics.

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## Contract Section

The lender must provide the appraiser with a copy of the complete, ratified contract. The appraiser must indicate whether an analysis was or was not performed on the contract for sale. If an analysis was performed, the appraiser must provide the results of the analysis. If an analysis was not performed, the appraiser must provide an explanation why the analysis was not performed.

For appraisals required to be UAD compliant, the appraiser must also indicate the type of sale for the transaction. The appraiser may report any other relevant information in this field or elsewhere in the report regarding the sale type, including whether more than one sale type applies.

The appraiser must

- enter an amount in the Contract Price field if the Assignment Type is a purchase transaction. Contract price must be the same as the sales price for the subject property in the Sales Comparison Approach section;
- enter a contract date if the Assignment Type is a purchase transaction; and

- indicate if the property seller is the owner of record.

The appraiser must indicate if there is any financial assistance such as loan charges, sales concessions or gift, or down payment assistance to be paid by any party on behalf of the borrower, including any closing costs or other payments from the seller or other third party. If there is financial assistance, the appraiser must

- report the total dollar amount of the loan charges or concessions that will be paid (if the appraiser is not able to determine a dollar amount for all or part of the financial assistance, the number must reflect the total known dollar amount); and
- provide a description of the items being paid.

**Note:** Financial assistance or concessions paid by any party on behalf of the borrower includes both monetary and non-monetary items, including below-market-rate mortgage financing, gifts of personal property, and payment of property taxes or HOA dues for a period of time.

See [Fannie Mae and Freddie Mac Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements](#), for additional information regarding the Contract Section, and [B4-1.3-09, Adjustments to Comparable Sales](#), for additional information regarding evaluating sales or financing concessions for comparables.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |
| <a href="#">Announcement 08-30</a>       | November 14, 2008 |

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## **B4-1.3-03, Neighborhood Section of the Appraisal Report (09/30/2014)**

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### **Introduction**

This topic contains information on reviewing the Neighborhood section of the appraisal report form, including:

- [Overview](#)
  - [Neighborhood Analysis](#)
  - [Degree of Development and Growth Rate](#)
  - [Trend of Neighborhood Property Values, Demand/Supply, and Marketing Time](#)
  - [Market Conditions Addendum to the Appraisal Report \(Form 1004MC\)](#)
  - [Price Range and Predominant Price](#)
  - [Over-Improvements](#)
  - [Age Range and Predominant Age](#)
  - [Present Land Use](#)
- 

### **Overview**

Neighborhood characteristics and trends influence the value of one- to four-unit residences. Therefore, an analysis of the subject property's neighborhood is a key element in the appraisal process. As a reminder, Fannie Mae purchases mortgages secured by properties in all neighborhoods and in all areas, as long as the property is acceptable as security for the mortgage based on its value and marketability.

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### **Neighborhood Analysis**

Fannie Mae's appraisal report forms and guidelines do not require the appraiser to rate or judge the neighborhood. Fannie Mae requires the appraiser to perform an objective neighborhood analysis by identifying neighborhood boundaries, neighborhood characteristics, and the factors that affect the value and marketability of properties in the neighborhood.

- **Neighborhood boundaries.** The appraiser should provide an outline of the neighborhood boundaries, which should be clearly delineated using 'North', 'South', 'East', and 'West'. These boundaries may include, but are not limited to streets, legally recognized neighborhood boundaries, waterways, or other natural boundaries that define the separation of one neighborhood from another. Appraisers should not reference a map or other addendum as the only example of the neighborhood boundaries.

- **Neighborhood characteristics.** These can be addressed by the types of structures (detached, attached) and architectural styles in the neighborhood (such as row or townhouse, colonial, ranch, or Victorian); current land use (such as single-family residential, commercial, or industrial); typical site size (such as 10000 sf, or 2.00 ac); or street patterns or design (such as one-way street, cul-de-sac, or court).
- **Factors that affect the value and marketability of properties in the neighborhood.** These can be addressed by such things as the proximity of the property to employment and amenities, employment stability, appeal to the market, changes in land use, access to public transportation, and adverse environmental influences.

The appraiser must fully consider all of the value-influencing characteristics in the neighborhood and arrive at an appropriate neighborhood description and opinion of value for the property, even if this requires more extensive research for particular property types or for properties in certain geographic locations.

An appraiser must perform a neighborhood analysis in order to identify the area that is subject to the same influences as the property being appraised, based on the actions of typical buyers. The results of a neighborhood analysis enable the appraiser not only to identify the factors that influence the value of properties in the neighborhood, but also to define the area from which to select the market data needed to perform a sales comparison analysis.

In performing a neighborhood analysis, the appraiser

- collects pertinent data,
- conducts a visual inspection of the neighborhood to observe its physical characteristics and determine its boundaries, and
- identifies land uses and any signs that the land uses are changing.

Fannie Mae expects the appraiser and the lender's underwriter to be aware of the varying conditions that characterize different types of neighborhoods. Conditions that are typical in certain neighborhoods may not be present in other neighborhoods. This does not mean that the existence of certain types of conditions or characteristics are unacceptable; rather, it is an indication that they must be viewed in context with the nature of the neighborhood in which the security property is located. For example, some neighborhoods consist of a variety of property types that have different uses. It is not uncommon to find properties that have mixed-uses, such as residential properties that also have child-care facilities, doctor or dental offices, and other types of business or commercial uses. The presence of mixed-use properties or a variety of property types within a neighborhood should be viewed as a neighborhood characteristic that the appraiser considers when performing the neighborhood analysis and describing the neighborhood boundaries.

The appraiser must consider the influence of market forces, including but not limited to, economic, governmental, and environmental factors on property values in the neighborhood. Economic forces that must be considered include such things as the existence of vacant or boarded-up properties in the neighborhood, and the level of essential local support services. Examples of governmental forces that should be taken into consideration include the regulations, laws, and taxes that are imposed on properties. Environmental forces that must be considered include, among other things, the existence of a hazardous waste site on or near the property, and the proximity of a property to an airport. Certain other factors that are not appraisal factors, such as the racial or ethnic composition of a neighborhood or the age or sex of the individuals who live in a particular neighborhood, must not be considered in the valuation process.

The appraiser must determine, analyze, and consider factors in the valuation process based on his or her identification of all forces or factors that have the potential to influence the value of the property. The appraiser must report neighborhood conditions in factual, specific terms and be impartial and specific in describing favorable or unfavorable factors in a neighborhood. If an appraiser can demonstrate by market evidence that a characteristic has an effect on the value or marketability of the properties in the neighborhood, he or she must consider it in the valuation process. The appraiser must not make unsupported assumptions or interject personal opinion or perceptions about market forces or other factors that may or may not affect the use and value of a property. For example, a property located in an older neighborhood can be as sound an investment as a property located in a new neighborhood.

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### **Degree of Development and Growth Rate**

The degree of development of a neighborhood, which is referred to as “built-up” on the appraisal report forms, is the percentage of the available land in the neighborhood that has been improved. The degree of development of a neighborhood may indicate whether a particular property is residential in nature.

When reviewing an appraisal on a property located in a rural or relatively undeveloped area, the lender should focus on the characteristics of the property, zoning, and the present land use to determine whether the property should be considered residential in nature. For example, if the typical one-unit building site in a particular area (based on the zoning, the highest and best use of the land, and the present land use) is two acres in size, the mortgage will be eligible for purchase or securitization regardless of the percentage of the total appraised value of the property that the site represents, as long as the appraiser demonstrates through the use of comparable sales that the property is a typical residential property for that particular neighborhood.

Because Fannie Mae does not purchase or securitize mortgages secured by agricultural-type properties, undeveloped land, or land-development-type properties, the lender must review the appraisal report for properties that have sites larger than those typical for residential properties in the neighborhood. Special attention must be given to the appraiser’s description of the

neighborhood, zoning, the highest and best use determination, and the degree of comparability between the subject property and the comparable sales. If the subject property has a significantly larger site than the comparables used in the appraiser’s analysis, the subject property may not be a typical residential property for the neighborhood.

**Trend of Neighborhood Property Values, Demand/Supply, and Marketing Time**

The appraiser must report the primary indicators of market condition for properties in the subject neighborhood as of the effective date of the appraisal by noting the information in the table below.

| <b>Trend of Property Values</b>   | <b>Supply of Properties in the Subject Neighborhood</b>   | <b>Marketing Time for Properties</b>   |
|---|---|--|
| <ul style="list-style-type: none"> <li>• increasing,</li> <li>• stable, or</li> <li>• declining.</li> </ul> | <ul style="list-style-type: none"> <li>• shortage,</li> <li>• in-balance, or</li> <li>• over-supply.</li> </ul> | <ul style="list-style-type: none"> <li>• under three months,</li> <li>• three to six months, or</li> <li>• over six months.</li> </ul> |

The appraiser’s analysis of a property must take into consideration all factors that affect value. Because Fannie Mae purchases mortgages in all markets, this is particularly important for neighborhoods that are experiencing significant fluctuations in property values including sub-markets for particular types of housing within the neighborhood. Therefore, lenders must confirm that the appraiser analyzes listings and contract sales as well as closed or settled sales, and uses the most recent and similar sales available as part of the sales comparison approach, with particular attention to sales or financing concessions in neighborhoods that are experiencing either declining property values, an over-supply of properties, or marketing times over six months. The appraiser must provide his or her conclusions for the reasons a neighborhood is experiencing declining property values, an over-supply of properties, or marketing times over six months.

When completing the One-Unit Housing Trends portion of the Neighborhood section of the appraisal report forms, the trends must be reflective of those properties deemed to be competitive to the property being appraised. If the neighborhood contains properties that are truly competitive (that is, market participants make no distinction between the properties), then all the properties within the neighborhood would be reflected in the One-Unit Housing Trends section. However, when a segmented or bifurcated market is present, the One-Unit Housing Trends portion must reflect those properties from the same segment of the market as the property being appraised. This ensures that the analysis being performed is based on competitive properties. For example, if the neighborhood contains a mix of property types not considered competitive by market participants, then a segmented or bifurcated market is

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present. Additionally, the conclusions reported in this portion of the appraisal will be supported by the analysis contained in the *Market Conditions Addendum to the Appraisal Report* ([Form 1004MC](#)). The appraiser should also provide commentary on the other segment(s) of the neighborhood when segmentation is present.

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### ***Market Conditions Addendum to the Appraisal Report (Form 1004MC)***

The lender must confirm that current market conditions are identified and analyzed in the valuation process and described in the appraisal report.

Form 1004MC is required for all mortgage loans delivered to Fannie Mae with appraisals of one- to four-unit properties. It is intended to provide the lender with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood. The conclusions regarding trends that are obtained from the 1004MC Form must be reported in the Neighborhood section of the report form.

In situations when there is not sufficient data to provide a meaningful analysis for the defined neighborhood, the form must be completed based on the information available, and an explanation must be provided. The lack of data may be an indication of the market conditions. If additional analysis of nearby areas that include competitive properties is performed, it must be discussed in the summary/conclusions section of the form. In any scenario, the Neighborhood section of the appraisal report must include the appraiser's conclusions regarding the housing trends.

For additional information concerning Form 1004MC, see [B4-1.2-01, Appraisal Report Forms and Exhibits](#).

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### **Price Range and Predominant Price**

The appraiser must indicate the price range and predominant price of properties in the subject neighborhood. The price range must reflect high and low prevailing prices for one-unit properties, two- to four-unit properties, condo units, or co-op units depending on the property type being appraised and the appraisal form being used. Isolated high and low extremes should be excluded from the range, which means that the predominant price will be that which is the most common or most frequently found in the neighborhood. The appraiser may state the predominant price as a single figure or as a range, if more appropriate.

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### **Over-Improvements**

An over-improvement is an improvement that is larger or costlier than what is typical for the neighborhood. For example, a 4,000 square foot home located in an area of homes where the



typical home is 2,000 square feet may be considered an over-improvement. Furthermore, a home with an in ground pool in an area where pools are not typical may also be considered an over-improvement. The appraiser must comment on over-improvements and indicate their contributory value in the Sales Comparison Approach adjustment grid.

Improvements can represent an over-improvement for the neighborhood, but still be within the neighborhood price range, such as a property with an in-ground swimming pool, a large addition, or an oversized garage in a market that does not demand these kinds of improvements.

The fact that the property is an over-improvement does not necessarily make the property ineligible. However, lenders must review appraisals on properties with over-improvements that may not be acceptable to the typical purchaser to ensure that only the contributory value of the over-improvement is reflected in the appraisal analysis.

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### **Age Range and Predominant Age**

The appraiser must indicate the age range and predominant age of properties in the subject neighborhood. The age range should reflect the oldest and newest ages for one-unit properties, two- to four-unit properties, condo units, or co-op units depending on the property type and the appraisal form being used. However, isolated high and low extremes should be excluded from the range. The predominant age is the one that is the most common or most frequently found in the neighborhood. The appraiser may state the predominant age as a single figure or as a range when that is more appropriate.

When the age of the subject property is significantly different than the predominant age range, the appraiser must explain why the age is outside the range and comment on the marketability of the property and the adjustments that were made in the Sales Comparison Approach adjustment grid to reflect that condition.

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### **Present Land Use**

Fannie Mae's appraisal report forms provide an area for the appraiser to report the relative percentages of the developed land in the neighborhood when discussing the present land use, rather than simply referring to the zoning classifications. The appraiser must separately report the percentage of developed one-unit sites and two- to four-unit sites. Undeveloped land must be reported in the "Other" field. In addition, if there is a significant amount of undeveloped land in the neighborhood, the appraiser must include comments to confirm that he or she adequately described the neighborhood. If the present land use in the neighborhood is not one of those listed on the appraisal report form, such as parkland, the appraiser also must indicate the type of land use and its related percentage. The total of the types of land uses must equal 100%.

Typically, dwellings best maintain their value when they are situated in neighborhoods that consist of other similar dwellings. However, some factors that are typical of a mixed-use neighborhood, such as easy access to employment centers and a high level of community activity, can actually enhance the market value of the property through increased buyer demand. Neighborhoods may frequently reflect a blend of residential and nonresidential land uses.

When different land uses and property types are present in a neighborhood, that fact should be considered a neighborhood characteristic that the appraiser needs to take into consideration when performing the neighborhood analysis and defining the neighborhood boundaries. To confirm that any positive or negative effects of the mixed land uses are reflected in the sales comparison analysis, the appraiser should select comparable sales from within the same neighborhood whenever possible. If this is not possible, the appraiser may need to make neighborhood or location adjustments to the Sales Comparison Approach adjustment grid for any sales that are not subject to the same neighborhood characteristic.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b>  |
|---|--------------------|
| <a href="#"><u>Announcement SEL-2014-12</u></a> | September 30, 2014 |
| <a href="#"><u>Announcement SEL-2014-03</u></a> | April 15, 2014     |
| <a href="#"><u>Announcement 09-19</u></a>       | June 8, 2009       |
| <a href="#"><u>Announcement 08-30</u></a>       | November 14, 2008  |



## **B4-1.3-04, Site Section of the Appraisal Report (02/23/2016)**

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### **Introduction**

This topic contains information on reviewing the Site section of the appraisal report form, including:

- [Overview](#)
  - [Site Analysis](#)
  - [Subject Property Zoning](#)
  - [Highest and Best Use](#)
  - [Adjoining Properties](#)
  - [Site Utilities](#)
  - [Off-Site Improvements](#)
  - [Community-Owned or Privately Maintained Streets](#)
  - [Special Flood Hazard Areas](#)
- 

### **Overview**

The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the property.

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### **Site Analysis**

The appraisal must include the actual size of the site and not a hypothetical portion of the site for the subject property. For example, the appraiser may not appraise only 5 acres of an unsubdivided 40-acre parcel. The appraised value must reflect the entire 40-acre parcel.

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### **Subject Property Zoning**

The appraiser must report the specific zoning class in the appraisal, along with a general statement as to what the zoning permits, such as one- or two-unit, when he or she indicates a

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specific zoning such as R-1 or R-2. The appraisal must indicate whether the subject property presents

- a legal conforming use,
- a legal non-conforming (grandfathered) use,
- an illegal use under the zoning regulations, or
- that there is no local zoning.

Fannie Mae only purchases or securitizes mortgage loans on properties if the improvements constitute a legal conforming use of the land. However, Fannie Mae will purchase or securitize a mortgage for a property that constitutes a legal, non-conforming use of the land in the following scenarios:

- the property is a one- to four-unit property or a unit in a PUD and the use of the land and the appraisal analysis reflects any adverse effect that the non-conforming use has on the value and marketability of the property; or
- the property is a condo unit or co-op share loan and the improvements can be rebuilt to current density in the event of partial or full destruction, and the mortgage file includes either a copy of the applicable zoning regulations or a letter from the local zoning authority that authorizes reconstruction to current density.

Fannie Mae will not purchase or securitize a mortgage secured by a property that is subject to certain land-use regulations, such as coastal tideland or wetland laws, that create setback lines or other provisions that prevent the reconstruction or maintenance of the property improvements if they are damaged or destroyed. The intent of these types of land-use regulations is to remove existing land uses and to stop land development, including the maintenance or construction of seawalls, within specific setback lines.

For information regarding accessory units that comply or do not comply with zoning, see [B4-1.3-05, Improvements Section of the Appraisal Report](#).

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### **Highest and Best Use**

Fannie Mae will only purchase or securitize a mortgage that represents the highest and best use of the site as improved. If the current improvements clearly do not represent the highest and best use of the site as an improved site, it must be indicated on the appraisal report.

The appraiser determines highest and best use of a site as the reasonable and probable use that supports the highest present value on the effective date of the appraisal. For improvements to

represent the highest and best use of a site, they must be legally permitted, financially feasible, and physically possible, and must provide more profit than any other use of the site would generate. All of those criteria must be met if the improvements are to be considered as the highest and best use of a site.

The appraiser's highest and best use analysis of the subject property should consider the property as it is improved. This treatment recognizes that the existing improvements should continue in use until it is financially feasible to remove the dwelling and build a new one, or to renovate the existing dwelling. If the use of comparable sales demonstrates that the improvements are reasonably typical and compatible with market demand for the neighborhood, and the present improvements contribute to the value of the subject property so that its value is greater than the estimated vacant site value, the appraiser should consider the existing use as reasonable and report it as the highest and best use.

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### **Adjoining Properties**

The appraiser must consider the present or anticipated use of any adjoining property that may adversely affect the value or marketability of the subject property.

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### **Site Utilities**

For mortgage loans to be eligible for purchase or securitization, the utilities of the property must meet community standards. If public sewer and/or water facilities, those that are supplied and regulated by the local government, are not available, community or private well and septic facilities must be available and utilized by the subject property. The owners of the subject property must have the right to access those facilities, which must be viable on an ongoing basis. Private well or septic facilities must be located on the subject site, unless the subject property has the right to access off-site private facilities and there is an adequate, legally binding agreement for access and maintenance.

If there is market resistance to an area because of environmental hazards or any other conditions that affect well, septic, or public water facilities, the appraisal must address the effect of the hazards on the value and marketability of the subject property (see [B4-1.4-08, Environmental Hazards Appraisal Requirements](#)).

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### **Off-Site Improvements**

Off-site improvements include, but are not limited to, streets, alleys, sidewalks, curbs and gutters, and street lights. The subject property should front on a publicly dedicated and maintained street that meets community standards and is generally accepted by area residents.

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If a property fronts on a street that is not typical of those found in the community, the appraiser must address the effect of that location on the value and marketability of the subject property.

The presence of sidewalks, curbs and gutters, street lights, and alleys depends on local custom. If they are typical in the community, they should be present on the subject site. The appraiser must comment on any adverse conditions and address their effect on the value and marketability of the subject property.

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### **Community-Owned or Privately Maintained Streets**

If the property is located on a community-owned or privately-owned and maintained street, an adequate, legally enforceable agreement or covenant for maintenance of the street is required. The agreement or covenant should include the following provisions and be recorded in the land records of the appropriate jurisdiction:

- responsibility for payment of repairs, including each party's representative share;
- default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations; and
- the effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners.

**Note:** If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required.

If the property is not located in a state that imposes statutory requirements for maintenance, and either there is no agreement or covenant for maintenance of the street, or an agreement or covenant exists but does not meet the requirements listed above, the lender may still deliver the loan. However, the lender is required to indemnify Fannie Mae (as described in [A2-1-03, Indemnification for Losses](#)) against all losses incurred by Fannie Mae as a result of the physical condition of the street or in order to establish and/or retain access to the street.

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### **Special Flood Hazard Areas**

Fannie Mae's appraisal report forms provide an area for the appraiser to indicate whether the property is located in a Special Flood Hazard Area that is identified on the Federal Emergency Management Agency's (FEMA) Flood Insurance Rate Maps. The appraiser must also indicate the specific FEMA flood zone and the map number and its effective date. For additional

information concerning Fannie Mae's policies on flood insurance, see [B7-3-07, Flood Insurance Coverage Requirements](#).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |
| <a href="#">Announcement 08-30</a>       | November 14, 2008 |



## **B4-1.3-05, Improvements Section of the Appraisal Report (10/24/2016)**

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### Introduction

This topic contains information on reviewing the Improvements section of the appraisal report form, including:

- [Overview](#)
- [Conformity of Improvements to Neighborhood](#)
- [Unique Housing Types](#)
- [Actual and Effective Ages](#)
- [Remaining Economic Life](#)
- [Energy Efficient Improvements](#)
- [Layout and Floor Plans](#)
- [Gross Living Area](#)
- [Gross Building Area](#)
- [Accessory Units](#)
- [Additions without Permits](#)
- [Properties with Outbuildings](#)

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### Overview

The appraisal must provide a clear, detailed, and accurate description of the improvements. The description must be as specific as possible, commenting on such things as needed repairs,

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additional features, and modernization, and should provide supporting addenda, if necessary. If the subject property has an accessory unit, the appraisal should describe it.

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### **Conformity of Improvements to Neighborhood**

The improvements should conform to the neighborhood in terms of age, type, design, and materials used for their construction. If there is market resistance to a property because its improvements are not compatible with the neighborhood or with the requirements of the competitive market because of adequacy of plumbing, heating, or electrical services; design; quality; size; condition; or any other reason directly related to market demand, the appraiser must address the impact to the value and marketability of the subject property. However, the lender should be aware that many older neighborhoods have favorable heterogeneity in architectural styles, land use, and age of housing. For example, older neighborhoods are especially likely to have been developed through custom building. This variety may be a positive marketing factor.

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### **Unique Housing Types**

In the appraisal and appraisal report review processes, special consideration must be given to properties that represent unique housing for the subject neighborhood. Mortgages secured by unique or nontraditional types of housing, including, but not limited to, earth houses, geodesic domes, and log houses, are eligible for delivery to Fannie Mae provided the appraiser has adequate information to develop a reliable opinion of market value. It is not necessary for one or more of the comparable sales to be of the same design and appeal as the property that is being appraised, although appraisal accuracy is enhanced by using comparable sales that are the most similar to the subject property. On a case-by-case basis, both the appraiser and the underwriter must independently determine whether there is sufficient information available to develop a reliable opinion of market value. This will depend on the extent of the differences between the special or unique property and the more traditional types of houses in the neighborhood and the number of such properties that have already been sold in the neighborhood.

When appraising unique properties,

- if the appraiser cannot locate recent comparable sales of the same design and appeal, but is able to determine sound adjustments for the differences between the comparables that are available and the subject property and demonstrate the marketability of the property based on older comparable sales, comparable sales in competing neighborhoods, the existence of similar properties in the market area, and any other reliable market data, the property is acceptable as security for a mortgage deliverable to Fannie Mae;
- if the appraiser is not able to find any evidence of market acceptance, and the characteristics of the property are so significantly different that he or she cannot establish a reliable opinion



of market value, the property is not acceptable as security for a mortgage deliverable to Fannie Mae.

Fannie Mae does not specify minimum size or living area requirements for properties with the exception of manufactured housing (see [B4-1.4-01, Factory-Built Housing: Manufactured Housing](#)). There should be comparables of similar size to the subject property to support the general acceptability of a particular property type.

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### **Actual and Effective Ages**

Fannie Mae does not place a restriction on the actual age of the dwelling. Older dwellings that meet Fannie Mae's general requirements are acceptable. Improvements for all properties must be of the quality and condition that will be acceptable to typical purchasers in the subject neighborhood.

The relationship between the actual and effective ages of the property is a good indication of its condition. A property that has been well-maintained generally will have an effective age somewhat lower than its actual age. On the other hand, a property that has an effective age higher than its actual age probably has not been well-maintained or may have a particular physical problem. In such cases, the lender should pay particular attention to the condition of the subject property in its review of any appraisal report. When the appraiser makes adjustments for the "Year Built," he or she must explain the adjustments that were made.

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### **Remaining Economic Life**

Fannie Mae does not have any requirements related to the remaining economic life of the property. However, related property deficiencies must be discussed in the sections of the appraisal report that address the improvements analysis and comments on the condition of the property.

Fannie Mae's appraisal report forms are designed to meet the needs of several different user groups; consequently, the report forms address the remaining economic life for the property being appraised. However, appraisers are not required to report this information. If appraisers report this information, lenders do not need to consider remaining economic life because any related property deficiencies will be discussed in the sections of the appraisal report that address the improvements analysis and comments on the condition of the property.

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### **Energy Efficient Improvements**

An energy-efficient property is one that uses resource-effective design, materials, building systems, and site orientation to conserve nonrenewable fuels.

Special energy-saving items must be recognized in the appraisal process and noted on the appraisal report form. For example, when completing the appraisal report (Form 1004), special energy-efficient items are to be addressed in the Improvements section in the Additional features field. The nature of these items and their contribution to value will vary throughout the country because of climactic conditions, differences in utility costs, and overall market reaction to the cost of the feature. Some examples of special energy-efficient features may include, but are not limited to, energy efficient ratings or certifications, programmable thermostats, solar photovoltaic systems, low-e windows, insulated ducts, and tank-less water heaters.

Appraisers must compare energy-efficient features of the subject property to those of comparable properties in the Sales Comparison Approach adjustment grid. If the appraiser's analysis determines that an adjustment is warranted based on the market reaction to such item(s), the adjustment must be included in the adjustment grid.

Solar panels that are leased from or owned by a third party under a power purchase agreement or other similar arrangement are to be considered personal property items and are not included in the appraised value of the property. See [B2-3-04, Special Property Eligibility Considerations](#), for additional eligibility requirements for properties with solar panels.

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### **Layout and Floor Plans**

Dwellings with unusual layouts and floor plans generally have limited market appeal. A review of the room list and floor plan for the dwelling unit may indicate an unusual layout, such as bedrooms on a level with no bath, or a kitchen on a different level from the dining room. If the appraiser indicates that such inadequacies will result in market resistance to the subject property, he or she must make appropriate adjustments to reflect this in the overall analysis. However, if market acceptance can be demonstrated through the use of comparable sales with the same inadequacies, no adjustments are required.

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### **Gross Living Area**

The most common comparison for one-unit properties, including units in PUD, condo, or co-op projects, is above-grade gross living area. The appraiser must be consistent when he or she calculates and reports the finished above-grade room count and the square feet of gross living area that is above-grade. The need for consistency also applies from report to report. For example, when using the same transaction as a comparable sale in multiple reports, the room count and gross living area should not change.

When calculating gross living area

- The appraiser should use the exterior building dimensions per floor to calculate the above-grade gross living area of a property.

- For units in condo or co-op projects, the appraiser should use interior perimeter unit dimensions to calculate the gross living area.
- Garages and basements, including those that are partially above-grade, must not be included in the above-grade room count.

Only finished above-grade areas can be used in calculating and reporting of above-grade room count and square footage for the gross living area. Fannie Mae considers a level to be below-grade if any portion of it is below-grade, regardless of the quality of its finish or the window area of any room. Therefore, a walk-out basement with finished rooms would not be included in the above-grade room count. Rooms that are not included in the above-grade room count may add substantially to the value of a property, particularly when the quality of the finish is high. For that reason, the appraiser should report the basement or other partially below-grade areas separately and make appropriate adjustments for them on the Basement & Finished Rooms Below-Grade line in the Sales Comparison Approach adjustment grid.

For consistency in the sales comparison analysis, the appraiser should compare above-grade areas to above-grade areas and below-grade areas to below-grade areas. The appraiser may need to deviate from this approach if the style of the subject property or any of the comparables does not lend itself to such comparisons. For example, a property built into the side of a hill where the lower level is significantly out of ground, the interior finish is equal throughout the house, and the flow and function of the layout is accepted by the local market, may require the gross living area to include both levels. However, in such instances, the appraiser must be consistent throughout the appraisal in his or her analysis and explain the reason for the deviation, clearly describing the comparisons that were made.

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## **Gross Building Area**

The gross building area

- is the total finished area including any interior common areas, such as stairways and hallways of the improvements based on exterior measurements;
- is the most common comparison for two- to four-unit properties;
- must be consistently developed for the subject property and all comparables used in the appraisal;
- must include all finished above-grade and below-grade living areas, counting all interior common areas such as stairways, hallways, storage rooms; and
- cannot count exterior common areas, such as open stairways.

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Fannie Mae will accept the use of other comparisons for two- to four-unit properties, such as the total above-grade and below-grade areas discussed in Gross Living Area, provided the appraiser

- explains the reasons he or she did not use a gross building area comparison, and
- clearly describes the comparisons that were made.

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### Accessory Units

Fannie Mae will purchase a one-unit property with an accessory unit. An accessory unit is typically an additional living area independent of the primary dwelling unit, and includes a fully functioning kitchen and bathroom. Some examples may include a living area over a garage and basement units. Whether a property is defined as a one-unit property with an accessory unit or a two-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented. The appraiser is required to provide a description of the accessory unit, and analyze any effect it has on the value or marketability of the subject property.

If the property contains an accessory unit, the property is eligible under the following conditions:

- The property is defined as a one-unit property.
- There is only one accessory unit on the property; multiple accessory units are not permitted.
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use.
- The borrower qualifies for the mortgage without considering any rental income from the accessory unit. (See [B3-3.1-08, Rental Income](#), for further information, and [B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements](#), for an exception for HomeReady mortgage loans.)

If it is determined that the property contains an accessory unit that does not comply with zoning, the property is eligible under the following additional conditions:

- The lender confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property.
- The use conforms to the subject neighborhood and to the market.
- The property is appraised based upon its current use.

- The appraisal must report that the improvements represent a use that does not comply with zoning.
- The appraisal report must demonstrate that the improvements are typical for the market through an analysis of at least three comparable properties that have the same non-compliant zoning use.

(See [B4-1.3-04, Site Section of the Appraisal Report](#), for subject property zoning information.)

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### Additions without Permits

If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

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### Properties with Outbuildings

A lender must give properties with outbuildings special consideration in the appraisal report review to ensure that the property is residential in nature. Descriptions of the outbuildings should be reported in the Improvements and Sales Comparison Approach sections of the appraisal report form.

| Type of Outbuilding  | Acceptability  |
|--|--|
| Minimal outbuildings, such as small barns or stables, that are of relatively insignificant value in relation to the total appraised value of the subject property. | The appraiser must demonstrate through the use of comparable sales with similar amenities that the improvements are typical of other residential properties in the subject area for which an active, viable residential market exists.     |
| An atypical minimal outbuilding.   | The property is acceptable provided the appraiser's analysis reflects little or no contributory value for it.  |
| Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals.  | The presence of the outbuildings may indicate that the property is agricultural in nature. The lender must determine whether the property is residential in nature, regardless of whether the appraiser assigns value to the outbuildings. |

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016   |
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2014-16</a> | December 16, 2014  |
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014     |
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011   |
| <a href="#">Announcement 08-30</a>       | November 14, 2008  |



## **B4-1.3-06, Property Condition and Quality of Construction of the Improvements (04/15/2014)**

### Introduction

This topic contains information on property condition and quality of construction, including:

- [Appraiser Selection of Condition, Quality, and other Characteristic Ratings](#)
- [Property Condition](#)
- [Property Condition Ratings](#)
- [Identifying Property Condition](#)
- [Definitions of Not Updated, Updated, and Remodeled](#)
- [Appraisals Completed “As Is”](#)
- [Quality of Construction Rating](#)
- [Identifying Quality of Construction](#)
- [Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property](#)
- [Infestation, Dampness, or Settlement](#)

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### Appraiser Selection of Condition, Quality, and other Characteristic Ratings

The Condition and Quality ratings must be based on a holistic view of the property and any improvements. When selecting the Condition and Quality ratings, an appraiser must

- consider all improvements to determine an overall Condition and Quality rating. The appraiser should select the rating that best reflects the property as a whole and in its entirety.
- describe the subject property as of the effective date of the appraisal on an absolute basis, meaning the property must be rated on its own merits. The rating should not be selected on a relative basis, meaning it is not selected on how the property relates or compares to other properties in the neighborhood. Additionally, the Condition and Quality ratings for comparable properties must be made on an absolute basis (again, each comparative property on its own merits), not on a relative basis, and reflect the property as of the date of sale of that comparable property.

**Note:** These requirements also apply to all other ratings or descriptions, including the View and Location.

When an appraiser selects a rating and/or description of the subject property for a sales transaction, the selected rating and/or description must remain the same when reflecting that specific transaction. For example, if a C4 rating is selected for the sale of the subject property, then that property remains a C4 when using that specific sale as a comparable in future reports. The same expectation holds true for ratings and descriptions of comparable sales. When a comparable is used in a subsequent appraisal, the ratings and descriptions of that property should not change from one appraisal to the next when it reflects the same sale transaction.

**Note:** Properties can have the same rating or description and still require an adjustment. It should be noted that this does not only apply to Condition and Quality ratings and can apply to other ratings or descriptions as well. For example, all water views may not be equal. In this instance, an adjustment should be made and explained in the Additional Comments section of the form or in an addendum.

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## Property Condition

Lenders must take the necessary steps to confirm that a property meets Fannie Mae's condition requirements as outlined in this topic.

The table below provides the requirements for property condition.

| ✓ | Requirements   |
|---|--|
|   | The appraisal report must express an opinion about the condition of the improvements based on the factual data of the improvements analysis. |
|   | Appraisals based on interior and exterior inspections must include complete visual inspections of the accessible areas of the property.      |

| ✓ | Requirements  |
|---|---|
|   | <b>Note:</b> Appraisers are not responsible for hidden or unapparent conditions.  |
|   | Appraisal reports must reflect adverse conditions that were apparent during the inspection or discovered while performing research, such as, but not limited to, needed repairs, deterioration, or the presence of hazardous wastes, toxic substances, or adverse environmental conditions. |
|   | Detrimental conditions of the improvements must be reported in the appraisal even if the conditions are typical for competing properties.   |
|   | The appraiser must consider and describe the overall condition and quality and condition of the property improvements. (See Identifying Property Condition; Definitions of Not Updated, Updated, and Remodeled; and Identifying Quality of Construction in this topic for details.)         |
|   | The appraiser must identify <ul style="list-style-type: none"> <li>• items that require immediate repair; and</li> <li>• items where maintenance may have been deferred, which may or may not require immediate repair.</li> </ul>  |
|   | The appraisal Additional Comments section must address needed repairs and physical, functional, or external inadequacies.   |

### Property Condition Ratings

For appraisals required to be completed with the UAD, the appraiser must assign one of the following standardized Condition ratings in the table below when identifying the condition of the improvements for the subject property and comparable sales.

| Rating | Description   |
|--------|---|
| C1     | <p>The improvements have been very recently constructed and have not previously been occupied. The entire structure and all components are new and the dwelling features no physical depreciation.</p> <p><b>Note:</b> <i>Newly constructed improvements that feature recycled materials and/or components can be considered new dwellings provided that the dwelling is placed on a 100 percent new foundation and the recycled materials and the recycled components have been rehabilitated/re-manufactured into like-new condition. Improvements that have not been previously occupied are not considered “new” if they have any</i></p> |



| Rating | Description  |
|--------|--|
|        | <i>significant physical depreciation (that is, newly constructed dwellings that have been vacant for an extended period of time without adequate maintenance or upkeep).</i>   |
| C2     | <p>The improvements feature no deferred maintenance, little or no physical depreciation, and require no repairs. Virtually all building components are new or have been recently repaired, refinished, or rehabilitated. All outdated components and finishes have been updated and/or replaced with components that meet current standards. Dwellings in this category either are almost new or have been recently completely renovated and are similar in condition to new construction.</p> <p><b>Note:</b> <i>The improvements represent a relatively new property that is well-maintained with no deferred maintenance and little or no physical depreciation, or an older property that has been recently completely renovated.</i></p>  |
| C3     | <p>The improvements are well-maintained and feature limited physical depreciation due to normal wear and tear. Some components, but not every major building component, may be updated or recently rehabilitated. The structure has been well-maintained.</p> <p><b>Note:</b> <i>The improvement is in its first-cycle of replacing short-lived building components (appliances, floor coverings, HVAC, etc.) and is being well-maintained. Its estimated effective age is less than its actual age. It also may reflect a property in which the majority of short-lived building components have been replaced but not to the level of a complete renovation.</i></p>   |
| C4     | <p>The improvements feature some minor deferred maintenance and physical deterioration due to normal wear and tear. The dwelling has been adequately maintained and requires only minimal repairs to building components/mechanical systems and cosmetic repairs. All major building components have been adequately maintained and are functionally adequate.</p> <p><b>Note:</b> <i>The estimated effective age may be close to or equal to its actual age. It reflects a property in which some of the short-lived building components have been replaced, and some short-lived building components are at or near the end of their physical life expectancy; however, they still function adequately. Most minor repairs have been</i></p> |

| Rating | Description   |
|--------|---|
|        | <i>addressed on an ongoing basis resulting in an adequately maintained property.</i>  |
| C5     | <p>The improvements feature obvious deferred maintenance and are in need of some significant repairs. Some building components need repairs, rehabilitation, or updating. The functional utility and overall livability are somewhat diminished due to condition, but the dwelling remains useable and functional as a residence.</p> <p><b>Note:</b> <i>Some significant repairs are needed to the improvements due to the lack of adequate maintenance. It reflects a property in which many of its short-lived building components are at the end of or have exceeded their physical life expectancy, but remain functional.</i></p> |
| C6     | <p>The improvements have substantial damage or deferred maintenance with deficiencies or defects that are severe enough to affect the safety, soundness, or structural integrity of the improvements. The improvements are in need of substantial repairs and rehabilitation, including many or most major components.</p> <p><b>Note:</b> <i>Substantial repairs are needed to the improvements due to the lack of adequate maintenance or property damage. It reflects a property with conditions severe enough to affect the safety, soundness, or structural integrity of the improvements.</i></p>                                 |

### Identifying Property Condition

As previously noted, the Condition rating selected for the property must reflect a holistic view of the condition of the property improvements. It would be inappropriate to select either a lower or higher overall rating on the basis of one or two minor inferior or superior areas of the property improvements. However, the C6 rating is an exception because it indicates that the property is impacted by one or more deficiencies that negatively affect the safety, soundness, or structural integrity of the property. As a result, if any portion of the dwelling is rated a C6, the whole dwelling must be rated a C6.

Properties with a Condition Rating of C6 are eligible for sale to Fannie Mae provided any deficiencies that impact the safety, soundness, or structural integrity of the property are repaired prior to delivery of the loan. See Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property in this topic for information related to completing appraisals on properties with safety, soundness, or structural integrity deficiencies.

### Definitions of Not Updated, Updated, and Remodeled

For appraisals required to be completed using the UAD, as a subset of identifying the condition of the subject property, the appraiser must also identify the level of updating, if any, that the subject property has received by utilizing the definitions in the table below.

| <b>Level of Updating</b> | <b>Description</b>  |
|--------------------------|---|
| Not Updated              | <p>Little or no updating or modernization. This description includes, but is not limited to, new homes.</p> <p>Residential properties of fifteen years of age or less often reflect an original condition with no updating, if no major components have been replaced or updated. Those over fifteen years of age are also considered not updated if the appliances, fixtures, and finishes are predominantly dated. An area that is ‘Not Updated’ may still be well-maintained and fully functional, and this rating does not necessarily imply deferred maintenance or physical/functional deterioration.</p> |
| Updated                  | <p>The area of the home has been modified to meet current market expectations. These modifications are limited in terms of both scope and cost.</p> <p>An updated area of the home should have an improved look and feel, or functional utility. Changes that constitute updates include refurbishment and/or replacing components to meet existing market expectations. Updates do <i>not</i> include significant alterations to the existing structure.</p>   |
| Remodeled                | <p>Significant finish and/or structural changes have been made that increase utility and appeal through complete replacement and/or expansion.</p> <p>A remodeled area reflects fundamental changes that include multiple alterations. These alterations may include some or all of the following: replacement of a major component (cabinet(s), bathtub, or bathroom tile), relocation of plumbing/gas fixtures/appliances, significant structural alterations (relocating walls, and/or the addition of square footage). This would include a complete gutting and rebuild.</p>                               |

### Appraisals Completed “As Is”

Fannie Mae permits appraisals to be based on the “as is” condition of the property provided existing conditions are minor and do not affect the safety, soundness, or structural integrity of the property, and the appraiser’s opinion of value reflects the existence of these conditions.

Minor conditions and deferred maintenance are typically due to normal wear and tear from the aging process and the occupancy of the property. While such conditions generally do not rise to the level of a required repair, they must be reported. Examples of minor conditions and deferred maintenance include worn floor finishes or carpet, minor plumbing leaks, holes in window screens, or cracked window glass.

Condition Ratings C1, C2, C3, C4, and C5 as previously defined are eligible for delivery in “as is” condition. Properties with the initial Condition Rating C6 indicate one or more deficiencies that impact the safety, soundness, or structural integrity of the property. Therefore, the appraisal must be completed subject to completion of the deficient item(s).

See Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property in this topic for additional details when completing appraisals on properties with safety, soundness, or structural integrity deficiencies.

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### Quality of Construction Rating

For appraisals required to be completed using the UAD, the appraiser must assign one of the following standardized quality ratings in the table below when identifying the quality of construction for the subject property and comparable sales.

| Rating | Description   |
|--------|---|
| Q1     | Dwellings with this quality rating are usually unique structures that are individually designed by an architect for a specified user. Such residences typically are constructed from detailed architectural plans and specifications and feature an exceptionally high level of workmanship and exceptionally high-grade materials throughout the interior and exterior of the structure. The design features exceptionally high quality exterior refinements and ornamentation, and exceptionally high-quality interior refinements. The workmanship, materials, and finishes throughout the dwelling are of exceptionally high quality. |
| Q2     | Dwellings with this quality rating are often custom designed for construction on an individual property owner’s site. However, dwellings in this quality grade are also found in high-quality tract developments featuring residences constructed from individual plans or from highly modified or upgraded plans. The design features detailed, high-quality exterior ornamentation, high-quality interior refinements, and detail. The workmanship, materials, and finishes throughout the dwelling are generally of high or very high quality.   |
| Q3     | Dwellings with this quality rating are residences of higher quality built from individual or readily available designer plans in above-standard residential tract developments or on an individual property owner’s site. The design includes   |

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| Rating | Description  |
|--------|--|
|        | significant exterior ornamentation and interiors that are well finished. The workmanship exceeds acceptable standards and many materials and finishes throughout the dwelling have been upgraded from “stock” standards.   |
| Q4     | Dwellings with this quality rating meet or exceed the requirements of applicable building codes. Standard or modified standard building plans are utilized and the design includes adequate fenestration and some exterior ornamentation and interior refinements. Materials, workmanship, finish, and equipment are of stock or builder grade and may feature some upgrades.  |
| Q5     | Dwellings with this quality rating feature economy of construction and basic functionality as main considerations. Such dwellings feature a plain design using readily available or basic floor plans featuring minimal fenestration and basic finishes with minimal exterior ornamentation and limited interior detail. These dwellings meet minimum building codes and are constructed with inexpensive, stock materials with limited refinements and upgrades.  |
| Q6     | Dwellings with this quality rating are of basic quality and lower cost; some may not be suitable for year-round occupancy. Such dwellings are often built with simple plans or without plans, often utilizing the lowest quality building materials. Such dwellings are often built or expanded by persons who are professionally unskilled or possess only minimal construction skills. Electrical, plumbing, and other mechanical systems and equipment may be minimal or nonexistent. Older dwellings may feature one or more substandard or nonconforming additions to the original structure. |

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### Identifying Quality of Construction

The same approach used in identifying the condition of the property is also applicable to identifying the quality of construction. The selected rating must reflect a holistic view of the quality of construction. However, the Q6 Rating is an exception because it indicates that the property is impacted by one or more deficiencies that negatively affect the safety, soundness, or structural integrity of the property. As a result, if any portion of the dwelling is rated a Q6, the whole dwelling must be rated a Q6.

Properties with a quality of construction rating of Q6 are eligible for sale to Fannie Mae provided any items in relation to the quality of construction that impact the safety, soundness, or structural integrity of the property are repaired prior to the delivery of the loan. See Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property in this topic for requirements when completing appraisals on properties with safety, soundness, or structural integrity deficiencies.

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### **Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property**

The appraisal report must identify and describe physical deficiencies that could affect a property's safety, soundness, or structural integrity. If the appraiser has identified any of these deficiencies, the property must be appraised subject to completion of the specific repairs or alterations. In these instances, the property condition and quality ratings must reflect the condition and quality of the property based on the hypothetical condition that the repairs or alterations have been completed.

If the appraiser is not qualified to evaluate the alterations or repairs needed, the appraisal must identify and describe the deficiencies and the property must be appraised subject to a satisfactory inspection by a qualified professional. The appraisal may have to be revised based upon the results of the inspection. If so, the report must indicate the impact, if any, on the final opinion of value. The lender must review the revised appraisal report to confirm that no physical deficiencies or conditions that would affect the safety, soundness, or structural integrity of the property are indicated. A certification of completion is required to confirm the necessary alterations or repairs have been completed prior to delivery of the loan.

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### **Infestation, Dampness, or Settlement**

If the appraisal indicates evidence of wood-boring insects, dampness, or abnormal settlement, the appraisal must comment on the effect on the value and marketability of the subject property. The lender must either provide satisfactory evidence that the condition was corrected or submit a professionally prepared report indicating, based on an inspection of the property, that the condition does not pose any threat of structural damage to the improvements.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011     |



## **B4-1.3-07, Sales Comparison Approach Section of the Appraisal Report (04/15/2014)**

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### **Introduction**

This topic contains information on reviewing the Sales Comparison Approach section of the appraisal report form, including:

- [Overview](#)
  - [Data and Verification Sources of Comparable Sales](#)
  - [Prior Sales History of the Subject and Comparable Sales](#)
- 

### **Overview**

The sales comparison approach to value is an analysis of comparable sales, contract sales, and listings of properties that are the most comparable to the subject property.

The appraiser's analysis of a property must take into consideration all factors that have an effect on value. The appraiser must analyze all closed sales, contract sales, and offerings or listings of properties that are the most comparable to the subject property in order to identify any significant differences or elements of comparison that could affect his or her opinion of value for the subject property as of the effective date of the appraisal report. This is particularly important in changing (increasing or declining values) markets. Analyzing closed sales, contract sales, and offerings or listings is an important analysis in any market and will result in more accurate reporting on market conditions, including trends that indicate that sale prices for contract sales and asking prices for recent offerings or listings have changed. (Also see [B4-1.3-03, Neighborhood Section of the Appraisal Report](#), for information regarding Trend of Neighborhood Property Values, Demand/Supply, and Marketing Time.)

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### **Data and Verification Sources of Comparable Sales**

Data and verification source(s) for each comparable sale must be reported on the appraisal report form. Examples of data sources include, but are not limited to, a multiple listing service, deed records, tax records, realtors, builders, appraisers, appraiser's files, and other third party sources and vendors. The appraiser must state the specific data source (such as tax records or deed records), and refrain from using broad categories, such as "public records." Data source(s) must be reliable sources for the area where the subject property is located.

Examples of verification sources include, but are not limited to, the buyer, seller, listing agent, selling agent, and closing documents in certain situations. Regardless of the source(s) used, there



must be sufficient data to understand the conditions of sale, existence of financing concessions, physical characteristics of the subject property, and whether it was an arms-length transaction.

It is acceptable to obtain comparable sales data from parties that have a financial interest in either the sale or financing of the subject property; however, the appraiser must verify the data with a party that does not have a financial interest in the subject transaction. For example, if the real estate agent of the subject property has provided comparable sales data, that information must be verified through another disinterested source.

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### **Prior Sales History of the Subject and Comparable Sales**

Fannie Mae's appraisal report forms require the appraiser to report the three year subject property and twelve month comparable sales history.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |
| <a href="#">Announcement SEL-2010-09</a> | June 30, 2010     |
| <a href="#">Announcement 08-30</a>       | November 14, 2008 |



## **B4-1.3-08, Comparable Sales (01/31/2017)**

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### **Introduction**

This topic contains information on selection of comparable sales, including:

- [Selection of Comparable Sales](#)
- [Minimum Number of Comparable Sales](#)
- [Age of the Comparable Sales](#)
- [Additional Requirements for New \(or Recently Converted\) Condos, Subdivisions, or PUDS](#)
- [Rural Properties](#)
- [Use of Foreclosures and Short Sales](#)



## Selection of Comparable Sales

The appraiser is responsible for determining which comparables are the best and most appropriate for the assignment. Fannie Mae expects the appraiser to account for all factors that affect value when completing the analysis. Comparable sales should have similar physical and legal characteristics when compared to the subject property. These characteristics include, but are not limited to, site, room count, gross living area, style, and condition. This does not mean that the comparable must be identical to the subject property, but it should be competitive and appeal to the same market participants that would also consider purchasing the subject property. Comparables that are significantly different from the subject property may be acceptable; however, the appraiser must describe the differences, consider these factors in the market value, and provide an explanation justifying the use of the comparable(s).

Comparable sales from within the same neighborhood (including subdivision or project) as the subject property should be used when possible, and must be used in certain instances (see below). Sale activity from within the neighborhood is the best indicator of value for properties in that neighborhood as sales prices of comparable properties from the same location should reflect the same positive and negative location characteristics.

Fannie Mae does allow for the use of comparable sales that are located in competing neighborhoods, as these may simply be the best comparables available and the most appropriate for the appraiser's analysis. If this situation arises, the appraiser must not expand the neighborhood boundaries just to encompass the comparables selected. The appraiser must indicate the comparables are from a competing neighborhood and address any differences that exist. The appraiser must also provide an explanation as to why he or she used the specific comparable sales in the appraisal report and include a discussion of how a competing neighborhood is comparable to the subject neighborhood.

If a property is located in an area in which there is a shortage of truly comparable sales, either because of the nature of the property improvements or the relatively low number of sales transactions in the neighborhood, the appraiser might need to use as comparable sales, properties that are not truly comparable to the subject property. In some situations, sales of properties that are not truly comparable may simply be the best available and the most appropriate for the appraiser's analysis. The use of such sales is acceptable as long as the appraiser adequately documents his or her analysis and explains why these sales were used. (For additional information, see [B4-1.3-03, Neighborhood Section of the Appraisal Report](#). For specific information concerning the selection of comparable sales for manufactured home appraisals, see [B4-1.4-01, Factory-Built Housing: Manufactured Housing](#).)

When describing the proximity of the comparable sale to the subject property, the appraiser must be specific with respect to the distance in terms of miles and include the applicable directional

indicator (for example, “1.75 miles NW”). The distance between the subject property and each comparable property is to be measured using a straight line between the properties.

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### **Minimum Number of Comparable Sales**

A minimum of three closed comparables must be reported in the sales comparison approach. Additional comparable sales may be reported to support the opinion of market value provided by the appraiser. The subject property can be used as a fourth comparable sale or as supporting data if it was previously closed. Contract offerings and current listings can be used as supporting data, if appropriate.

In no instance may the appraiser create comparable sales by combining vacant land sales with the contract purchase price of a home (improvements only). While these transactions cannot be used to meet the required minimum three closed comparables, these transactions, which are often completed as part of a construction-to-permanent loan transaction, may be included as additional support with appropriate commentary.

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### **Age of the Comparable Sales**

Comparable sales that have closed within the last 12 months should be used in the appraisal; however, the best and most appropriate comparable sales may not always be the most recent sales. For example, it may be appropriate for the appraiser to use a nine month old sale with a time adjustment rather than a one month old sale that requires multiple adjustments. An older sale may be more appropriate in situations when market conditions have impacted the availability of recent sales as long as the appraisal reflects the changing market conditions.

Additionally, older comparable sales that are the best indicator of value for the subject property can be used if appropriate. For example, if the subject property is located in a rural area that has minimal sales activity, the appraiser may not be able to locate 3 truly comparable sales that sold in the last 12 months. In this case, the appraiser may use older comparable sales as long as he or she explains why they are being used.

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### **Additional Requirements for New (or Recently Converted) Condos, Subdivisions, or PUDS**

If the subject property is located in a new (or recently converted) condo, subdivision, or PUD, then it must be compared to other properties in the neighborhood as well as to properties within the subject subdivision or project. This comparison should help demonstrate market acceptance of new developments and the properties within them. The appraiser must select one comparable sale from the subject subdivision or project and one comparable sale from outside the subject subdivision or project. The third comparable sale can be from inside or outside of the subject subdivision or project, provided it is a good indicator of value for the subject property. Two of

the sales must be verifiable from reliable data sources, other than the builder. Sales or resales from within the subject subdivision or project are preferable to sales from outside the subdivision or project provided the developer or builder of the subject property is not involved in the transactions.

In the event there are no closed sales inside a new subject project or subdivision because the subject property transaction is one of the first units to sell, the appraiser may use two pending sales in the subject project or subdivision in lieu of one closed sale. When the appraiser is using two pending comparable sales in lieu of a closed sale, the appraiser must also use at least three closed comparable sales from projects or subdivisions outside of the subject property's project or subdivision.

To meet the requirement that the appraiser utilize one comparable sale from inside the subject subdivision or project, the appraiser may need to rely solely on the builder of the property he or she is appraising, as this data may not yet be available through typical data sources (for example, public records or multiple listing services). In this scenario, it is acceptable for the appraiser to verify the transaction of the comparable sale by viewing a copy of the settlement statement from the builder's file.

When providing builder sales from competing projects that are not presently available through traditional data sources, the appraiser must verify the sale from the applicable settlement statement and indicate on the appraisal report that the settlement statement was the document utilized for verification. Additionally, the appraisal must include discussion and analysis of sales concessions and upgrades for the subject property relative to concessions and upgrades for each builder sale. (For special appraisal considerations regarding condo projects, see [B4-1.4-03, Condo Appraisal Requirements](#), and B4-2, Project Standards.)

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## **Rural Properties**

Rural properties often have large lot sizes, and rural locations can be relatively undeveloped. Therefore, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property that is in a rural location. Comparable sales located a considerable distance from the subject property can be used if they represent the best indicator of value for the subject property. In such cases, the appraiser must use his or her knowledge of the area and apply good judgment in selecting comparable sales that are the best indicators of value. The appraisal must include an explanation of why the particular comparables were selected.

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## **Use of Foreclosures and Short Sales**

It is acceptable to use foreclosures and short sales as comparables if the appraiser believes they are the best and most appropriate sales available. The appraiser must address in the appraisal report the prevalence of such sales in the subject's neighborhood and the impact, if any, of

such sales. The appraiser must identify and consider any differences from the subject property, such as the condition of the property and whether any stigma has been associated with it. The appraiser cannot assume it is equal to the subject property. For example, a foreclosure or short sale property may be in worse condition when compared to the subject property, especially if the subject property is new construction or was recently renovated. For appraisals that are required to be UAD compliant, the appraiser must identify the sale type as REO sale or Short sale, as appropriate. (For specific information regarding comparable sale adjustments, see [B4-1.3-09, Adjustments to Comparable Sales](#), and for information regarding financing types, see [Fannie Mae and Freddie Mac Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements](#)).

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2017-01</a> | January 31, 2017  |
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011  |
| <a href="#">Announcement SEL-2010-09</a> | June 30, 2010     |
| <a href="#">Announcement 08-30</a>       | November 14, 2008 |



## **B4-1.3-09, Adjustments to Comparable Sales (01/31/2017)**

### Introduction

This topic contains details on selected adjustments to the comparable sales, including:

- [Analysis of Adjustments](#)
- [Sales or Financing Concessions](#)
- [Date of Sale and Time Adjustments](#)
- [Appraiser's Comments and Indicated Value in the Sales Comparison Approach](#)

### Analysis of Adjustments

Fannie Mae does not have specific limitations or guidelines associated with net or gross adjustments. The number and/or amount of the dollar adjustments must not be the sole determinant in the acceptability of a comparable. Ideally, the best and most appropriate

comparable would require no adjustment; however this is rarely the case as typically no two properties or transaction details are identical. The appraiser's adjustments must reflect the market's reaction (that is, market based adjustments) to the difference in the properties. For example, it would be inappropriate for an appraiser to provide a \$20 per square foot adjustment for the difference in the gross living area based on a rule-of-thumb when market analysis indicates the adjustment should be \$100 per square foot. The expectation is for the appraiser to analyze the market for competitive properties and provide appropriate market based adjustments without regard to arbitrary limits on the size of the adjustment.

If the extent of the appraiser's adjustments to the comparable sales is great enough to indicate that the property may not conform to the neighborhood, the underwriter must determine if the opinion of value is adequately supported. (For further information regarding comparable selection, see [B4-1.3-08, Comparable Sales](#).)

When there are no truly comparable sales for a particular property because of the uniqueness of the property or other conditions, the appraiser must select sales that represent the best indicators of value for the subject property and make adjustments to reflect the actions of typical purchasers in that market.

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### **Sales or Financing Concessions**

Comparable sales that include sales or financing concessions must be adjusted to reflect the impact, if any, on the sales price of the comparables based on the market at the time of sale. For information related to sales or financing concessions for the subject transaction, see [B3-4.1-02, Interested Party Contributions \(IPCs\)](#).

Examples of sales or financing concessions include:

- interest rate buydowns or other below-market rate financing;
- loan discount points;
- loan origination fees;
- closing costs customarily paid by the buyer;
- payment of condo, co-op, or PUD fees or assessment charges;
- refunds of (or credit for) the borrower's expenses;
- absorption of monthly payments;
- assignment of rent payments; and
- inclusion of non-realty items in the transaction.

The dollar amount of sales or financing concessions paid by the seller must be reported for the comparable sales if the information is reasonably available (see UAD [Appendix D: Field-Specific Standardization Requirements](#), for data entry instructions). Sales or financing data should be obtained from parties associated with the comparable transaction, such as the broker, buyer or seller, or a reliable data source. If information is not available because of legal restrictions or other disclosure-related problems, the appraiser must explain why the information is not available. If the appraisal report form does not provide enough space to discuss this information, the appraiser must make an adjustment for the concessions on the form and include an explanation in an addendum to the appraisal report.

The amount of the negative dollar adjustment for each comparable with sales or financing concessions should be equal to any increase in the purchase price of the comparable that the appraiser determines to be attributable to the concessions. The need to make negative dollar adjustments for sales or financing concessions and the amount of the adjustments to the comparable sales is not based on how typical the concessions might be for a segment of the market area. Large sales or financing concessions can be relatively typical in a particular segment of the market and still result in sale prices that reflect more than the value of the real estate. Adjustments based on dollar-for-dollar deductions that are equal to the cost of the concessions to the seller, as a strict cash equivalency approach would dictate, are not appropriate.

Fannie Mae recognizes that the effect of sales or financing concessions on sales prices can vary with the amount of the concessions and differences in various markets. Adjustments must reflect the difference between what the comparables actually sold for with the sales or financing concessions and what they would have sold for without the concessions so that the dollar amount of the adjustments will approximate the reaction of the market to the concessions. If the appraiser's analysis determines that the market's reaction is the full amount of the financing concession, a dollar-for-dollar adjustment is acceptable.

Positive adjustments for sales or financing concessions are not acceptable. For example, if local common practice or law results in virtually all of the property sellers in the market area paying a 1% loan origination fee for the purchaser, and a property seller in that market did not pay any loan fees or concessions for the purchaser, the sale would be considered as a cash equivalent sale in that market. The appraiser must recognize comparable sales that sold for all cash or with cash equivalent financing and use them as comparable sales if they are the best indicators of value for the subject property. Such sales also can be useful to the appraiser in determining those costs that are normally paid by sellers as the result of common practice or law in the market area.

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### **Date of Sale and Time Adjustments**

The date of sale and the time adjustment (market conditions) are critical elements in determining an accurate value because the appraisal is based on a specific date in time (effective date of appraisal). The comparable sales being considered must be analyzed by the appraiser to

determine if there have been any changes in market conditions from the time the comparable went under contract to the effective date of the appraisal. This analysis will determine whether a time adjustment is warranted. Adjustments may be either positive or negative depending on the market changes over the time period analyzed. Time adjustments should be supported by other comparables (such as sales, contracts) whenever possible; however, in all instances the appraiser must provide an explanation for the time adjustment in the appraisal report.

When completing Fannie Mae’s appraisal report forms, the appraiser should provide the date of the sales contract and the settlement or closing date. Only the month and year need to be reported. For example, appraisers may use “s04/10” or “c02/10” where “s” reflects the settlement or closing date and “c” reflects the contract date. If the exact date is necessary to understand the adjustments, it must be explained elsewhere in the report or in an addendum. If the contract date is unavailable to the appraiser in the normal course of business, the appraiser must enter the abbreviation “Unk” for unknown, in place of the contract date.

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### **Appraiser’s Comments and Indicated Value in the Sales Comparison Approach**

The appraiser must provide appropriate comment(s) reflecting the logic and reasoning for the adjustments provided, especially for the characteristics reported on the appraisal report form between the Sales or Financing Concessions and the Condition line items. A statement only recognizing that an adjustment has been made is not acceptable. When appropriate, the appraiser’s analysis should also include narrative comments about a current contract, offering, or listing for the subject or comparable sales, current ownership, and recent prior sales or transfers. Additionally, the appraiser’s comments must reflect his or her reconciliation of the adjusted (or indicated) values for the comparable sales and identify why the sale(s) were given the most weight in arriving at the indicated value for the subject property. It should be noted that the indicated value in the Sales Comparison Approach must be within the range of the adjusted sales price of the comparables that are reported in the appraisal report form.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2017-01</a> | January 31, 2017  |
| <a href="#">Announcement SEL-2014-16</a> | December 16, 2014 |
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |
| <a href="#">Announcement 09-19</a>       | June 8, 2009      |
| <a href="#">Announcement 08-30</a>       | November 14, 2008 |





## **B4-1.3-10, Cost and Income Approach to Value (04/15/2014)**

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### **Introduction**

This topic contains information on reviewing the cost approach and the income approach, including:

- [Cost Approach to Value](#)
  - [Income Approach to Value](#)
- 

### **Cost Approach to Value**

Fannie Mae does not require the cost approach to value except for the valuation of manufactured homes. However, USPAP requires the appraiser to develop and report the result of any approach to value that is necessary for credible assignment results. For example, when appraising proposed or newly constructed properties, if the appraiser believes the cost approach is necessary for credible assignment results, then the cost approach must be provided. Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.

The cost approach to value assumes that a potential purchaser will consider building a substitute residence that has the same use as the property being appraised. This approach, then, measures value as a cost of production. It may be appropriate to use the cost approach when appraising new or proposed construction, property that is undergoing renovation, unique property, or property that features functional depreciation, to support the sales comparison approach analysis. The reliability of the cost approach depends on valid reproduction cost estimates, proper depreciation estimates, and accurate site values.

If the appraiser has completed the cost approach, the lender must thoroughly review the information provided to confirm that the appraiser's analysis and comments for the cost approach to value are consistent with comments and adjustments mentioned elsewhere in the appraisal report. For example, if the neighborhood or site description reveals that the property backs up to a shopping center, lenders should expect to see an amount indicated for external depreciation in the cost approach. Or, if the improvement analysis indicates that it is necessary to go through one bedroom to get to another bedroom, lenders should expect to see an amount indicated for functional depreciation.



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## Income Approach to Value

The income approach to value is based on the assumption that market value is related to the market rent or income that a property can be expected to earn. The income approach to value is required in the valuation of two-unit to four-unit properties and may be appropriate in neighborhoods that consist of one-unit properties when there is a substantial rental market. The income approach to value may not be appropriate in areas that consist mostly of owner-occupied properties because adequate rental data does not exist for those areas. However, USPAP requires the appraiser to develop and report the result of any approach to value that is necessary for credible assignment results. If the appraiser believes the income approach is necessary for credible assignment results, then the income approach must be included. Appraisals that rely solely on the income approach as an indicator of market value are not acceptable.

When the income approach to value is used, the appraisal report must include the supporting comparable rental and sales data, and the calculations used to determine the gross rent multiplier. If the appraiser has completed the income approach, the lender must thoroughly review the information provided to confirm that the appraiser's analysis and comments for the income approach are consistent with comments mentioned elsewhere in the report.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date     |
|--|----------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014 |



## **B4-1.3-11, Valuation Analysis and Reconciliation (04/15/2014)**

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### Introduction

This topic contains information on reviewing the valuation analysis and final reconciliation, including:

- [Overview](#)
- [Reconciliation](#)

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## Overview

The valuation sections of Fannie Mae’s appraisal report forms enable an appraiser to develop and report, in a concise format, an adequately supported opinion of market value based on the cost, sales comparison, and income approaches to value, as applicable. If the appraiser believes that additional information needs to be provided because of the uniqueness of the property or some other condition, he or she should provide additional supporting data in an addendum to the appraisal report form.

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## Reconciliation

In the Reconciliation section of the appraisal report form, the appraiser considers the reliability and applicability of each of the approaches to value that was utilized in the appraisal report. After consideration of each of the approaches to value, the appraiser will provide his or her final value opinion. In the Reconciliation section, appraisers must

- reconcile the reasonableness and reliability of each applicable approach to value,
- reconcile the reasonableness and validity of the indicated values,
- reconcile the reasonableness of available data, and
- select and report the approach or approaches that were given the most weight.

The reconciliation is based on the appraiser’s judgment of the results developed as part of the valuation process and must never be an averaging technique with the exception of the use of a weighted average technique that includes proper explanation. The final reconciled indicated value must be within the range of the values indicated by the Approaches used in the appraisal report form.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date     |
|--|----------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014 |

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 **B4-1.3-12, Quality Assurance (04/15/2014)**

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### **Introduction**

This topic contains information on changes to the appraised value, appraisal deficiencies, and quality assurance, including:

- [Changes to the Appraised Value](#)
- [Guidance on Addressing Appraisal Deficiencies](#)
- [Lender Requirements](#)
- [Fannie Mae's Use of Field Reviews](#)
- [Refusal to Accept Appraisals from Specific Appraisers](#)

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### **Changes to the Appraised Value**

The lender is responsible for confirming that appraisal reports are complete and that any changes to the reports are made by the appraiser that originally completed the report. If the lender has concerns with any aspect of the appraisal that result in questions about the reliability of the opinion of market value, the lender must attempt to resolve its concerns with the appraiser that originally prepared the report. If the lender is unable to resolve its concerns with the appraiser, the lender must obtain a replacement report prior to making a final underwriting decision on the loan. Any request for a change in the opinion of market value must be based on material and substantive issues and must not be made solely on the basis that the opinion of market value as indicated in the appraisal report does not support the proposed loan amount. For information concerning the process lenders must follow to address a change of the opinion of market value, see [Guidance on Addressing Appraisal Deficiencies](#) in this topic.

Lenders must pay particular attention and institute extra due diligence for those loans in which the appraised value is believed to be excessive or when the value of the property has experienced significant appreciation in a short time period since the prior sale. Fannie Mae believes that one of the best ways lenders can reduce the risk associated with excessive values or rapid appreciation is by receiving accurate appraisals from knowledgeable, experienced appraisers.

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### **Guidance on Addressing Appraisal Deficiencies**

If the lender considers an appraisal deficient, the lender has the following options for addressing the deficiencies:

- contacting the appraiser to address deficiencies contained in the appraisal report,
- obtaining a desk review or a field review of the original appraisal, or

- obtaining a new appraisal of the subject property.

The lender can return the appraisal report to the appraiser that completed the assignment, identify the deficiencies found, and provide justification for requesting correction of the deficiencies the lender believes make the report unreliable.

If the lender is unable to obtain a revised appraisal that adequately addresses its concerns, a desk or field review of the report may be obtained. The review must be completed in accordance with the USPAP. Because the Scope of Work for either type of review allows for a change of the opinion of market value for something other than a mathematical error, the appraiser completing the appraisal review must be licensed or certified in the state in which the property is located, and he or she must have access to the appropriate data sources and must possess the knowledge and experience to appraise the subject property with respect to both the specific property type and geographical location.

The lender may forego either type of review and obtain a new appraisal. When a review appraisal or new appraisal is obtained, the lender must use the opinion of market value as stated in the review or new appraisal because the lender has, at that point in time, rejected the original appraisal. It is not acceptable for the lender to exercise blanket discretion by arbitrarily changing the opinion of market value from a report for use in the lending process. For example, it is not within the lender's discretion to simply average the two opinions of market value in order to arrive at a final value conclusion.

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## **Lender Requirements**

A lender must continually evaluate the quality of the appraiser's work through the normal review process of all appraisal reports, as well as through the spot-check field review or desk review of appraisals as part of its quality assurance system. For detailed requirements, see [D1-3-04, Lender Post-Closing Quality Control Review of Appraisers and Appraisals](#).

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## **Fannie Mae's Use of Field Reviews**

Fannie Mae utilizes field reviews and other types of reviews for quality control purposes. Based on the review, Fannie Mae may refer unacceptable appraisal reports to state appraiser licensing or regulatory boards for investigation and action considered appropriate. In such cases, Fannie Mae provides the state board with a copy of the appraisal field review report and the original appraisal report.

Fannie Mae's objectives in referring appraisal reports to state appraiser licensing or regulatory boards are

- to emphasize continuing efforts to maintain the quality of appraisals,
- to protect Fannie Mae’s interest,
- to improve the quality of mortgages delivered to Fannie Mae by identifying appraisers that have performed appraisals of a sufficiently poor quality as to impair the security interests,
- to help the industry enhance the quality of appraisals by identifying and referring individual appraisers that appear to be unethical or incompetent to the state appraiser licensing or regulatory boards for review, and
- to help enforce professional standards.

**Note:** Fannie Mae’s decision to make such referrals does not affect the lender’s responsibility for managing the property valuation and appraisal review process.

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### Refusal to Accept Appraisals from Specific Appraisers

Fannie Mae may refuse to accept appraisals prepared by specific appraisers, or Fannie Mae may notify a lender that appraisals prepared by a given appraiser are no longer accepted. When a lender is notified that appraisals from specific appraisers are no longer accepted, the lender is prohibited from delivering mortgages to Fannie Mae secured by properties appraised by that individual immediately following its receipt of Fannie Mae’s notice.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |
| <a href="#">Announcement SEL-2013-05</a> | July 30, 2013     |
| <a href="#">Announcement SEL-2010-09</a> | June 30, 2010     |

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## Section B4-1.4, Special Appraisal and Other Valuation Considerations



### **B4-1.4-01, Factory-Built Housing: Manufactured Housing (04/15/2014)**

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#### **Introduction**

This topic contains information on manufactured housing appraisal requirements, including:

- [Overview](#)
  - [Manufactured Housing Appraiser Qualifications](#)
  - [Manufactured Housing Appraisal Requirements and Standards](#)
  - [Newly Constructed Manufactured Housing Appraisal Requirements](#)
  - [Manufactured Housing Appraisal Site Requirements](#)
  - [Manufactured Housing Appraisal Comparable Selection Requirements](#)
  - [Manufactured Housing Appraisal Cost Approach Requirements](#)
  - [Sources of Manufactured Housing Data](#)
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#### **Overview**

Fannie Mae requires market-based property valuations for manufactured homes demonstrated by a well-developed sales comparison approach to value that is further supported by the cost approach to value.

For manufactured housing property eligibility requirements, see [B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing](#). For manufactured housing mortgage eligibility and underwriting requirements, see B5-2, Manufactured Housing.

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#### **Manufactured Housing Appraiser Qualifications**

The valuation principles for appraising manufactured homes are essentially the same as for other types of residential property. However, not all appraisers are knowledgeable and experienced about the unique construction process, as well as the manufacturers' and federal, state, and local requirements for both construction and installation.

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The lender must ensure that the appraiser is knowledgeable about the local manufactured home market and the unique construction process for manufactured homes, and has access to appropriate data sources in order to render an opinion of value for the manufactured home. Lenders must establish policies and procedures to ensure that qualified individuals are being selected in accordance with Fannie Mae requirements as well as the [Appraiser Independence Requirements](#).

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### **Manufactured Housing Appraisal Requirements and Standards**

The list below provides requirements and standards for manufactured housing appraisals.

- For purchase money mortgages, the lender must provide the appraiser with
  - a complete copy of the executed contract for sale of the manufactured home and land; or
  - a complete copy of the executed contract for both, if the manufactured home and land are purchased separately; and
  - a copy of the manufacturer’s invoice if the manufactured home is new.

The appraiser must analyze the contract(s) and the manufacturer’s invoice for new manufactured homes, and provide a summary in the appraisal report.

- The appraiser must report the results of a manufactured home appraisal on the *Manufactured Home Appraisal Report (Form 1004C)*. The use of Form 1004C will help to ensure that the appraiser inspected, considered, and reported the appropriate information including, but not limited to, the:
  - manufacturer’s name,
  - trade or model number,
  - year of manufacture,
  - serial number,
  - Certification Label number(s) from either the HUD Data Plate or Certification Label(s),
  - type of foundation and utility connections,
  - detailed and supported cost approach,
  - opinion of the market value of the site, and

- property’s conformity to the neighborhood.
- The appraiser must indicate a value conclusion based solely on the real property as completed consisting of the
  - manufactured home,
  - site improvements, and
  - land on which the home is situated.

The value conclusion cannot include any non-realty items including, but not limited to, insurance, warranties, and furniture.

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### **Newly Constructed Manufactured Housing Appraisal Requirements**

For new manufactured homes not yet attached to the land or not yet constructed, the appraisal may be based on either plans and specifications or an existing model home. If required information is not available at the time the appraiser is completing the appraisal forms, the appraiser must appraise the property subject to his or her receipt and review of the items and completion of the improvements as a condition of the appraisal. Information that may not be available can include, but is not limited to, the dealer invoice, the HUD Data Plate, and the Certification Label numbers.

A certification of completion must be obtained before the mortgage is delivered to Fannie Mae. The certification must

- be completed by the original appraiser if possible, or if not possible, by a substitute appraiser as provided for in [B4-1.2-02, Appraisal Age and Use Requirements](#);
- verify and state that the improvements were completed and all other requirements and conditions of the appraisal have been satisfied;
- include previously unavailable information, including a summary of the appraiser’s analysis of any previously unavailable dealer invoice; and
- include photographs of the completed improvements attached to the permanent foundation.

**Note:** If the original or alternative documentation cannot be obtained for both the Data Plate/Compliance Certificate and the Certification Label, the loan is not eligible for delivery to Fannie Mae. For information regarding methods of alternative documentation



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and eligibility considerations, see [B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing](#).

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### **Manufactured Housing Appraisal Site Requirements**

The appraisal site requirements for manufactured housing are as follows:

- The appraiser must base his or her opinion of value on the characteristics of the subject property, including the site area. The appraisal report must indicate whether or not the site is compatible with the neighborhood, and must comment on the conformity of the manufactured home to other manufactured homes in the neighborhood.
  - The property site must be of a size, shape, and topography that is conforming and acceptable in the neighborhood. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her analysis and valuation. The appraiser must comment if the site has adverse conditions or is not typical for the neighborhood.
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### **Manufactured Housing Appraisal Comparable Selection Requirements**

The comparable selection requirements for manufactured housing appraisals are as follows:

- The appraiser must select comparable sales of similar manufactured homes to address the marketability and comparability of a manufactured home, for example, multi-width homes to multi-width homes. The appraiser must use a minimum of two comparable sales of similar manufactured homes. The appraiser may use either site-built housing or a different type of factory-built housing as the third comparable sale. The appraiser must explain why site-built housing or a different type of factory-built housing is being used for the third comparable sale, and make and support appropriate adjustments in the appraisal report.
- An appraiser that is unable to locate sales of manufactured homes that are truly comparable to the subject property may decide it is appropriate to use either older sales of similar manufactured homes or sales of similar manufactured homes that are located in a competing neighborhood to establish a baseline for the “sales comparison analysis” and determine sound adjustments to reflect the differences between comparable sales that are available and the subject property.
- The appraiser must not create comparable sales by combining vacant land sales with the contract purchase price of the home. This type of information may be used as additional supporting documentation.

See [B4-1.3-08, Comparable Sales](#), for general requirements regarding comparable selection.

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## Manufactured Housing Appraisal Cost Approach Requirements

Fannie Mae requires a detailed and supported cost approach to value for all manufactured homes which must, at a minimum, contain the information indicated on the Form 1004C. The appraiser may choose to report the results of the cost approach on Form 1004C or by using a report form from a published cost service as an addendum to the appraisal report form. Whatever format the appraiser chooses to report the cost approach, the information must be sufficient to allow the lender to replicate the cost figures and calculations. The sales comparison and cost approach to value are complementary for the valuation of manufactured housing and must support the final value conclusion. A properly developed and detailed cost approach will provide the information necessary for an appraiser to

- recognize differences in manufactured home construction quality,
- understand the difference between the comparable sales and the subject property,
- extract from the market appropriate adjustments for the sales comparison analysis, and
- identify sales of manufactured homes that are similar enough to the subject property to use as comparable sales.

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## Sources of Manufactured Housing Data

Traditional appraisal data sources do not provide enough quality manufactured home data for the appraiser to develop a supportable and well-documented manufactured home appraisal. While sources such as MLS and public records are important and may contain some data, appraisers must utilize other data sources, such as manufactured home dealers and construction companies/builders experienced in the installation of manufactured homes.

One important source of manufactured housing information is the *NADA Manufactured Housing Appraisal Guide*. That publication

- lists general manufactured home depreciated replacement values based on original factory construction categories, and
- offers a step-by-step process for arriving at the average retail book value for a manufactured home and can be used to develop a cost approach.

**Note:** NADA chart values assume the home is in average condition. The publication provides definitions for “excellent,” “good,” “average,” “fair,” and “poor” to appropriately identify the condition of the manufactured home.

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Another source of information is Marshall & Swift's *Residential Cost Handbook*. Marshall & Swift provides

- information that enables the user to arrive at an estimate of the cost of the manufactured home when new and the replacement cost based on, among other things, the construction quality; as well as
- an explanation of the items that enables the appraiser to support his or her conclusion of the overall construction quality of the manufactured home.

The appraiser must support his or her opinion about both the quality and the condition of the manufactured home because they play a very important role in the value and marketability of manufactured homes. The NADA guide or the Marshall & Swift handbook may be used as additional sources to provide support for the appraiser's conclusions about the quality and value of a manufactured home.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date     |
|--|----------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014 |



## **B4-1.4-02, Factory-Built Housing: Modular, Prefabricated, Panelized, or Sectional Housing (04/15/2014)**

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### Introduction

This topic contains information on special appraisal considerations for modular, prefabricated, panelized, or sectional housing, including:

- [Overview](#)
- [Appraisal Requirements for Modular, Prefabricated, Panelized, or Sectional Housing](#)
- [Comparable Selection Requirements for Modular, Prefabricated, Panelized, or Sectional Housing](#)

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### Overview

Modular homes must be built under the Uniform Building Code (UBC) that is administered by the state agency that is responsible for adopting and administering building code requirements

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for the state in which the modular home is installed. Prefabricated, panelized, or sectional housing does not have to satisfy either HUD's Federal Manufactured Home Construction and Safety Standards or the UBC that are adopted and administered by the state in which the home is installed. The home must conform to local building codes in the area in which it will be installed.

For modular, prefabricated, panelized, or sectional housing eligibility requirements, see [B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing](#).

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### **Appraisal Requirements for Modular, Prefabricated, Panelized, or Sectional Housing**

Fannie Mae does not have minimum requirements for width, size, roof pitch, or any other specific construction detail for modular homes, or any other types of factory-built homes. Because quality can account for large differences in the values of factory-built homes, it is important for the appraiser to become familiar with the features that affect the quality of a factory-built home so that the information can be included in the appraisal report if needed to support his or her opinion of value.

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### **Comparable Selection Requirements for Modular, Prefabricated, Panelized, or Sectional Housing**

The process of selecting comparable sales for factory-built housing is generally the same as that for selecting comparable sales for site-built housing. Fannie Mae requires the appraiser to address both the marketability and comparability of modular homes and other types of factory-built housing. When the subject property is modular, prefabricated, panelized, or sectional housing, it is not required that one or more of the comparable sales be the same type of factory-built housing, although using comparable sales of similar types of homes generally enhances the reliability of the appraiser's opinion of value. Fannie Mae requires the appraiser to include in the appraisal report the most appropriate comparable sales data to support his or her opinion of value for the subject property. See [B4-1.3-08, Comparable Sales](#), for general requirements regarding comparable selection.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |



## **B4-1.4-03, Condo Appraisal Requirements (04/15/2014)**

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### **Introduction**

This topic contains information on special appraisal considerations for units located in condo projects, including:

- [Overview](#)
  - [Appraisal Requirements for Units in a Condo Project](#)
- 

### **Overview**

A condo project is one in which individual owners hold title to units in the project along with an undivided interest in the real estate that is designated as the common area for the project.

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### **Appraisal Requirements for Units in a Condo Project**

The appraisal of an individual unit in a condo project requires the appraiser to analyze the condo project as well as the individual unit. The value and marketability of the individual units in a project depend on the marketability and appeal of the project itself. Therefore, the appraiser must pay special attention to

- the location of the individual unit within the project,
- the project amenities, and
- the amount and purpose of the owner's association assessment.

See [B4-1.3-08, Comparable Sales](#), for general requirements regarding comparable selection.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |

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## **B4-1.4-04, Co-op Appraisal Requirements (04/15/2014)**

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### **Introduction**

This topic contains information on special appraisal considerations for units in co-op projects, including:

- [Overview](#)
  - [Appraisal Requirements for Co-op Share Loans](#)
  - [Comparable Selection Requirements for Co-op Share Loans](#)
  - [Comparable Selection Requirements for Co-op Share Loans in Established Projects](#)
  - [Comparable Selection Requirements for Co-op Share Loans in New \(or Recently Converted\) Projects](#)
- 

### **Overview**

A co-op corporation holds title to a co-op project and grants occupancy rights to particular apartments or units to shareholders through proprietary leases or similar arrangements. The co-op interest is the co-op shares or other evidence of an ownership interest in the co-op corporation and the accompanying occupancy rights, excluding the co-op interest's *pro rata* share of the debt service of the blanket mortgage. In other words, the co-op interest is the equity portion that is over and above the *pro rata* share of the blanket mortgage(s).

**Note:** The lender is required to receive Fannie Mae approval to deliver mortgages secured by units in co-op projects.

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### **Appraisal Requirements for Co-op Share Loans**

The appraisal requirements for co-op share loans are as follows:

- Appraisers must develop an opinion of the market value of the co-op interest when evaluating co-op units. To determine the value of the co-op interest, appraisers must consider and report, among other things, the following information:
  - the number of shares attributable to the unit;
  - the number of shares issued and outstanding for the co-op corporation;
  - the name of the lienholder, the lien position, and the amount and repayment terms of all project blanket financing;

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- the *pro rata* share of the blanket mortgage payments that are attributable to the unit, as determined by dividing the number of shares attributable to the unit by the total number of project shares;
  - the *pro rata* share of each lien that is attributable to the unit;
  - any tax abatements or exemptions that are attributable to the unit;
  - the remaining term for any tax abatements or exemptions and provisions for escalation of real estate taxes, which is the dollar amount by which the taxes will increase and the year in which the increase will occur; and
  - any monthly maintenance fees, including:
    - utility charges, if they are part of these fees;
    - monthly special assessments;
    - ground rent;
    - other fees for the use of the facilities that are attributable to the unit; and
    - the fee type, amount, and term (if applicable) of those other fees.

This information can be developed through *Request for Cooperative Project Information* ([Form 1074](#)), if the management agent, co-op board, or project sponsor/developer uses the form to respond to lender or appraiser inquiries for project information. When Form 1074 is used, appraisers may either transcribe the appropriate information to the applicable appraisal report or attach the form to the report as an addendum.

- Appraisers must use reliable sources to obtain data on the co-op project, the individual subject unit, and the comparable properties, and indicate the name of each source on the appraisal report or in an addendum to the appraisal report.
- Appraisers must address any factors that could result in an increase to the monthly debt service for the subject unit.
- Appraisers must indicate in the Sales Comparison Approach adjustment grid the dollar amount of the monthly assessments for each of the comparable sales.
- Appraisers must report the value of the co-op interest, excluding its *pro rata* share of the blanket mortgage(s). This value reflects the market value for the co-op interest of the unit. For example, when the indicated value of the unit encumbered by the blanket mortgage(s) is

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\$100,000, and it's *pro rata* share of the blanket mortgage(s) is \$25,000, the value estimate that the appraiser must report for the co-op interest of the unit is \$75,000.

- Appraisers must include a certification in the appraisal report that the *pro rata* share of the blanket mortgage(s) on the real estate has not been included in the opinion of the market value of the co-op interest.

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### Comparable Selection Requirements for Co-op Share Loans

The comparable selection requirements for co-op share loans are as follows:

- Appraisers must comment on the acceptance of housing co-ops in the market area. The degree of acceptance is generally reflected in the availability of similar comparable sales data for co-op units. If there is limited market acceptance of the co-op form of ownership or if co-op forms of ownership are relatively new in the market area, appraisers must address any effect that has on the value and marketability of the unit that is being appraised. The appraiser must compare the subject unit to the general market area as well as to other units in the subject co-op project. This comparison demonstrates market acceptance of co-op units in the area.
- Comparable sales must be from similar types of projects that have similar common amenities and recreational facilities including, but not limited to, townhouses and mid-rise and high-rise buildings.
- When available, appraisers must use sales from co-op units as comparables. However, appraisers may use condo units as comparable sales if co-op units are not available, as long as the appraiser explains why those types of comparables were used and adjusts the condo comparables to reflect the reaction of the market to the co-op unit when there is a preference for condo ownership in the subject market area.

See [B4-1.3-08, Comparable Sales](#), for general requirements regarding comparable selection.

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### Comparable Selection Requirements for Co-op Share Loans in Established Projects

Comparable sales from within the same project as the subject property should be used if the project has resale activity. Sales activity from within the project should be the best indicator of value for properties in that project.

**Note:** Use of comparable sales located outside of the established subject neighborhood must be explained in the appraisal analysis.

When the subject property is a unit in an established co-op project that has sales activity, appraisers should use the following as comparables:



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- two closed or settled sales from within the subject project, if available; and
  - one closed or settled sale from a competing project.

See B4-1.3-08, Comparable Sales, for general requirements regarding comparable selection.

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### **Comparable Selection Requirements for Co-op Share Loans in New (or Recently Converted) Projects**

If the subject property is a unit in a new or recently converted co-op project, appraisers should select as comparables

- one closed or settled sale from the subject project, if one is available; and
- two closed or settled sales from outside of the project.

If closed or settled sales are not available in the subject project, appraisers must use sales from competing projects.

See B4-1.3-08, Comparable Sales, for general requirements regarding comparable selection.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |

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## **B4-1.4-05, Leasehold Interests Appraisal Requirements (04/15/2014)**

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### **Introduction**

This topic contains information on special appraisal considerations for properties subject to leasehold interests, including:

- [Overview](#)
- [Appraisal Requirements for Leasehold Interests](#)
- [Comparable Selection Requirements for Leasehold Interests](#)

## Overview

A mortgage that is secured by a leasehold estate or is subject to the payment of “ground rent” gives the borrower the right to use and occupy the real property under the provisions of a lease agreement or ground lease, for a stipulated period of time, as long as the conditions of the lease are met. When the lease holder is a community land trust, there may be significant restrictions on both the purchase and resale of the property. For more information on appraising this type of leasehold, see [B4-1.4-06, Community Land Trust Appraisal Requirements](#).

**Note:** Manufactured housing located on leasehold interest properties is ineligible for delivery to Fannie Mae.

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## Appraisal Requirements for Leasehold Interests

The appraisal requirements for leasehold interest properties are as follows:

- Appraisers must develop a thorough, clear, and detailed narrative that identifies the terms, restrictions, and conditions regarding lease agreements or ground leases and include this information as an addendum to the appraisal report.
  - Appraisers must discuss what effect, if any, the terms, restrictions, and conditions of the lease agreement or ground lease have on the value and marketability of the subject property.
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## Comparable Selection Requirements for Leasehold Interests

When there are a sufficient number of closed comparable property sales with similar leasehold interests available, the appraiser must use the property sales in the analysis of market value of the leasehold estate for the subject property.

However, if not enough comparable sales with the same lease terms and restrictions are available, appraisers may use sales of similar properties with different lease terms or, if necessary, sales of similar properties that were sold as fee simple estates. The appraiser must explain why the use of these sales is appropriate, and must make appropriate adjustments in the Sales Comparison Approach adjustment grid to reflect the market reaction to the different lease terms or property rights appraised. See [B4-1.3-08, Comparable Sales](#), for general requirements regarding comparable selection.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date     |
|--|----------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014 |



## **B4-1.4-06, Community Land Trust Appraisal Requirements (04/15/2014)**

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### Introduction

This topic contains information on special appraisal considerations for properties subject to a community land trust, including:

- [Appraiser Qualifications for Appraising Properties Located in a Community Land Trust](#)
- [Appraisal Requirements for Community Land Trust Appraisals](#)
- [Comparable Selection Requirements for Determining Fee Simple Value](#)
- [Determining the Capitalization Rate](#)
- [Determining the Leasehold Value](#)
- [Addendum to the Appraisal Report](#)

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### Appraiser Qualifications for Appraising Properties Located in a Community Land Trust

The lender must ensure that the appraiser is knowledgeable and experienced in the appraisal techniques, namely the direct capitalization and the market derivation of capitalization rates that are necessary to appraise a property subject to a leasehold estate held by a community land trust. Lenders must establish policies and procedures to ensure that qualified individuals are being selected in accordance with Fannie Mae requirements including the *Appraiser Independence Requirements*.

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### Appraisal Requirements for Community Land Trust Appraisals

The appraisal requirements for community land trust properties are as follows:

- The appraiser must analyze the property subject to the ground lease when a leasehold interest is held by a community land trust. Because the community land trust typically subsidizes the sales price to the borrower, that price may be significantly less than the market value of the leasehold interest in the property.
- The appraised value of the leasehold interest in the property must be well supported and correctly developed by the appraiser because the resale restrictions, as well as other restrictions that may be included in the ground lease, can also affect the value of the property. Fannie Mae has developed the *Community Land Trust Ground Lease Rider (Form 2100)* that the lender and the borrower must execute to remove such restrictions from the community land trust’s ground lease. The land records for the subject property must include adoption of the terms and conditions that are incorporated in that ground lease rider. The appraiser must develop the opinion of value for the leasehold interest under the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions that the ground lease rider removes when Fannie Mae has to dispose of a property acquired through foreclosure. (For additional information, see [B5-5.1-04, Community Land Trusts](#), for legal considerations.)
- The appraiser must use a three-step process to develop an opinion of value.

| Step | The appraiser must determine   |
|------|--|
| 1    | the fee simple value of the property by using the sales comparison analysis approach to value,   |
| 2    | the applicable capitalization rate and convert the income from the ground lease into a leased fee value by using the market-derived capitalization rate, and |
| 3    | the leasehold value by reducing the fee simple value by the lease fee value. (For detailed information related to this process, see below.)                  |

**Note:** When this appraisal technique is used, there is no need to document the actual land value of the security property.

- On the actual appraisal report form, the appraiser must
  - indicate “leasehold” as the property rights appraised,
  - provide the applicable ground rent paid to the community land trust,
  - show the estimated fee simple value for the property in the Sales Comparison Approach adjustment grid,
  - report the “leasehold value” as the indicated value conclusion, and

- 
- check the box “as is” and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered.
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### **Comparable Selection Requirements for Determining Fee Simple Value**

In determining the fee simple value of the subject property, the appraiser must use comparable sales of similar properties that are owned as fee simple estates. If this is not possible, the appraiser may use sales of properties that are subject to other types of leasehold estates as long as he or she makes appropriate adjustments, based on the terms of their leases, to reflect a fee simple interest.

When the community or neighborhood has sales activity for other leasehold estates held by a community land trust, the appraiser must discuss them in the appraisal report, but must not use them as comparable sales because, in all likelihood, the sales prices will have been limited by restrictions in the ground lease. Therefore, these sales transactions would not be comparable to the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions on which Fannie Mae requires the appraisal of the subject property to be based. See [B4-1.3-08, Comparable Sales](#), for general requirements regarding comparable selection.

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### **Determining the Capitalization Rate**

When the community has an active real estate market that includes sales of properties owned as fee simple estates and sales of properties subject to leasehold estates other than those held by community land trusts, the appraiser can use the most direct method for determining the capitalization rate, extracting it from the market activity. To extract the capitalization rate, the appraiser must divide the annual ground rent for the properties subject to leasehold estates by the difference in the sales prices for the comparable sales of properties owned as fee simple estates and the comparable sales of properties subject to leasehold estates.

If there are no available comparable sales of properties subject to leasehold estates other than those held by a community land trust, the appraiser must develop a capitalization rate by comparing alternative low-risk investment rates, such as the rates for long-term bonds, and selecting a rate that best reflects a “riskless” (safe) rate.

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### **Determining the Leasehold Value**

To determine the leasehold value of the subject property, the appraiser must first convert the annual income from the community land trust’s ground lease into a leased fee value by dividing

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the income by the market-derived capitalization rate. The appraiser must then reduce the estimated fee simple value of the subject property by this leased fee value to arrive at his or her opinion of the leasehold value of the subject property.

For example, assume that the annual ground rent from the community land trust's ground lease is \$300, the market-derived capitalization rate is 5.75%, and the estimated fee simple value of the subject property is \$100,000:

- $\$300 \text{ annual rent} / 5.75\% \text{ capitalization rate} = \$5,217.39$  (rounded to \$5,200)
- $\$100,000 \text{ fee simple value} - \$5,200 \text{ leased fee value} = \$94,800$  (leasehold value)

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### Addendum to the Appraisal Report

Because Fannie Mae's appraisal report forms do not include space to provide all of the details required for appraising a property subject to a leasehold held by a community land trust, the appraiser must attach an addendum to the appraisal report to provide any information that cannot otherwise be presented on the appraisal report form. As previously mentioned, the appraiser must check the box "as is" and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered. The addendum must also include the following statement:

"This appraisal is made on the basis of the hypothetical condition that the property rights being appraised are the leasehold interest without resale and other restrictions that are removed by the Community Land Trust Ground Lease Rider."

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date     |
|--|----------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014 |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012  |



## **B4-1.4-07, Mixed-Use Property Appraisal Requirements (04/15/2014)**

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### **Introduction**

This topic contains information on special appraisal considerations for mixed-use properties, including:

- [Overview](#)
- [Appraisal Requirements for Mixed-Use Properties](#)

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### **Overview**

Fannie Mae purchases or securitizes mortgage loans secured by properties that have a business use in addition to their residential use provided that special eligibility criteria are met. These business uses can include, but are not limited to, properties with space set aside for day care facilities, beauty or barber shops, or doctor's offices. For eligibility criteria, see [B2-3-04, Special Property Eligibility Considerations](#).

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### **Appraisal Requirements for Mixed-Use Properties**

The appraisal requirements for mixed-use properties must

- provide a detailed description of the mixed-use characteristics of the subject property;
- indicate that the mixed use of the property is a legal, permissible use of the property under the local zoning requirements;
- report any adverse impact on marketability and market resistance to the commercial use of the property; and
- report the market value of the property based on the residential characteristics, rather than of the business use or any special business-use modifications that were made.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |



## **B4-1.4-08, Environmental Hazards Appraisal Requirements (04/15/2014)**

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### **Introduction**

This topic contains information on special appraisal considerations for properties affected by environmental hazards, including:

- [Overview](#)
  - [Appraisal Requirements](#)
  - [Lender Requirements](#)
- 

### **Overview**

Fannie Mae purchases or securitizes mortgage loans secured by properties affected by environmental hazards if the effect of the hazard is measurable through an analysis of comparable market data as of the effective date of the appraisal, and the appraiser reflects in the appraisal report any adverse effect that the hazard has on the value and marketability of the subject property or indicates that the comparable market data reveals no buyer resistance to the hazard.

In rare situations, a particular environmental hazard may have a significant effect on the value of the subject property, although the actual effect is not measurable because the hazard is so serious or so recently discovered that an appraiser cannot arrive at a reliable opinion of market value because there is no comparable market data available, such as sales, contract sales, or active listings that are available to reflect the effect of the hazard. In such cases, the mortgage will not be eligible for delivery to Fannie Mae.

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### **Appraisal Requirements**

When the appraiser has knowledge of any hazardous condition, whether it exists in or on the subject property or on any site within the vicinity of the property, including but not limited to, the presence of hazardous wastes, toxic substances, asbestos-containing materials, urea-formaldehyde insulation, or radon gas, the appraiser must

- note the hazardous condition in the appraisal report;
- comment on any influence the hazard has on the property's value and marketability, if it is measurable through an analysis of comparable market data as of the effective date of the appraisal, or indicate that the comparable market data reveals no buyer resistance to the hazard; and



- make appropriate adjustments in the overall analysis of the property’s value.

Fannie Mae expects the appraiser to consider and use comparable market data from the same affected area because the sales prices of settled sales, the contract sales prices of pending sales, and the current asking prices for active listings will reflect any negative effect on value and marketability of the subject property.

**Note:** Fannie Mae does not consider the appraiser to be an expert in the field of environmental hazards. The typical residential real estate appraiser is neither expected nor required to be an expert in this specialized field. The appraiser, however, has a responsibility to note in the appraisal report any adverse conditions that were observed during the inspection of the subject property or information that he or she became aware of through the normal research involved in performing an appraisal.

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## Lender Requirements

Fannie Mae requires the lender to disclose any information regarding environmental hazards to the appraiser and note the individual mortgage file accordingly if the real estate broker, the property seller, the property purchaser, or any other party to the mortgage transaction informs the lender that an environmental hazard exists in or on the property, or in the vicinity of the property. Fannie Mae also requires the lender to disclose such information to the borrower, and to comply with any state or local environmental laws regarding disclosure.

The lender must make the final decision about the need for inspections and the adequacy of the property as security for the mortgage. For example, because Fannie Mae requires the appraiser to comment on the effect of a hazard on the value and marketability of the subject property, the appraiser would have to note when there is market resistance to an area because of environmental hazards or any other conditions that affect well, septic, or public water facilities. When the lender has reason to believe that private well water that is on or available to a property might be contaminated as a result of the proximity of the well to hazardous waste sites, the lender is exercising sound judgment if it obtains a “well certification” to determine whether the water meets community standards.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date     |
|--|----------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014 |



## **B4-1.4-09, Special Assessment or Community Facilities Districts Appraisal Requirements (04/15/2014)**

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### **Introduction**

This topic contains information on special appraisal considerations for properties in special assessment or community facilities districts, including:

- [Overview](#)
  - [Lender Responsibilities Related to Special Assessment or Community Facilities Districts](#)
  - [Special Assessment Districts](#)
  - [Appraisal Requirements for Properties Located in Special Assessment Districts](#)
  - [Community Facilities Districts](#)
  - [Appraisal Requirements for Properties Located in Community Facilities Districts](#)
- 

### **Overview**

Alternative methods for raising the capital necessary to satisfy utility and infrastructure requirements are sometimes used in the development of new residential communities. In some instances, this involves the creation of local districts called special assessment districts or community facilities districts that have the authority to assess homeowners for the cost of developing utility services and various infrastructure facilities, including, but not limited to, roads, sewer services, schools, police and fire protection services, and libraries.

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### **Lender Responsibilities Related to Special Assessment or Community Facilities Districts**

Fannie Mae expects the lender to know if a property is located in one of these districts and to be aware of the effect that assessments levied by the district could have on property values and the marketability of the subject property. The lender's appraiser, therefore, must give special consideration to the valuation of properties located in these districts.

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### **Special Assessment Districts**

Special assessment districts, also called special tax districts or municipal utility districts, provide a specific service to homeowners living in a designated area. They are most often established to provide water or other utilities in areas that are not served by existing city or municipal utility services. The need for these districts arises when an existing utility service does not have sufficient capacity, or may not find it economically feasible to provide services for newly created subdivisions that are located beyond its current operating area. State law governing the

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establishment of special assessment districts varies greatly, as does the financial strength of the individual districts. These districts are granted the authority to assess owners of properties within their boundaries for funds that will be used to cover their operating costs and debt service.

Special assessment districts that are established to serve newly developing subdivisions with utilities often base their financial plans and the amount of the assessment to be charged to each property owner on the expected number of properties in the area to be served. The district then depends on the continuation of development to maintain its budget expectations. If, for any reason, development stops short of the degree of development that the district anticipated in preparing its budget, the district can become financially distressed and may need to impose an additional assessment on the existing homeowners.

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### **Appraisal Requirements for Properties Located in Special Assessment Districts**

The appraisal requirements for properties located in special assessment districts must

- report any special assessments that affect the property, and
- note in the appraisal report if the special assessment district is experiencing financial difficulty and that the difficulty has an effect on the value or marketability of the subject property.

To ensure that the reaction of the market to the potential liabilities that may arise within a financially troubled special assessment district is reflected in his or her analysis, the appraiser must consider current and expired listings or properties for sale within the district and any pending contract sales and recent closed sales within the district.

There may be some instances in which the financial difficulty of a special assessment district is so severe that its actual effect on the value and marketability of a property is not measurable because there is no comparable market data available to enable the appraiser to arrive at a reliable opinion of market value. When this is the case, a mortgage secured by a property in that district will not be eligible for delivery to Fannie Mae until such time that an active market develops that will enable the appraiser to demonstrate the value and marketability of the subject property.

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### **Community Facilities Districts**

Some jurisdictions have passed legislation that creates community facilities districts and permits them to levy a special tax to fund the capital costs of a wide variety of public improvements, as well as the ongoing operation and maintenance costs of a limited number of public services. Proceeds from the special tax are used to support the sale of tax-exempt bonds for the various capital improvements that are allowed under the legislation, including but not limited to, roads, sewer services, schools, police and fire protection services, and libraries.

The assessment that will be used to repay the tax-exempt bonds becomes an ongoing responsibility of the property owner, similar to state and local property taxes. The assessment lien and the obligation to pay the assessment passes with the title to the property when ownership of the property is transferred.

Such legislation generally requires full disclosure of the special assessment to any purchaser of a property located in a community facilities district. Therefore, a lender originating mortgages in community facilities districts should disclose to the appraiser any information that it becomes aware of regarding special assessments on a given property.

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### **Appraisal Requirements for Properties Located in Community Facilities Districts**

Appraisers must be aware of whether the subject property and the comparables are located within or affected by a community facilities district because properties subject to an assessment by one of these districts often compete against properties that are either subject to a significantly different assessment or no assessment at all. Appraisers must consider the reaction of the market, if any, to the assessment for the applicable community facilities district by analyzing similarly affected comparable sales in his or her analysis, and should note the effect of the assessment in the appraisal report.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Dates</b> |
|--|--------------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014     |



## **B4-1.4-10, Property Inspection Waivers (PIW) (12/06/2016)**

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### **Introduction**

This topic contains information on property inspection waivers, including:

- [Overview](#)
- [Prior Appraisal and Borrower Requirements](#)
- [Eligible Transactions](#)
- [Ineligible Transactions](#)
- [Representations and Warranties](#)
- [Exercising a PIW](#)

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## Overview

For certain loan casefiles, DU offers a property inspection waiver (PIW) – an option to waive the appraisal requirement. For loan casefiles that are not eligible for a PIW, DU will require an appraisal reported on the appropriate appraisal report form for the type of property being appraised.

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## Prior Appraisal and Borrower Requirements

In order for a PIW to be considered, a prior appraisal must be found for the subject property in Fannie Mae’s Collateral Underwriter (CU) data. The CU appraisal must be associated with one of the borrowers on the loan casefile.

DU will compare the address for the subject property to the property addresses found in CU. When a property address match is found, DU will compare both the first and last names of the borrowers on the loan casefile to the borrowers associated to the prior appraisal. When a borrower name match is found, DU will use the information from the prior appraisal to determine if the loan casefile is eligible for the PIW. In some cases, the prior appraisal may not be acceptable. For example, if a CU “Overvaluation Flag” was issued on the prior appraisal, or the appraisal could not be scored, that prior appraisal will not be used and a PIW will not be offered on the new loan casefile.

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## Eligible Transactions

The PIW offer will be considered for the following transactions:

- one-unit properties, including condos;
  - principal residence, second home, and investment property transactions;
  - certain limited cash-out and cash-out refinance transactions; and
  - DU loan casefiles that receive an Approve/Eligible recommendation.
- 

## Ineligible Transactions

The following transactions are not eligible for a PIW:

- properties located in a disaster-impacted area;
  - purchase, construction, and construction-to-permanent loans;
-

- 
- two- to four-unit properties;
  - HomeStyle Renovation and HomeStyle Energy mortgage loans;
  - DU Refi Plus loan casefiles (will continue to be eligible for the DU Refi Plus property fieldwork waiver);
  - leasehold properties;
  - community land trusts or other properties with resale restrictions, which include loan casefiles using the Affordable LTV feature;
  - co-op units and manufactured homes; and
  - DU loan casefiles that receive an Ineligible recommendation.

Furthermore, the lender may not exercise a PIW offer and must order an appraisal if one or more of the following applies:

- DU was unable to identify ineligible criteria in the list above (for example, HomeStyle Energy);
- the lender is required by law to obtain an appraisal (see [A3-2-01, Compliance With Laws](#)); or
- the lender believes that an appraisal is warranted based on additional information the lender has about the property or subsequent events, such as a natural disaster.

**Note:** The lender may not exercise a PIW offer if an appraisal is obtained for the transaction.

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## Representations and Warranties

When a loan casefile is eligible for the PIW and the waiver is exercised by the lender, Fannie Mae accepts the value estimate submitted by the lender as the value for the subject property. The property value the lender enters in DU may be based on:

- the lender's estimate of value, determined at the discretion of the lender, or
- the borrower's estimate of value.

If the lender exercises the PIW offer, the lender is not responsible for the representations and warranties related to the value, marketability, and condition of the subject property. The lender

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continues to be required to represent and warrant that all of the information and data submitted to DU are complete and accurate.

Fannie Mae does not warrant that the estimated value provided by the lender is the actual value of the subject property. The lender may not make any statements to any third party (including the borrower) that Fannie Mae performed any kind of review, appraisal, or valuation of the property.

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### **Exercising a PIW**

A lender may only exercise the PIW if

- the final submission of the loan casefile to DU resulted in a PIW offer,
- an appraisal is not obtained for the transaction, and
- the PIW offer is not more than four months old on the date of the note and the mortgage.

Lenders that elect to exercise the PIW must include SFC 801 at delivery. Lenders may not adversely select against Fannie Mae in determining which PIW offers to accept. Fannie Mae may monitor the lender's exercise of the PIW offers and delivery of loans to Fannie Mae, and may take appropriate measures if adverse selection is identified.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b> |
|---|-------------------|
| <a href="#"><u>Announcement SEL-2016-09</u></a> | December 6, 2016  |
| <a href="#"><u>Announcement SEL-2016-08</u></a> | October 24, 2016  |

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# Chapter B4-2, Project Standards



## Project Standards

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### Introduction

This chapter describes Fannie Mae’s project standards, policies, and requirements.

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### In This Chapter

This chapter contains the following sections:

|  |     |
|--|-----|
| B4-2.1, General Project Standards .....              | 687 |
| B4-2.2, Project Eligibility .....                    | 717 |
| B4-2.3, PUD and Co-op Eligibility Requirements ..... | 750 |

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## Section B4-2.1, General Project Standards



### **B4-2.1-01, General Information on Project Standards (01/31/2017)**

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#### **Introduction**

This topic contains general information on Fannie Mae's project standards, including:

- [Fannie Mae's Project Risk Overview](#)
  - [Project Documentation](#)
  - [Condominium Project Questionnaires](#)
  - [Project Types](#)
  - [Project Review Methods](#)
  - [Delivery Requirements](#)
  - [Document Retention for Project Eligibility](#)
  - [Expiration for Project Reviews](#)
  - [Condo, Co-op, and PUD Project Review Requirements for DU Refi Plus and Refi Plus Loans](#)
- 

#### **Fannie Mae's Project Risk Overview**

The quality of mortgages secured by units in condo, co-op, and planned unit development (PUD) projects can be influenced by certain characteristics of the project or by the project as a whole. Before delivering a loan secured by an individual unit in a project, the lender must determine that the project meets Fannie Mae's eligibility requirements.

Project eligibility risk is a risk that is distinct from the credit risk presented by individual borrowers. Units located in a project present risks that are also distinct from the risks associated with properties that are not part of a homeowners' association (HOA) or project. These risks include the following:

- the financial stability and viability of the project;
- the condition and marketability of the project;
- limitations on the unit owner's ability to control the decision-making for the project, occupy the unit, or utilize the project's amenities and common elements;

- 
- dissolution of the project and the unit owner's resulting rights and responsibilities;
  - project-level litigation;
  - project-level misrepresentation and fraud;
  - the inability to cure a mortgage default due to restrictions in the project documents such as, but not limited to, right of first refusal provisions; and
  - insurance coverage that is inadequate to protect the project from unexpected losses.

Project eligibility and financial strength are key drivers of credit performance on individual unit mortgages and critical to the long-term success of the project. Fannie Mae's project eligibility and underwriting requirements seek to mitigate project level risks and to ensure that projects are demonstrably well-managed.

Lenders that sell mortgage loans secured by units in a condo, co-op, or PUD project to Fannie Mae are expected to have staff that are knowledgeable about and qualified to evaluate the specific risks presented by these types of projects. The project review is in addition to the review the lender completes for underwriting the borrower, the transaction terms, and the individual unit appraisal.

Fannie Mae's project standards requirements are intended to address common project types across a broad geographic range. If a lender determines that a project does not meet all of Fannie Mae's project eligibility criteria, but feels that the project has merit and warrants additional consideration, the lender may request an exception (see [B4-2.2-09, Projects with Special Considerations and Project Eligibility Waivers](#), for additional information).

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### **Project Documentation**

The documentation needed to complete a project review may differ depending on the project and review type. Lenders are responsible for determining the documentation needed to ensure that the project meets all of Fannie Mae's eligibility requirements. Project documentation may include, but is not limited to, the following:

- legal and recorded documents including the covenants, conditions and restrictions, declaration of condominium, or other similar documents that establish the legal structure of the project;
- project budgets, financial statements, and reserve studies;
- project construction plans;
- architects' or engineers' reports;

- completion reports;
- project marketing plans;
- environmental hazard reports;
- attorney opinions;
- appraisal reports;
- evidence of insurance policies and related documentation; and
- condominium project questionnaires.

Sources for project information include, but are not limited to, appraisers, HOAs, co-op corporations, management companies, real estate brokers, insurance professionals, and project developers. Lenders are responsible for the accuracy of any information obtained from these sources.

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### Condominium Project Questionnaires

Fannie Mae provides two *Condominium Project Questionnaires* that will help lenders collect data to determine condo project eligibility. The forms are posted on Fannie Mae’s website:

- *Condominium Project Questionnaire—Full Form* ([Form 1076](#)) contains a list of eligibility questions to support a Full Review, and
- *Condominium Project Questionnaire—Short Form* ([Form 1077](#)) contains a shorter list of questions to facilitate a Limited Review.

The use of these forms is optional. However, lenders are encouraged to use and retain the applicable questionnaire.

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### Project Types

The scope of Fannie Mae’s requirements and the specific eligibility criteria to be met are dependent upon various project and/or loan level characteristics. The characteristics that define each project type are described in the following table.

| Project Type              | Identification Criteria  |
|---------------------------|--|
| Established condo project | A project for which all of the following are true: <ul style="list-style-type: none"><li>• at least 90% of the total units in the project have been conveyed to the unit purchasers;</li></ul> |

| Project Type                           | Identification Criteria  |
|--|--|
|  | <ul style="list-style-type: none"> <li>• the project is 100% complete, including all units and common elements;</li> <li>• the project is not subject to additional phasing or annexation; and</li> <li>• control of the HOA has been turned over to the unit owners.</li> </ul>   |
| New condo project                      | <p>A project for which one or more of the following is true:</p> <ul style="list-style-type: none"> <li>• fewer than 90% of the total units in the project have been conveyed to the unit purchasers;</li> <li>• the project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo;</li> <li>• the project is newly converted; or</li> <li>• the project is subject to additional phasing or annexation.</li> </ul> |
| Site condo project                     | <p>A project comprised of detached units that meet the criteria described in <a href="#">B4-2.2-05, Requirements for Review of Site Condos</a>. (Note that site condos are a type of detached condo.)</p>  |
| Two- to four-unit condo project        | <p>A project comprised of two, three, or four residential units in which each unit is evidenced by its own title and deed. A two- to four-unit condo project may be either a new or an established project and may be comprised of attached and/or detached units.</p>   |
| Manufactured home project              | <p>A project consisting partially or solely of manufactured homes.</p>   |
| Co-op project                          | <p>A project in which a corporation or trust holds title to the property and sells shares of stock representing the value of a single apartment unit to individuals who, in turn, receive a proprietary lease as evidence of title.</p>  |
| Planned unit development (PUD) project | <p>A project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD unit owners.</p> <p>See <a href="#">B4-2.3-01, Eligibility Requirements for Units in PUD Projects</a>, for additional detail used in determining whether a project is subject to Fannie Mae’s PUD eligibility requirements.</p>  |

### Project Review Methods

Fannie Mae purchases or securitizes mortgage loans secured by units in condo, co-op, and PUD projects that meet Fannie Mae's eligibility requirements. To determine whether the project meets these requirements, a number of project review methods are available. Whether a project review method is allowable or required depends on

- the unit type (attached or detached);
- the project type (condo, co-op, or PUD);
- the project status (new or established); and
- the mortgage transaction.

The characteristics that dictate which method to use are shown in the following table.

| Unit and Project Type  | Project Review Methods   |
|--|--|
| Attached condo unit in a new or newly converted project,<br><br>including an attached unit in a condo project that includes a mixture of attached and detached units | <ul style="list-style-type: none"> <li>• Full Review (completed with or without using Condo Project Manager (CPM), or</li> <li>• Fannie Mae Review through the standard Project Eligibility Review Service (PERS) process</li> </ul>   |
| Attached condo unit in an established project,<br><br>including an attached unit in a condo project that includes a mixture of attached and detached units           | <p>Based on the LTV, CLTV, and HCLTV ratios, occupancy, and location (projects in Florida), these projects may be reviewed using a Limited Review.</p> <p>Projects not meeting the Limited Review criteria must be reviewed using a</p> <ul style="list-style-type: none"> <li>• Full Review (with or without CPM), or</li> <li>• Fannie Mae Review through the streamlined PERS process (for established condo projects)</li> </ul> |
| Detached condo unit in a new or established project,<br><br>including a detached unit in a condo project that includes a mixture of attached and detached units      | <ul style="list-style-type: none"> <li>• Limited Review,</li> <li>• Fannie Mae Review through the streamlined PERS process (for established condo projects), or</li> </ul>   |

| Unit and Project Type  | Project Review Methods   |
|--|--|
|  | <ul style="list-style-type: none"> <li>No project review required for a detached condo unit that meets Fannie Mae’s criteria for site condos. See <a href="#">B4-2.2-05, Requirements for Review of Site Condos</a>.</li> </ul> <p><b>Note:</b> There are no LTV ratio or occupancy restrictions for Limited Review eligibility for detached condo units.</p>  |
| <p>Attached or detached unit (excluding site condos) in a new or established two- to four-unit condo project</p>   | <p>Based on the mortgage transaction and project characteristics, two- to four-unit condo projects may be reviewed using a Limited Review.</p> <p>Projects not meeting the Limited Review criteria must be reviewed using a</p> <ul style="list-style-type: none"> <li>Full Review (with or without CPM), or</li> <li>Fannie Mae Review through the streamlined PERS process (for established condo projects)</li> </ul> |
| <p>Unit in a co-op project</p>   | <p>Full Review</p> <p><b>Note:</b> Lenders must obtain special approval to be eligible to deliver co-op share loans to Fannie Mae secured by ownership interest in a co-op share project. See <a href="#">A1-1-01, Application and Approval of Seller/Servicer</a>, for additional information.</p>  |
| <ul style="list-style-type: none"> <li>Condo or co-op project that contains manufactured homes</li> <li>PUD project that contains single-wide manufactured homes</li> <li>Newly-converted non-gut rehabilitation condo and co-op projects (projects with attached units only) that contain more than four residential units</li> </ul> | <p>Fannie Mae Review through the standard PERS process</p>   |

| Unit and Project Type  | Project Review Methods |
|--|------------------------|
| <ul style="list-style-type: none"> <li>New or newly converted condo project consisting of attached units located in Florida</li> </ul> |                        |
| Unit in a condo project approved by the FHA and that secures an FHA mortgage   | FHA Project Approval   |

A mortgage secured by a unit in a project that fails to meet any of the following requirements is not eligible for delivery to Fannie Mae:

- requirements specific to the project review method used to determine that project's eligibility;
- appraisal requirements (described in [B4-1.4-03, Condo Appraisal Requirements](#)); or
- insurance requirements (described in Subpart B7, Insurance, including all provisions applicable to projects in Subpart B7-4, Additional Project Insurance).

For additional information on each project review type, see the following topics:

| Project Review Type | Additional Information   |
|---------------------|--|
| Limited Review      | <ul style="list-style-type: none"> <li><a href="#">B4-2.2-01, Limited Review Process</a></li> <li><a href="#">B4-2.2-04, Geographic-Specific Condo Project Considerations</a></li> </ul>   |
| Full Review         | <ul style="list-style-type: none"> <li><a href="#">B4-2.2-02, Full Review Process</a></li> <li><a href="#">B4-2.2-03, Full Review: Additional Eligibility Requirements for Attached Units in New and Newly Converted Condo Projects</a></li> </ul> |
| PERS                | <a href="#">B4-2.2-07, Project Eligibility Review Service (PERS)</a>   |

## Delivery Requirements

When delivering a loan for a unit located in a project, the lender must provide the Project Type Code and any applicable special feature codes as shown in the following table. The lender must also report all other applicable special feature code(s), including those specified in the lender's Master Agreement and in the [Special Feature Codes](#) document on Fannie Mae's website.

| Project Type Code | Description             |
|-------------------|-------------------------|
| E                 | Established PUD project |

| <b>Project Type Code</b>    | <b>Description</b>   |
|-----------------------------|--|
| F                           | New PUD project  |
| P                           | Limited Review—New condo project   |
| Q                           | Limited Review—Established condo project   |
| R                           | Full Review (with or without CPM)—New condo project  |
| S                           | Full Review (with or without CPM)—Established condo project  |
| T                           | Fannie Mae Review—Condo project that received a Final Project Approval through PERS using the standard or streamlined process (including projects consisting of manufactured housing submitted under the standard process) |
| U                           | FHA-approved condo project (applicable to FHA loans only)  |
| V                           | <ul style="list-style-type: none"> <li>• DU Refi Plus and Refi Plus loans secured by a property in a condo project</li> <li>• Site condo loans delivered without a condo project review</li> </ul>                         |
| 1                           | Full Review—Co-op project  |
| 2                           | Fannie Mae Review through PERS—Co-op project   |
| <b>Special Feature Code</b> | <b>Description</b>   |
| 588                         | Detached Condominium<br>Used to identify detached units in a condo project   |
| 296                         | Project Eligibility Waiver<br>Used to identify loans for which Fannie Mae has provided a project eligibility waiver  |
| 235                         | Manufactured Home<br>Used to identify loans secured by a manufactured home   |
| 917                         | Site Condominium<br>Used to identify a unit in a condo project that meets Fannie Mae’s definition of a site condo  |

Lenders are encouraged to include the condo or co-op’s HOA or Project IRS Federal Tax Identification Number (TIN) in the loan file and in CPM if CPM is used to review the project. See [Uniform Loan Delivery Dataset \(ULDD\) Quick Guide — Guidelines for Condominium/Cooperative Loans](#) for additional requirements about the delivery of project data.



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## Document Retention for Project Eligibility

Lenders must retain all of the project documentation needed to demonstrate that the project meets Fannie Mae’s eligibility requirements, including any documentation the lender relied upon to enter information into CPM. This documentation must be retained, and made available upon request, as long as lenders originate mortgages from the project, and until all mortgages sold to Fannie Mae have been liquidated.

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## Expiration for Project Reviews

Project reviews must meet the following timeline requirements.

| Project Review Process Employed  | Expiration of Project Review                                    |
|--|---|
| <ul style="list-style-type: none"><li>Limited Review</li><li>Full Review (with or without CPM)</li></ul> <p><b>Note:</b> If CPM is used to approve the project, a copy of the unexpired CPM certification must be included in the loan file.</p> | Must have been completed within 180 days prior to the note date |
| Approved by Fannie Mae through PERS  | PERS approval must be valid (unexpired) as of the note date     |
| Approved by FHA  | FHA approval must be valid (unexpired) as of the note date      |

Mortgages secured by units in projects must be delivered to Fannie Mae within 120 days following the note date. When the elapsed time between note date and delivery date exceeds this limit, the lender may deliver the mortgage only if the project continues to meet Fannie Mae project eligibility requirements at the time of delivery.

Loans secured by units in a project that fails to meet Fannie Mae’s project eligibility requirements under the applicable review type as of the note date are eligible for delivery after the project comes into compliance with the eligibility requirements (provided all standard mortgage seasoning and other applicable requirements are met). For example, if a lender closes a loan in a new project for which the pre-sales are less than the pre-sale requirement, the lender may deliver the loan after the project’s pre-sales meet the Fannie Mae requirement (assuming the loan meets all other applicable requirements).

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## Condo, Co-op, and PUD Project Review Requirements for DU Refi Plus and Refi Plus Loans

The lender is not required to perform a review of condo projects, co-op projects, or PUDs for DU Refi Plus and Refi Plus loans. See [B5-5.2-03, DU Refi Plus and Refi Plus Property Valuation and Project Standards](#), for additional information and requirements.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2017-01</a> | January 31, 2017  |
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016  |
| <a href="#">Announcement SEL-2016-04</a> | May 31, 2016      |
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015  |
| <a href="#">Announcement SEL-2015-06</a> | May 26, 2015      |
| <a href="#">Announcement SEL-2015-02</a> | February 24, 2015 |
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014 |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011     |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011     |
| <a href="#">Announcement SEL-2011-01</a> | January 27, 2011  |
| <a href="#">Announcement SEL-2010-10</a> | August 12, 2010   |
| <a href="#">Announcement 09-37</a>       | December 30, 2009 |
| <a href="#">Announcement 09-32</a>       | October 30, 2009  |
| <a href="#">Announcement 08-34</a>       | December 16, 2008 |



## B4-2.1-02, Ineligible Projects (11/03/2015)

### Introduction

This topic contains information on ineligible projects and related criteria, including:

- [List of Ineligible Project Characteristics](#)
- [Projects that Operate as Hotels or Motels](#)
- [Sources of Information for Researching Hotel or Motel Operations](#)
- [Projects Subject to Split Ownership Arrangements](#)
- [Projects that Contain Multi-Dwelling Unit Condos or Co-ops](#)
- [Projects with Property that is not Real Estate](#)
- [Projects that Operate as a Continuing Care Community or Facility](#)
- [Non-Incidental Business Arrangements](#)
- [Commercial Space and Mixed-Use Allocation](#)
- [Live-Work Projects](#)
- [Litigation](#)
- [Priority of Common Expense Assessments](#)

### List of Ineligible Project Characteristics

Fannie Mae will not purchase or securitize mortgage loans that are secured by units in certain condo or co-op projects if those projects have characteristics that make the project ineligible. Such characteristics are described in the table below, with additional details provided in the sections that follow. All eligible projects must be created and remain in full compliance with state law and all other applicable laws and regulations of the jurisdiction in which the project is located.

**Note:** If a lender determines that a project does not meet all of Fannie Mae's project eligibility requirements but believes that the project has merit and warrants additional consideration, the lender may request an exception (see [B4-2.2-09, Projects with Special Considerations and Project Eligibility Waivers](#), for additional information).

| Ineligible Project Characteristics   | Condo<br>Project Type | Co-op<br>Project Type |
|--|-----------------------|-----------------------|
| Investment securities (i.e., projects that have documents on file with the Securities and Exchange Commission (SEC) or projects where unit ownership | ✓                     | ✓                     |

| <b>Ineligible Project Characteristics</b>   | <b>Condo<br/>Project Type</b> | <b>Co-op<br/>Project Type</b> |
|---|-------------------------------|-------------------------------|
| is characterized or promoted as an investment opportunity).   |                               |                               |
| Timeshare, fractional, or segmented ownership projects.   | ✓                             | ✓                             |
| New projects where the seller is offering sale or financing structures in excess of Fannie Mae's eligibility policies for individual mortgage loans. These excessive structures include, but are not limited to, builder/developer contributions, sales concessions, HOA assessments, or principal and interest payment abatements, and/or contributions not disclosed on the settlement statement. | ✓                             | ✓                             |
| Projects with mandatory upfront or periodic membership fees for the use of recreational amenities, such as country club facilities and golf courses, owned by an outside party (including the developer or builder). Membership fees paid for the use of recreational amenities owned exclusively by the HOA or master association are acceptable.  | ✓                             | ✓                             |
| Projects that are managed and operated as a hotel or motel, even though the units are individually owned. (See section below for additional detail.)  | ✓                             | ✓                             |
| Projects with covenants, conditions, and restrictions that split ownership of the property or curtail an individual borrower's ability to utilize the property. (See section below for additional detail.)  | ✓                             | ✓                             |
| Projects with property that is not real estate, such as houseboat projects. (See section below for additional detail.)  | ✓                             | ✓                             |
| Any project that is owned or operated as a continuing care facility. (See section below for additional detail.)   | ✓                             | ✓                             |
| Projects with non-incidentual business operations owned or operated by the HOA including, but not limited to, a restaurant, spa, or health club. (See   | ✓                             |                               |

| <b>Ineligible Project Characteristics</b>  | <b>Condo<br/>Project Type</b> | <b>Co-op<br/>Project Type</b> |
|--|-------------------------------|-------------------------------|
| section below for additional detail and exceptions to this policy.)  |                               |                               |
| Projects that do not meet the requirements for live-work projects. (See section below for additional detail.)  | ✓                             | ✓                             |
| Projects in which the HOA or co-op corporation is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project. (See section below for additional detail.)   | ✓                             | ✓                             |
| Any project that permits a priority lien for unpaid common expenses in excess of Fannie Mae’s priority lien limitations. (See section below for additional detail.)  | ✓                             |                               |
| <p>Projects in which a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units in the project:</p> <ul style="list-style-type: none"> <li>• projects with 2 to 4 units – 1 unit</li> <li>• projects with 5 to 20 units – 2 units</li> <li>• projects with 21 or more units – 10%</li> </ul> <p>Units currently subject to any lease arrangement must be included in the calculation. This includes lease arrangements containing provisions for the future purchase of the units such as lease-purchase and lease-to-own arrangements.</p> <p>Units are not included in the calculation if they are owned by the project sponsor or developer and are vacant and being actively marketed for sale.</p> | ✓                             | ✓                             |
| Multi-dwelling unit projects that permit an owner to hold title (or stock ownership and the accompanying   | ✓                             | ✓                             |

| <b>Ineligible Project Characteristics</b>  | <b>Condo<br/>Project Type</b> | <b>Co-op<br/>Project Type</b> |
|--|-------------------------------|-------------------------------|
| occupancy rights) to more than one dwelling unit, with ownership of all of his or her owned units (or shares) evidenced by a single deed and financed by a single mortgage (or share loan). (See section below for additional detail.)   |                               |                               |
| The total space that is used for nonresidential or commercial purposes may not exceed 25%.<br><br>(See section below for additional detail.)   | ✓                             | ✓                             |
| Projects containing manufactured housing that have not been approved by Fannie Mae through the PERS process, as required.  | ✓                             | ✓                             |
| Newly converted non-gut rehabilitation projects with more than four attached units that have not been approved by Fannie Mae through the PERS process, as required.  | ✓                             | ✓                             |
| New or newly converted projects in Florida with attached units that have not been approved by Fannie Mae through the PERS process, as required.  | ✓                             | ✓                             |
| Projects that represent a legal, but non-conforming, use of the land, if zoning regulations prohibit rebuilding the improvements to current density in the event of their partial or full destruction. (See <a href="#">B4-1.3-04, Site Section of the Appraisal Report.</a> ) | ✓                             | ✓                             |
| Co-op projects that are subject to leasehold estates.  |                               | ✓                             |
| Limited equity co-ops – projects in which the co-op corporation places a limit on the amount of return that can be received when stock or shares are sold.   |                               | ✓                             |
| A tax-sheltered syndicate’s leasing to a co-op or “leasing” co-ops – projects that involve the leasing of the land and the improvements to the co-op corporation, even if the co-op corporation owns part of the building.   |                               | ✓                             |
| Co-op projects in which the developer or sponsor has an ownership interest or other rights in the project real   |                               | ✓                             |

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| <b>Ineligible Project Characteristics</b>  | <b>Condo<br/>Project Type</b> | <b>Co-op<br/>Project Type</b> |
|--|-------------------------------|-------------------------------|
| estate or facilities other than the interest or rights it has in relation to unsold units. |                               |                               |

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### **Projects that Operate as Hotels or Motels**

Projects with one or more of the following characteristics may be operating as a hotel or motel and are therefore ineligible:

- hotel or motel conversions (or conversions of other similar transient properties), unless the project is an established project, meets all requirements for gut rehabilitation projects, and all units are residential dwelling units;
- projects that include registration services and offer rentals of units on a daily basis;
- projects that restrict the owner's ability to occupy the unit; and
- projects with mandatory rental pooling agreements that require unit owners to either rent their units or give a management firm control over the occupancy of the units.
  - These formal agreements between the developer, homeowners' association, and/or the individual unit owners, obligate the unit owner to rent the property on a seasonal, monthly, weekly, or daily basis. In many cases, the agreements include blackout dates, continuous occupancy limitations, and other such use restrictions. In return, the unit owner receives a share of the revenue generated from the rental of the unit.

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### **Sources of Information for Researching Hotel or Motel Operations**

The lender must perform an analysis of the project to determine whether it is operating as a hotel or motel. There are several sources of information on which to rely, including but not limited to:

- project legal and recorded documents and exhibits,
- the appraisal,
- the contract for sale, and
- the Internet.

Project characteristics that may indicate the project is operating as a hotel or motel include, but are not limited to:

- central telephone system,
- room service,
- units that do not contain full-sized kitchen appliances,
- daily cleaning service,
- advertising of rental rates,
- registration service,
- restrictions on interior decorating,
- franchise agreements,
- central key systems,
- location of the project in a resort area,
- owner-occupancy density — the project may have few or even no owner-occupants,
- projects converted from a hotel or motel,
- units that are less than 400 square feet,
- projects with a name that includes the word “hotel” or “motel,” or
- interior doors that adjoin other units.

Lenders must thoroughly examine the appraisal, contract for sale, and other documents to determine if there are guaranteed rent-backs, references to mandatory rental pooling or management agreements, and SEC filing references and prospectus documents.

The Internet has become a useful tool for obtaining project and unit-specific information. The project’s website may contain information on the project type, amenities, and the availability of units for rent. Internet searches may identify unit owners offering their unit for short term rentals within the subject property’s project. As long as the project is not being operated as a hotel or motel and the units are not subject to mandatory rentals or to optional leasing programs to a hotel or motel, then the advertising of a unit for short term rental by the unit owner does not, alone, constitute the project as a hotel or motel. The lender is responsible for fully evaluating the project



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to understand if the practice of offering short-term rentals by unit owners is organized in such a way that the project's predominant use is to operate as a hotel or motel.

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### **Projects Subject to Split Ownership Arrangements**

Projects with covenants, conditions, and restrictions that split ownership of the property or curtail an individual borrower's ability to utilize the property are not eligible for delivery to Fannie Mae. These types of properties include, but are not limited to, the following:

- “common interest” apartments or community apartment projects that are projects or buildings owned by several owners as tenants-in-common or by an association in which individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific apartment in the building;
- projects that restrict the owner's ability to occupy the unit, even if the project is not being operated as a motel or hotel; and
- projects with mandatory rental pooling agreements that require unit owners to either rent their units or give a management firm control over the occupancy of the units.
  - These are formal agreements between the developer, association, and/or the individual unit owners that obligate the unit owner to rent the property on a seasonal, monthly, weekly, or daily basis. In many cases, the agreements include blackout dates, continuous occupancy limitations, and other such use restrictions. In return, the unit owner receives a share of the revenue generated from the rental of the unit.

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### **Projects that Contain Multi-Dwelling Unit Condos or Co-ops**

Projects that contain multi-dwelling units are not permitted. These projects allow an owner to hold title (or share ownership and the accompanying occupancy rights) to a single legal unit that is sub-divided into multiple residential dwellings within the single legal unit, with ownership of the unit (or shares) evidenced by a single deed and financed by a single mortgage (or share loan). The sub-divided units are not separate legal units. This restriction applies regardless if the unit owner maintains one or more of the sub-divided units as rental units or uses one or more of the sub-divided units as accessory or lock-out units.

This provision does not apply to condo or co-op projects that allow an individual to buy two or more individual legal units with the intent of structurally and legally combining the units for occupancy as a single-unit dwelling. Mortgages secured by units in these types of projects are eligible for purchase and securitization by Fannie Mae provided all of the following requirements are met:

- 
- The unit securing the mortgage represents a single legal unit under a single deed.
  - Any construction or renovation to structurally combine units has no material impact on the structural or mechanical integrity of the project's buildings or the subject property unit.
  - The individual units must be fully described in the legal description in the mortgage and under a single deed.
  - The project's legal documents must have been amended to reclassify the combined units as a single unit in the project.
  - All structural renovation to physically combine the units must be completed.

A condo or co-op unit with an accessory unit may be eligible on a case-by-case basis with a Fannie Mae PERS Project Approval or a loan-level Project Eligibility Waiver. See [B4-2.2-09, Projects with Special Considerations and Project Eligibility Waivers](#), for additional information on submitting an exception request.

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### **Projects with Property that is not Real Estate**

Fannie Mae acquires mortgage loans secured by real estate. Houseboats, boat slips, cabanas, timeshares, and other forms of property that are not real estate are not eligible for delivery to Fannie Mae. The marketability and value of individual units in a project may be adversely impacted by the inclusion of non-real estate property such as houseboats, timeshares, and other forms and structures that are not real estate. As such, projects containing these other non-real estate forms of property are not eligible.

Boat slips, cabanas, and other amenities are permitted when owned in common by the unit owners as part of the HOA.

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### **Projects that Operate as a Continuing Care Community or Facility**

Mortgages secured by units in a project that operates, either wholly or partially, as a continuing care community are ineligible for delivery to Fannie Mae. These communities or facilities are residential projects designed to meet specialized health and housing needs and typically require residents to enter into a lifetime contract with the facility to meet all future health, housing, or care needs. These communities may also be known by other names such as life-care facilities.

Projects that make continuing care services available to residents are eligible only if the continuing care facilities or services are not owned or operated by the HOA and residential unit owners are not obligated to purchase or utilize the services through a mandatory membership, contract, or other arrangement.

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Continuing care communities are not the same as age-restricted projects. Age-restricted projects that restrict the age of residents but do not require residents to enter into a long-term or lifetime contract for healthcare and housing as the residents age are eligible.

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### **Non-Incidental Business Arrangements**

A condo project is ineligible if the HOA is receiving more than 10% of its budgeted income from non-incidental business arrangements related to the active ownership and/or operation of amenities or services available to unit owners and the general public. This includes, but is not limited to, businesses such as a restaurant or other food- and beverage-related services, health clubs, and spa services.

Non-incidental income from the following sources is permitted provided the income does not exceed 15% of the project's budgeted income:

- income from the use of recreational amenities or services owned by the HOA for the exclusive use by unit owners in the project or leased to another project according to a shared amenities agreement (as noted below), or
- income from the leasing of units in the project acquired by the HOA through foreclosure.

The single-entity ownership limits (described in the Ineligible Project Characteristics table above) will apply to the number of units owned and rented by the HOA.

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### **Commercial Space and Mixed-Use Allocation**

Fannie Mae requires that no more than 25% of a condo or co-op project or 25% of the building in which the project is located be commercial space or allocated to mixed-use. This includes commercial space that is above and below grade.

Any commercial space in the project or in the building in which the residential project is located must be compatible with the overall residential nature of the project.

**Note:** Rental apartments and hotels located within the project must be classified as commercial space even though these may be considered “residential” in nature.

**Calculation of Commercial Space.** Commercial space allocation is calculated by dividing the total non-residential square footage by the total square footage of the project or building. Lenders are responsible for determining the total square footage of the project, the square footage of the non-residential space, and the residential space square footage. This calculation includes the total square footage of commercial space even if the residential and commercial owners are represented by separate associations.

Non-residential square footage includes:

- retail and commercial space,
- parking space that is separate from parking allocated to residential unit owners, and
- space that is non-residential in nature and owned by a private individual or entity outside of the HOA structure.

Examples include, but are not limited to:

- public parking facilities (fee-based or free),
- rental apartments,
- hotels,
- restaurants, and
- private membership-based fitness facilities.

Non-residential square footage excludes amenities that are:

- residential in nature;
- designated for the exclusive use of the residential unit owners (such as, but not limited to, a fitness facility, pool, community room, and laundry facility); and
- owned by the unit owners or the HOA.

The following table shows which commercial or mixed-use space must be included in the calculation of the percentage of commercial space.

| <b>If the commercial or mixed-use space is...</b>   | <b>Then its square footage is included in the calculation of commercial space percentage</b> |
|---|--|
| owned, controlled, or operated by the subject property's HOA that is unrelated to the project-specific amenities offered for the exclusive use and enjoyment by the HOA members | Yes  |
| owned by the subject property's HOA but controlled or operated by a separate private entity   | Yes  |
| <b>Example:</b> Office space owned by the HOA but leased to a private business.   |  |

| <b>If the commercial or mixed-use space is...</b>  | <b>Then its square footage is included in the calculation of commercial space percentage</b> |
|--|--|
| owned and controlled by a project HOA other than the subject property's HOA that shares the same master HOA with the subject property's HOA AND the commercial space is co-located in the project's building(s) that contain(s) the residential units  | Yes  |
| owned, controlled, or operated by a private entity that is co-located in the building(s) that contain(s) the project's residential units<br><br><b>Example:</b> <ul style="list-style-type: none"> <li>• floors 1 to 4 consist of hotel and retail,</li> <li>• floors 5 to 7 consist of privately-owned and -managed rental apartments, and</li> <li>• the remaining floors consist of the condo project units.</li> </ul> | Yes  |
| owned, controlled, or operated by a private entity that is NOT co-located in the building(s) or common elements as declared in the project legal documents that contain(s) the project's residential units   | No   |
| owned and controlled by a project HOA other than the subject property's HOA that shares the same master HOA with the subject property's HOA BUT the commercial space is located in a building that is separate from the building(s) containing the project's residential units   | No   |

### Live-Work Projects

Live-work projects are projects that permit individual residential unit owners to operate and run a small business from their residential unit. Units in projects that permit live-work arrangements are eligible for sale to Fannie Mae provided the following additional requirements are met:

- The overall character of the project is residential.
- Live-work units must be limited to residential units that are occupied as primary residences in which the unit owner is the owner and operator of the small business.

- 
- The live-work unit must be primarily residential in character with minimal space designated to or modifications made to accommodate the unit owner's commercial activity.
  - The commercial use must be consistent with the residential nature of the project.
  - The project documents must permit commercial use and state what types of commercial use are acceptable.
  - The project must conform to any applicable local ordinances governing the structure and operation of live-work projects including limitations on the number of live-work units or the percentage of live-work unit space permitted.

The lender must confirm that the live-work component of the project is considered and adequately addressed in the appraiser's assessment of the property. All of the following requirements must be met:

- The appraisal must include an adequate description of the live-work characteristics of the project and the unit.
- The market value of the unit is primarily a function of its residential characteristics, rather than of the business use or any special business-use modifications that were made.
- The future marketability of the unit will not be negatively impacted by the business use or any special business-use modifications that have been made.

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## **Litigation**

Projects in which the HOA or co-op corporation is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project are ineligible for sale to Fannie Mae.

If the lender determines that pending litigation involves minor matters with no impact on the safety, structural soundness, habitability, or functional use of the project, the project is eligible provided the litigation is limited to one of the following categories:

- non-monetary litigation involving neighbor disputes or rights of quiet enjoyment;
- litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the HOA's or co-op corporation's insurance; or
- the HOA or co-op is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due HOA assessments.

The lender must obtain documentation to support its analysis that the litigation meets Fannie Mae's criteria for minor litigation as described above.

If the lender is aware of pending litigation and is unable to determine whether the litigation may be deemed a minor matter, the lender may contact Fannie Mae's Project Standards team (see [E-1-03, List of Contacts](#)) to determine whether Fannie Mae will accept delivery of mortgages secured by units in the project.

### Priority of Common Expense Assessments

Fannie Mae allows a limited amount of regular common expense assessments (typically known as HOA fees) to have priority over Fannie Mae's mortgage lien for mortgage loans secured by units in a condo or PUD project. This applies if the condo or PUD project is located in a jurisdiction that has enacted

- the Uniform Condominium Act,
- the Uniform Common Interest Ownership Act, or
- a similar statute that provides for unpaid assessments to have priority over first mortgage liens.

The table below describes the permitted priority of common expense assessments for purposes of determining the eligibility of a mortgage loan secured by a unit in a condo or PUD project for purchase by Fannie Mae.

| <b>If the condo or PUD project ...</b>  | <b>Then...</b>  |
|---|---|
| is located in a jurisdiction that enacted a law on or before January 14, 2014, that provides that regular common expense assessments will have priority over Fannie Mae's mortgage lien for a maximum amount greater than six months, | the maximum number of months of regular common expense assessments permitted under the applicable jurisdiction's law as of January 14, 2014, may have priority over Fannie Mae's mortgage lien, provided that if the applicable jurisdiction's law as of that date referenced an exception for Fannie Mae's requirements, then no more than six months of regular common expense assessments may have priority over Fannie Mae's mortgage lien. |
| is located in any other jurisdiction,   | no more than six months of regular common expense assessments may have priority over Fannie Mae's mortgage lien, even if applicable law provides for a longer priority period.  |

Notwithstanding any provisions to the contrary in the Guide, which do not require the lender to represent or warrant compliance with Fannie Mae project legal document requirements, the condo or PUD project legal documents must evidence compliance with the above priority of common expense assessment requirements.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015  |
| <a href="#">Announcement SEL-2015-09</a> | August 25, 2015   |
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014 |
| <a href="#">Announcement SEL-2013-04</a> | May 28, 2013      |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010  |
| <a href="#">Announcement 08-34</a>       | December 16, 2008 |



## **B4-2.1-03, Environmental Hazard Assessments (04/01/2009)**

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### Introduction

This topic contains information on environmental hazard assessments, including:

- [Overview](#)
- [Types of Environmental Hazard Assessments](#)
- [Acceptability of Consultants](#)
- [Phase I Environmental Assessment](#)
- [Phase II Environmental Assessment Description](#)
- [Who Should Complete the Phase II Environmental Assessment](#)
- [Phase II Environmental Assessment Report Forms and Requirements](#)
- [Kinds of Testing or Sampling Under Phase II Environmental Assessments](#)

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### Overview

An environmental hazard assessment is required for condo and co-op projects if an environmental problem is identified by the lender through performance of its project



underwriting or due diligence. If environmental problems are identified, the problems must be determined to be acceptable. Lenders should keep a copy of this assessment in file.

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### Types of Environmental Hazard Assessments

The table below describes two types of environmental hazard assessments.

| Type  | Performed by                                    | Description  |
|---|---|--|
| Phase I assessment (see <a href="#">E-2-02, Suggested Format for Phase I Environmental Hazard Assessments</a> ) | the lender or by someone employed by the lender | gathers information from various sources to evaluate the environmental soundness of the project.   |
| Phase II assessment   | a qualified environmental consultant            | when required <ul style="list-style-type: none"><li>• Phase I assessment identifies problems or</li><li>• Phase I assessment is inconclusive with regard to any particular hazard.</li></ul> |

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### Acceptability of Consultants

Fannie Mae reserves the right to notify lenders that a particular consultant is no longer acceptable. Fannie Mae also reserves the right to refuse to accept, at any time, any future environmental assessment, report, warranty, or certification from individual consultants, specific consulting firms, or specific branch offices of consulting firms.

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### Phase I Environmental Assessment

A Phase I assessment enables lenders to quickly determine whether adequate information exists to evaluate the environmental status of a property. A Phase I assessment is principally a screening process that focuses on reviewing the available documentation, interviewing people who are knowledgeable about the site operations, and inspecting the site, the building, and adjoining properties. Fannie Mae does not require a specific form for a Phase I assessment.

Any report that is thorough and professionally prepared will be acceptable. For a suggested format, see [E-2-02, Suggested Format for Phase I Environmental Hazard Assessments](#).

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## Phase II Environmental Assessment Description

A Phase II assessment provides a more detailed review of the site. It includes specific physical sampling for each hazard that was not acceptable under the Phase I assessment, as well as a review of historical records. It determines the presence or absence of specific environmental liabilities (such as asbestos or leaking underground storage tanks) or quantifies the extent of an observed or suspected environmental liability (such as soil or groundwater contamination).

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## Who Should Complete the Phase II Environmental Assessment

The specialized nature of the investigations conducted under a Phase II assessment requires the knowledge and experience of a qualified consultant.

Lenders must use care in choosing firms to perform environmental hazard assessments. Lenders should confirm that the consultant it plans to use is not affiliated with the buyer or seller of the property or a firm engaged in a business that might present a conflict of interest. Lenders should also evaluate whether the consulting firm's personnel have adequate and appropriate education and training to carry out the required duties.

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## Phase II Environmental Assessment Report Forms and Requirements

Fannie Mae does not specify an exact format for the consultant's report. Any report that is thorough and professionally prepared will be acceptable.

The table below provides the requirements for the Phase II Environmental Assessment Report.

| ✓ | <b>The consultant's report for a Phase II environmental assessment report must</b>  |
|---|---|
|   | include a full description of the sampling procedures   |
|   | include the laboratory results  |
|   | include the consultant's recommendations  |
|   | follow all regulatory standards and good management practices at all times, especially when physical sampling and laboratory analysis are involved  |
|   | include a certification in the report that: <ul style="list-style-type: none"><li>• the assessment was performed diligently and in accordance with all regulatory and good management standards; and</li><li>• to the best of the consultant's knowledge, the results are complete and accurate</li></ul> |

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|   |  |
|---|--|
| ✓ | <b>The consultant’s report for a Phase II environmental assessment report must</b> |
|   | include the signature of an officer of the consulting firm that conducted the work |

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### **Kinds of Testing or Sampling Under Phase II Environmental Assessments**

Examples of the kind of testing or sampling that occur under a Phase II assessment include but are not limited to the following:

- investigating the status of any enforcement actions related to neighboring properties under the Superfund or Resource, Conservation, and Recovery Acts;
  - testing for underground storage leaks;
  - sampling and analyzing the soil;
  - sampling and analyzing the groundwater;
  - testing soil or facilities that are suspected as being contaminated by polychlorinated biphenyls; and
  - sampling and analyzing bulk asbestos and developing related abatement and maintenance programs, if necessary.
- 



## **B4-2.1-04, Unacceptable Environmental Conditions (04/01/2009)**

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### **Introduction**

This topic contains information on unacceptable environmental conditions, including:

- [Overview](#)
  - [Unacceptable Environmental Conditions](#)
- 

### **Overview**

The existence of one or more unacceptable environmental conditions generally will result in a project being ineligible. However, if the lender believes that the relative risk is minimal or can be managed, it may contact the Fannie Mae Project Standards team (see [E-1-03, List of Contacts](#)).

### Unacceptable Environmental Conditions

The table below describes examples of unacceptable environmental conditions; however, this list is not exhaustive.

| ✓ | <b>Examples of Unacceptable Environmental Conditions</b>   |
|---|--|
|   | a property that is (or has been) used as a landfill or other solid, hazardous, or municipal waste disposal site  |
|   | a property that is (or has been) used for activity related to the storage of oil, hazardous waste, or other toxic substances—except that the property may have been used for the storage of small quantities of hazardous substances that are generally recognized as appropriate for residential uses and maintenance of the property   |
|   | a property that is the subject of outstanding environmental or public health litigation or administrative action from private parties or public officials  |
|   | a high-risk neighboring property that has evidence of hazardous waste spills or soil or groundwater contamination on or around its site  |
|   | a property that has documented soil or groundwater contamination and/or a documented tank leak that is leaking at more than 0.05 gallons per hour (which is the National Fire Protection Association’s standard)   |
|   | a property with soil sampling that has values for metal in excess of the following concentration limits in parts per million (ppm): <ul style="list-style-type: none"> <li>• chromium: 100 ppm</li> <li>• arsenic: 20 ppm</li> <li>• zinc: 350 ppm</li> <li>• cadmium: 3 ppm</li> <li>• lead: 100 ppm</li> <li>• nickel: 100 ppm</li> <li>• copper: 170 ppm</li> <li>• selenium: 20 ppm</li> </ul> |
|   | a property that is contaminated from polychlorinated biphenyls (PCBs)  |

| ✓ | <b>Examples of Unacceptable Environmental Conditions</b>   |
|---|--|
|   | <p>a property with soil sampling that has values for other organic materials in excess of the following concentration limits in parts per million (ppm):</p> <ul style="list-style-type: none"> <li>• total volatile organics: 1 ppm</li> <li>• total hydrocarbons: 100 ppm</li> <li>• total petroleum hydrocarbons: 100 ppm</li> </ul>  |
|   | <p>a property with groundwater sampling that has values for other organic materials in excess of the following concentration limits in parts per million:</p> <ul style="list-style-type: none"> <li>• total organics (volatiles and base neutrals): 0.10 ppm</li> <li>• total petroleum hydrocarbons: 1.00 ppm</li> </ul>   |
|   | <p>a property with groundwater sampling that has values for metals in excess of the following concentration limits in parts per million:</p> <ul style="list-style-type: none"> <li>• arsenic: 0.05 ppm</li> <li>• lead: 0.05 ppm</li> <li>• boron: 1.00 ppm</li> <li>• mercury: 0.002 ppm</li> <li>• cadmium: 0.01 ppm</li> <li>• selenium: 0.01 ppm</li> <li>• chromium: 0.05 ppm</li> <li>• silver: 0.05 ppm</li> </ul> |
|   | <p>a property with high radon levels (e.g., above four picocuries per liter) that can be corrected only through large capital improvements or extensive ongoing maintenance programs that are beyond the financial or technical abilities of the HOA or co-op corporation for the project</p>  |
|   | <p>a property that has conditions representing material violations of applicable local, state, or federal environmental or public health statutes and laws</p>   |
|   | <p>a property that is contaminated by friable asbestos-containing materials</p>  |



## **B4-2.1-05, Remedial Actions for Environmental Assessments Below Standards (04/01/2009)**

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### **Introduction**

This topic contains information on remedial actions for environmental assessments below standards.

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### **Remedial Actions for Environmental Assessments Below Standards**

Properties that fail to meet a particular standard may be corrected through remedial actions and then retested. Remedial actions must be undertaken with the advice and written endorsement of a qualified environmental consultant. All remedial actions must be taken in accordance with all regulatory and good management standards.

Typically, lenders must confirm the completion and effectiveness of remedial actions based on the following conditions:

- A qualified environmental consultant states in writing that remedial work needed to make the property eligible under the environmental standards can be completed within 90 days.
- The project's developer or sponsor signs a contract with a qualified firm to perform the remedial work within 90 days.

The lender must warrant that the job has been satisfactorily completed and the property meets Fannie Mae's environmental eligibility standards.

The project developer or sponsor must provide a performance escrow equal to 150% of the gross contract amount to ensure the completion of the remedial work.

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## Section B4-2.2, Project Eligibility



### B4-2.2-01, Limited Review Process (10/24/2016)

#### Introduction

This topic contains information on the Limited Review process performed by lenders, including:

- [Unit and Project Types Eligible for Limited Review](#)
- [Eligible Transactions for Limited Review of Attached Units in Established Condo Projects](#)
- [Limited Review Eligibility Requirements](#)

#### Unit and Project Types Eligible for Limited Review

Lenders conduct the Limited Review. To be eligible for a Limited Review, the unit securing the mortgage must be located in one of the following project types and meet the other criteria described below:

- an attached unit in an established condo project, or
- a detached unit in a new or established condo project (including those projects with a mixture of attached and detached units).

#### Eligible Transactions for Limited Review of Attached Units in Established Condo Projects

An attached unit in an established condo project, including a two- to four-unit condo project, is eligible for a Limited Review if it meets the transaction requirements in the following table.

| <b>Eligible Transactions —<br/>For Limited Review Attached Units in Established Condo Projects<br/>(For Projects Outside of Florida)<br/>Including 2- to 4-unit Condo Projects</b> |  |
|--|--|
| <b>Occupancy Type</b>  | <b>Maximum LTV, CLTV, and HCLTV Ratios</b> |
| Principal residence  | 90%  |

|  |                               |
|--|-------------------------------|
| <b>Eligible Transactions —</b><br><br><b>For Limited Review Attached Units in Established Condo Projects</b><br><br><b>(For Projects Outside of Florida)</b><br><br><b>Including 2- to 4-unit Condo Projects</b> |                               |
| Second home  | 75%                           |
| Investment property  | Ineligible for Limited Review |

Attached units in established projects located in Florida are subject to more restrictive LTV ratio requirements under the Limited Review process. See [B4-2.2-04, Geographic-Specific Condo Project Considerations](#), for additional information.

### Limited Review Eligibility Requirements

In completing a Limited Review, the lender must ensure that the project and subject unit meet all of the eligibility requirements described in the following table.

| ✓ | Limited Review Eligibility Requirements   |
|---|---|
|   | The project is not an ineligible project. (See <a href="#">B4-2.1-02, Ineligible Projects</a> .)  |
|   | The project does not consist of manufactured homes.<br><br><b>Note:</b> Manufactured housing projects require a Fannie Mae PERS review.   |
|   | If the subject unit is a detached unit, the unit securing the mortgage must be 100% complete.   |
|   | When an appraisal is obtained, the appraisal of the subject unit meets all applicable appraisal requirements, as stated in Chapter B4-1, Appraisal Requirements.  |
|   | The unit securing the mortgage satisfies all insurance requirements as stated in Subpart B7, Insurance, including all provision applicable to condo projects in Chapter B7-4, Additional Project Insurance. |

These requirements apply to both DU loan casefiles and manually-underwritten loans.

Provided the project and loan transaction are eligible for and meet all of the eligibility requirements of the Limited Review process, the lender is not required to validate that the project also meets the eligibility requirements of another project review type. However, in the event the lender becomes aware of a circumstance that would cause the project or transaction to be ineligible under a Limited Review, the lender must use one of the other project review methods



to determine project eligibility and the project must meet all of the eligibility requirements of that selected alternate project review type.

### Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| Announcements and Release Notes          | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016  |
| <a href="#">Announcement SEL-2015-08</a> | July 28, 2015     |
| <a href="#">Announcement SEL-2015-06</a> | May 26, 2015      |
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014 |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012   |
| <a href="#">DU Version 9.0</a>           | July 24, 2012     |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011     |
| <a href="#">Announcement 08-34</a>       | December 16, 2008 |



## **B4-2.2-02, Full Review Process (10/24/2016)**

### Introduction

This topic contains information on general eligibility requirements for the Full Review process, including:

- [Overview](#)
- [Unit and Project Types Eligible for a Full Review](#)
- [Condo Project Manager \(CPM\)](#)
- [Full Review Eligibility Requirements for Attached Units in Condo Projects](#)
- [Replacement Reserve Studies](#)

### Overview

The Full Review process is a method for the review of new and established condo projects. Lenders performing a Full Review must ensure that the project meets all applicable eligibility requirements.

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### **Unit and Project Types Eligible for a Full Review**

A Full Review may be performed when the unit securing the mortgage is an attached unit located in one of the following project types:

- an established condo project, or
- a new or newly converted condo project.

These projects may also be reviewed by Fannie Mae through the PERS process (see [B4-2.2-07, Project Eligibility Review Service \(PERS\)](#)). Detached condo units located in projects containing a mixture of attached and detached units are eligible for review using the Limited Review process (see [B4-2.2-01, Limited Review Process](#)).

Two- to four-unit condo projects reviewed using the Full Review process must comply with all requirements of the Full Review, unless specifically stated otherwise.

Full Review requirements for units in co-op projects are addressed in [B4-2.3-02, Co-op Project Eligibility](#).

**Note:** Projects consisting of manufactured homes are not eligible for the Full Review process but must be submitted to Fannie Mae through the PERS process.

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### **Condo Project Manager (CPM)**

Lenders may use Condo Project Manager (CPM) to assist in their Full Review of a project. CPM is a web-based tool designed to help lenders determine if a project meets Fannie Mae's eligibility requirements. When CPM is used as part of the project review, the lender must document the loan file with the CPM decision by including the unexpired CPM Certification in the file.

CPM Certifications are based solely on the data that the lender enters into CPM. The lender is responsible for reviewing the applicable project documentation to obtain the information needed to complete the project review and enter the data into CPM. The lender is also responsible for ensuring that all data entered into CPM is correct and that the project meets all applicable Fannie Mae eligibility requirements.

CPM is available on [Fannie Mae's website](#).

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### **Full Review Eligibility Requirements for Attached Units in Condo Projects**

When determining the eligibility of a condo project on the basis of a Full Review, lenders must ensure the condo project meets the eligibility requirements described in the following table.

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| ✓ | <b>Full Review Eligibility Requirements –<br/>         For Attached Units in New, Established, or Two- to Four-Unit Condo Projects</b>   |
|   | The project must not be an ineligible project. (See <a href="#">B4-2.1-02, Ineligible Projects.</a> )  |
|   | The project must not be a manufactured housing project.<br><br><b>Note:</b> Manufactured housing projects require a Fannie Mae PERS review.  |
|   | The unit securing the mortgage satisfies all Fannie Mae's insurance requirements in Subpart B7, Insurance, including all provisions applicable to condo projects in Subpart B7-4, Additional Project Insurance.  |
|   | When an appraisal is obtained, the appraisal of the subject unit must meet all applicable appraisal requirements, as stated in Subpart B4-1, Appraisal Requirements.   |
|   | No more than 15% of the total units in a project may be 60 days or more past due on their common expense assessments (also known as HOA dues). For example, a 100–unit project may not have more than 15 units that are 60 days or more past due.<br><br><b>Note:</b> In a two- to four-unit project, no unit owners may be 60 or more days past due on their HOA common expense assessments.<br><br>This ratio is calculated by dividing the number of units with common expense assessments that are past due by 60 or more days by the total number of units in the project.  |
|   | Lenders must review the HOA projected budget to determine that it <ul style="list-style-type: none"> <li>• is adequate (i.e., it includes allocations for line items pertinent to the type of condo project), and</li> <li>• provides for the funding of replacement reserves for capital expenditures and deferred maintenance that is at least 10% of the budget.</li> </ul> To determine whether the association has a minimum annual budgeted replacement reserve allocation of 10%, the lender must divide the annual budgeted replacement reserve allocation by the association’s annual budgeted assessment income (which includes regular common expense fees).<br><br>The following types of income may be excluded from the reserve calculation: |

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| ✓ | <b>Full Review Eligibility Requirements –</b><br><br><b>For Attached Units in New, Established, or Two- to Four-Unit Condo Projects</b>  |
|   | <ul style="list-style-type: none"> <li>• incidental income on which the project does not rely for ongoing operations, maintenance, or capital improvements;</li> <li>• income collected for utilities that would typically be paid by individual unit owners, such as cable TV or Internet access;</li> <li>• income allocated to reserve accounts; and</li> <li>• special assessment income.</li> </ul> <p>The lender may use a reserve study in lieu of calculating the replacement reserve of 10% provided the following conditions are met:</p> <ul style="list-style-type: none"> <li>• the lender obtains a copy of an acceptable reserve study and retains the study and the lender’s analysis of the study in the project approval file,</li> <li>• the study demonstrates that the project has adequate funded reserves that provide financial protection for the project equivalent to Fannie Mae’s standard reserve requirements,</li> <li>• the study demonstrates that the project’s funded reserves meet or exceed the recommendations included in the reserve study, and</li> <li>• the study meets Fannie Mae’s requirements for replacement reserve studies listed at the end of this section.</li> </ul> <p><b>Note:</b> These requirements for a budget review, replacement reserves, and reserve study are not applicable to two- to four-unit projects.</p> |
|   | <p>For projects in which the units are not separately metered for utilities, the lender must</p> <ul style="list-style-type: none"> <li>• determine that having multiple units on a single meter is common and customary in the local market where the project is located, and</li> <li>• confirm that the project budget includes adequate funding for utility payments.</li> </ul> <p><b>Note:</b> These requirements are not applicable to two- to four-unit projects.</p>  |

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| ✓ | <b>Full Review Eligibility Requirements –<br/>         For Attached Units in New, Established, or Two- to Four-Unit Condo Projects</b>  |
|   | The project must be located on contiguous parcels of land. It is acceptable for a project to be divided by public or private streets.   |
|   | The structures within the project must be within a reasonable distance from each other.   |
|   | Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.  |
|   | <p>Unit owners in the project must have the sole ownership interest in, and rights to the use of the project’s facilities, common elements, and limited common elements, except as noted below.</p> <p>Shared amenities are permitted only when two or more HOAs share amenities for the exclusive use of the unit owners. The associations must have an agreement in place governing the arrangement for shared amenities that includes the following:</p> <ul style="list-style-type: none"> <li>• a description of the shared amenities subject to the arrangement;</li> <li>• a description of the terms under which unit owners in the project may use the shared amenities;</li> <li>• provisions for the funding, management, and upkeep of the shared amenities; and</li> <li>• provisions to resolve conflicts between the associations over the amenities.</li> </ul> <p>Examples of shared amenities include, but are not limited to, clubhouses, recreational or fitness facilities, and swimming pools.</p> <p>The developer may not retain any ownership interest in any of the facilities related to the project. The amenities and facilities—including parking and recreational facilities—may not be subject to a lease between the unit owners or the HOA and another party. Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable.</p> |
|   | Fannie Mae permits the financing of a single or multiple parking space(s) with the mortgage provided that the parking space(s) and residential unit are included on one deed as evidenced on the legal description in the mortgage. In such cases, the LTV, CLTV, and HCLTV ratios are based on the combined value of the residential unit and the parking space(s).  |

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| ✓ | <b>Full Review Eligibility Requirements –</b><br><br><b>For Attached Units in New, Established, or Two- to Four-Unit Condo Projects</b>   |
|   | <p>Phase I and II environmental hazard assessments are not required for condo projects unless the lender identifies an environmental problem through the performance of its project underwriting or due diligence.</p> <p>In the event that environmental problems are identified, the problems must be acceptable, as described in <a href="#">E-2-02, Suggested Format for Phase I Environmental Hazard Assessments</a>.</p>  |
|   | <p>For investment property transactions on attached units in established projects (including two- to four-unit projects), at least 50% of the total units in the project must be conveyed to principal residence or second home purchasers. This requirement does not apply if the subject mortgage is for a principal residence or second home.</p> <p>Financial institution-owned REO units that are for sale (not rented) are considered owner-occupied when calculating the 50% owner-occupancy ratio requirement.</p> <p>When the project does not meet the owner-occupied ratio of 50%, an investment property transaction will only be eligible if the lender submits the project to Fannie Mae</p> <ul style="list-style-type: none"> <li>• for review under PERS and the project is approved (see <a href="#">B4-2.2-07, Project Eligibility Review Service (PERS)</a>, for additional information), or</li> <li>• for a single-loan project eligibility waiver and the waiver is approved (see <a href="#">B4-2.2-09, Projects with Special Considerations and Project Eligibility Waivers</a>, for additional information).</li> </ul> |
|   | <p>If the project was a gut rehabilitation project, all rehabilitation work involved in a condo conversion must have been completed in a professional manner.</p> <p>“Gut rehabilitation” refers to the renovation of a property down to the shell of the structure, including the replacement of all HVAC and electrical components (unless the HVAC and electrical components are up to current code).</p> <p>For a conversion that was legally created during the past three years, the architect’s or engineer’s report (or functional equivalent), that was originally obtained for the conversion must comment favorably on the structural integrity of the project and the condition and remaining useful life of the major project components, such as the</p>  |

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| ✓ | <p><b>Full Review Eligibility Requirements –</b></p> <p><b>For Attached Units in New, Established, or Two- to Four-Unit Condo Projects</b></p>   |
|   | <p>heating and cooling systems, plumbing, electrical systems, elevators, boilers, roof, etc.</p> <p><b>Note:</b> If the project is a newly converted non-gut rehabilitation project with more than four residential units, lenders must submit the project to Fannie Mae for review and approval. See <a href="#">B4-2.2-07, Project Eligibility Review Service (PERS)</a>, for additional information.</p>  |
|   | <p>For newly converted two- to four-unit non-gut rehabilitation projects, the following requirements apply:</p> <ul style="list-style-type: none"> <li>• All rehabilitation work involved in a condo conversion must have been completed in a professional manner.</li> <li>• A current reserve study prepared by a qualified, independent professional company, accompanied by an engineer's report, or functional equivalent, must comment favorably on the structural integrity of the project and the remaining useful life of the major project components.</li> <li>• The project budget must contain line items for the following:             <ul style="list-style-type: none"> <li>– reserves that adequately support the costs identified in the reserve study, even if the study recommends budgeting reserves greater than 10% of the project's income;</li> <li>– funds to cover the total cost of any items identified in the reserve study or engineer's report that need to be replaced within 5 years from the date of the study must be deposited in the HOA's reserve account, in addition to the amount stated immediately above; and</li> <li>– a utility contingency of at least 10% of the previous year's utility costs if the utilities are not separately metered.</li> </ul> </li> </ul> <p><b>Note:</b> Newly converted gut rehabilitation projects must follow the standard gut rehabilitation requirements listed under the eligibility requirements above.</p> |

## Replacement Reserve Studies

Reserve studies may be used to determine the appropriate level of reserves the HOA must maintain to ensure the project's long-term success. Reserve studies will also provide useful information regarding the adequacy of the HOA's current reserve funds and offer recommendations to meet funding goals in the event the HOA has under-reserved for its needs in the past. The lender may review the most current reserve study or a reserve study update provided it has been completed within three years of the date on which the lender approves the project.

Reserve studies must be prepared by an independent third party that has specific expertise in completing reserve studies. This expertise may include any of the following:

- a reserve study professional with reserve study credentials,
- a construction engineer,
- a certified public accountant who specializes in reserve studies, or
- any professional with demonstrated knowledge of and experience in completing reserve studies.

While Fannie Mae does not require that a standard format be used for the reserve study, the following items must be addressed:

- all major components and elements of the project's common areas for which repair, maintenance, or replacement is expected;
- the condition and remaining useful life of each major component;
- an estimate of the cost of repair, replacement, restoration, or maintenance of major components;
- an estimate of the total annual contributions required to defray costs (minus the existing reserves funded for this purpose), including inflation;
- an analysis of existing funded reserves; and
- a suggested reserve funding plan.

**Note:** Individual states may have various statutes concerning the use and content of reserve studies. Fannie Mae requires that a reserve study used by the lender in its analysis meet or exceed requirements set forth in relevant state statutes.



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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016  |
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015  |
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014 |
| <a href="#">Announcement SEL-2013-04</a> | May 28, 2013      |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010  |
| <a href="#">Announcement 08-34</a>       | December 16, 2008 |



## **B4-2.2-03, Full Review: Additional Eligibility Requirements for Attached Units in New and Newly Converted Condo Projects (02/24/2015)**

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### Introduction

This topic contains information on the Full Review of attached units in new and newly converted condo projects, including:

- [Additional Requirements for Attached Units in New and Newly Converted Condo Projects](#)
- [Condo Project Legal Document Review Requirements for Attached Units in New or Newly Converted Projects](#)

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### Additional Requirements for Attached Units in New and Newly Converted Condo Projects

When performing a Full Review of attached units in new or newly converted condo projects, lenders must ensure compliance with the following additional requirements.

**Note:** These requirements are not applicable to attached units in new or newly converted projects in Florida, which must be reviewed by Fannie Mae through the PERS process. See [B4-2.2-04, Geographic-Specific Condo Project Considerations](#).

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| ✓ | <p><b>Full Review Requirements –</b></p> <p><b>For Attached Units in New or Newly Converted Condo Projects</b></p>   |
|   | <p>The project, or the subject legal phase, must be “substantially complete” unless other completion arrangements have been approved by Fannie Mae through the PERS review process.</p> <p>There may not be more than one legal phase per building.</p> <p>“Substantially complete” means that</p> <ul style="list-style-type: none"> <li>• a certificate of occupancy or other substantially similar document has been issued by the applicable governmental agency for the project or subject phase; and</li> <li>• all the units and buildings in the legal phase in which the unit securing the mortgage is located are complete, subject to the installation of buyer selection items, such as appliances.</li> </ul> <p><b>Note:</b> Fannie Mae does not require the installation of typical buyer selection items such as appliances, floor coverings, counter tops, or light fixtures that are common and customary for the market, although buyer selections that involve the modification of a unit floor plan must be complete. Lenders are expected to obtain appropriate documentation to verify that all buyer selection items for the unit being financed are properly installed prior to closing.</p> <p><b>Two- to four-unit projects:</b> All units, common elements, and facilities within the project must be 100% complete and not subject to additional phasing even when the project is a new or newly converted project.</p> |
|   | <p>At least 50% of the total units in the project or subject legal phase must have been conveyed or be under contract for sale to principal residence or second home purchasers.</p> <ul style="list-style-type: none"> <li>• For a specific legal phase or phases in a new project, at least 50% of the total units in the subject legal phase(s), considered together with all prior legal phases, must have been conveyed or be under contract for sale to principal residence or second home purchasers.</li> <li>• For the purposes of this review process, a project consisting of one building cannot have more than one legal phase.</li> </ul>  |

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|---|---|
| ✓   | <b>Full Review Requirements –<br/>For Attached Units in New or Newly Converted Condo Projects</b>   |
|   | <b>Two- to four-unit projects:</b> All but one unit in the project must have been conveyed or be under contract for sale to a principal residence or second home purchaser.   |
|   | Individual units in new condo projects must be available for immediate occupancy at the time of loan closing.   |
| <b>Not Applicable to Two- to Four-Unit Condo Projects</b> |   |
|   | If the project is part of a larger development, and the unit owners are required to pay monthly assessments of more than \$50 to a separate master association for that development, lenders must review the overall development plan for the master association to evaluate the acceptability of the project.  |
|   | The overall development plan of the project must be reviewed and the following must be acceptable: <ul style="list-style-type: none"> <li>• consistency of future and existing improvements,</li> <li>• time limitations for expansion, and</li> <li>• reciprocal easements between legal phases.</li> </ul>  |
|   | For projects (or the subject legal phase) that are only substantially complete rather than 100% complete, lenders must determine that acceptable completion assurance arrangements that guarantee the future completion of all project facilities, common elements, and limited common elements have been provided. These assurance arrangements may include <ul style="list-style-type: none"> <li>• cash deposits,</li> <li>• letters of credit,</li> <li>• assignments of certificates of deposit, or</li> <li>• assignments of other assets that can be easily converted to cash.</li> </ul> Similar arrangements must be provided to support assurances against construction and structural defects. The assurances must <ul style="list-style-type: none"> <li>• protect each unit against defects that become apparent within one year from the date of its settlement, and</li> </ul> |

|   |  |
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| ✓ | <b>Full Review Requirements –<br/>For Attached Units in New or Newly Converted Condo Projects</b>  |
|   | <ul style="list-style-type: none"> <li>cover all common facilities for one year from the date on which units that represent at least 60% of the votes in the HOA have been transferred.</li> </ul> |
|   | The developer or sponsor should provide for and promote the unit owners' early participation in the management of the project.   |
|   | The project must meet the condo project legal document requirements in the following section.  |

**Condo Project Legal Document Review Requirements for Attached Units in New or Newly Converted Projects**

The table below provides Fannie Mae's requirements for the review of the condo project's legal documents for attached units in new and newly converted condo projects containing more than four residential units.

| <b>Condo Project Legal Document Review Requirements –<br/>For Attached Units in New or Newly Converted Condo Projects</b> |  |
|---|--|
| <b>Limitations on Ability to Sell/<br/>Right of First Refusal</b>   | <p>Any right of first refusal in the condo project documents will not adversely impact the rights of a mortgagee or its assignee to:</p> <ul style="list-style-type: none"> <li>foreclose or take title to a condo unit pursuant to the remedies in the mortgage,</li> <li>accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor, or</li> <li>sell or lease a unit acquired by the mortgagee or its assignee.</li> </ul> |
| <b>Rights of Condo Mortgagees and Guarantors</b>  | <p>The project documents must give the mortgagee and guarantor of the mortgage on any unit in a condo project the right to timely written notice of:</p> <ul style="list-style-type: none"> <li>any condemnation or casualty loss that affects either a material portion of the project or the unit securing its mortgage;</li> </ul>  |

| <b>Condo Project Legal Document Review Requirements –<br/>For Attached Units in New or Newly Converted Condo Projects</b> |   |
|---|---|
|   | <ul style="list-style-type: none"> <li>• any 60-day delinquency in the payment of assessments or charges owed by the owner of any unit on which it holds the mortgage;</li> <li>• a lapse, cancellation, or material modification of any insurance policy maintained by the homeowners’ association; and</li> <li>• any proposed action that requires the consent of a specified percentage of mortgagees.</li> </ul>   |
| <b>First Mortgagee’s Rights Confirmed</b>   | No provision of the condo project documents gives a condo unit owner or any other party priority over any rights of the first mortgagee of the condo unit pursuant to its mortgage in the case of payment to the unit owner of insurance proceeds or condemnation awards for losses to or a taking of condo units and/or common elements.   |
| <b>Amendments to Documents</b>  | <p>Required provisions related to amendments to project documents are as follow:</p> <ul style="list-style-type: none"> <li>• The project documents must provide that amendments of a material adverse nature to mortgagees be agreed to by mortgagees that represent at least 51% of the votes of unit estates that are subject to mortgages.</li> <li>• The project documents must provide for any action to terminate the legal status of the project after substantial destruction or condemnation occurs or for other reasons to be agreed to by mortgagees that represent at least 51% of the votes of the unit estates that are subject to mortgages.</li> <li>• The project documents may provide for implied approval to be assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 60 days after it receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a return receipt requested. Notwithstanding the foregoing,</li> </ul> |

| <b>Condo Project Legal Document Review Requirements –<br/>For Attached Units in New or Newly Converted Condo Projects</b> |  |
|---|--|
|   | project documents that were recorded prior to August 23, 2007, may provide for implied approval to be assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 30 days after it receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a return receipt requested. |

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2015-02</a> | February 24, 2015 |
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014 |
| <a href="#">Announcement SEL-2013-04</a> | May 28, 2013      |
| <a href="#">Announcement 08-34</a>       | December 16, 2008 |



## **B4-2.2-04, Geographic-Specific Condo Project Considerations (07/28/2015)**

### Introduction

This topic contains information on geographic-specific condo project considerations, including:

- [Florida — Attached Units in New and Newly Converted Condo Projects](#)
- [Florida — Project Review Maximum LTV Requirements for Attached Units in New, Newly Converted, and Established Projects](#)

### Florida — Attached Units in New and Newly Converted Condo Projects

PERS is required for new and newly converted condo projects consisting of attached units located in Florida. See [B4-2.2-07, Project Eligibility Review Service \(PERS\)](#).

The following project review methods may not be used to review these types of projects in Florida:

- Limited Review, or
- Full Review (with or without CPM).

**Florida — Project Review Maximum LTV Requirements for Attached Units in New, Newly Converted, and Established Projects**

The following tables describe the maximum LTV ratios that are permitted for the specific project review type for loans secured by units in condo projects located in Florida. Unless noted otherwise, these requirements are based on the LTV ratio of the mortgage loan.

| <b>Florida — Attached Units in New and Newly Converted Condo Projects</b> |                                  |  |                       |
|---|----------------------------------|--|-----------------------|
| <b>Maximum LTV Ratios</b>   |                                  |  |                       |
|   | <b>PERS Approved<sup>a</sup></b> | <b>Full Review (with or without CPM)</b> | <b>Limited Review</b> |
| Principal Residence   | 95% Manual<br>97% DU             | Not Eligible                             |                       |
| Second Home   | 90%                              |  |                       |
| Investor  | 85%                              |  |                       |

<sup>a</sup>Refer to the [Eligibility Matrix](#) for the maximum allowable CLTV and HCLTV ratios. (For example, a mortgage loan for a unit in a PERS-approved project can have a CLTV ratio up to 105% if it meets the *Eligibility Matrix* and Community Seconds requirements.)

| <b>Florida — Attached Units in Established Condo Projects</b> |                                       |  |  |
|---|---------------------------------------|--|--|
|   | <b>Maximum LTV Ratios<sup>a</sup></b> |  | <b>Maximum LTV, CLTV, and HCLTV Ratios<sup>b</sup></b> |
|   | <b>PERS Approved</b>                  | <b>Full Review (with or without CPM)</b> | <b>Limited Review</b>                                  |
| Principal Residence   | 95% Manual<br>97% DU                  |  | 75/90/90%  |
| Second Home   | 90%                                   |  | 70/75/75%  |

| Florida — Attached Units in Established Condo Projects |     |              |
|--|-----|--------------|
| Investor   | 85% | Not Eligible |

<sup>a</sup>Refer to the [Eligibility Matrix](#) for the maximum allowable CLTV and HCLTV ratios. (For example, a mortgage loan for a unit in a PERS-approved project can have a CLTV ratio up to 105% if it meets the *Eligibility Matrix* and Community Seconds requirements.)

<sup>b</sup>The CLTV and HCLTV ratios in this column align with the maximum CLTV and HCLTV ratios that are permitted for projects outside of Florida, as described in [B4-2.2-01, Limited Review Process](#).

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2015-08</a> | July 28, 2015      |
| <a href="#">Announcement SEL-2015-06</a> | May 26, 2015       |
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015   |
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014  |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2011-01</a> | January 27, 2011   |
| <a href="#">Announcement 09-37</a>       | December 30, 2009  |
| <a href="#">Announcement 08-34</a>       | December 16, 2008  |

## B4-2.2-05, Requirements for Review of Site Condos (10/24/2016)

### Introduction

This topic contains general information and requirements for site condos, including:

- [Overview](#)
- [Site Condo Definition](#)
- [Additional Site Condo Requirements](#)



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## Overview

Site condos are a subset of detached condos. These types of condo projects are often located in specific markets around the country where this development type is more common, such as the state of Michigan. In these markets, developers tend to develop the project as a site condo project to compensate for possible inefficiencies in the local planning and development process. In most other markets, PUDs and subdivisions are the more commonly used legal structures for single-family detached homes.

Site condos that meet the site condo definition and the additional site condo requirements below are eligible for delivery to Fannie Mae without a project review. However, it may be necessary to consult the project's recorded legal documents to determine that the condo project meets the criteria listed below.

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## Site Condo Definition

A site condo is a detached condo unit in a condo project that meets all of the following:

- Project consists of all single-family detached units where the unit owners own the land and the improvements on the land.
- Project has minimal common elements, which may include project signage and limited undeveloped green space.
- Project does not own any common amenities including, but not limited to, swimming pool, fitness or recreational facility, playground, laundry facility, or clubhouse.
- Project does not own or have responsibility for maintaining its own infrastructure such as roads, street signage, electricity, water and sewage, snow removal, or garbage disposal.
- Project has minimal or no involvement with a homeowners' association, including no or little dues; no special assessments; and no road, amenity, or common element maintenance.
- Unit owners are required, per the condo legal documents, to carry their own individual hazard and other applicable insurance coverage, which may include flood and liability insurance.

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## Additional Site Condo Requirements

For site condos that meet all of the criteria listed above, a project review is not required. Instead, lenders must confirm the following requirements are met:

- The project is in compliance with Fannie Mae’s requirements for priority of common expense assessments;
- The project is in compliance with Fannie Mae’s requirements for projects located on land zoned as legal, non-conforming land use; and
- The appraisal, completed using either Form 1004 or Form 1073, must confirm the local market treats units in such a project as comparable to owning a unit in a single-family detached housing development that has not been organized as a condo. Additional information on the first two requirements can be found in [B4-2.1-02, Ineligible Projects](#). Additional information on the appraisal requirements can be found in [B4-1.2-01, Appraisal Report Forms and Exhibits](#).

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcement                             | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016 |



## **B4-2.2-06, FHA-Approved Condo Review Eligibility (11/10/2014)**

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### Introduction

This topic contains information on FHA-approved condo review eligibility, including:

- [Overview](#)
- [Project Requirements](#)
- [Document Retention](#)
- [Delivering FHA Mortgage Loans Secured by Units in FHA-approved Condo Projects](#)

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### Overview

Fannie Mae accepts delivery of FHA mortgage loans in FHA-approved condo projects that appear on the FHA-approved condo list. For conventional mortgage loans, the condo project must meet Fannie Mae's project eligibility requirements. FHA condo project approval alone is not acceptable for conventional mortgage loans.

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Lenders may search for FHA-approved condo projects by location, name, or project status online at [HUD.gov](http://HUD.gov) or through [CPM](#).

Lenders must maintain printed copies of the FHA approval documentation in the loan file.

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### **Project Requirements**

Lenders must ensure that

- the FHA standard conditions have been met for presale, occupancy status, and completion;
  - any additional conditions noted by FHA have been met;
  - the project is not an ineligible project as defined in [B4-2.1-02, Ineligible Projects](#);
  - the project is covered by the required insurance as set forth in Subpart B7-4, Additional Project Insurance; and
  - the project is not comprised of manufactured homes.
- 

### **Document Retention**

When lenders deliver mortgage loans secured by condo units in an FHA-approved project, lenders must retain the documentation as set forth in Document Retention for Project Eligibility in [B4-2.1-01, General Information on Project Standards](#).

---

### **Delivering FHA Mortgage Loans Secured by Units in FHA-approved Condo Projects**

When delivering FHA mortgage loans secured by individual units in FHA-approved condo projects, the lender must report the Project Type Code U for an FHA-approved project as part of the delivery data.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014 |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |
| <a href="#">Announcement 09-37</a>       | December 30, 2009 |

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## **B4-2.2-07, Project Eligibility Review Service (PERS) (05/31/2016)**

### **Introduction**

This topic contains information on Fannie Mae's Project Eligibility Review Service (PERS), including:

- [Overview](#)
- [Standard PERS Submission Process](#)
- [Required Forms for Standard PERS Submission](#)
- [Additional Requirements—For Newly Converted Non-Gut Rehabilitation Condo or Co-op Projects](#)
- [Streamlined PERS Submission Process—For Established Projects](#)
- [Approval Designations](#)
- [Availability of Project Information](#)
- [Decision Expiration Dates](#)

### **Overview**

PERS is a review method available to lenders to submit new, newly converted, and established projects to Fannie Mae to determine eligibility. Some projects must be submitted to PERS while a PERS submission is optional for other projects, as shown in the following table:

| <b>Standard PERS Process</b>  | <b>Streamlined PERS Process</b>   |
|---|---|
| <b>Required for:</b> <ul style="list-style-type: none"><li>• new and newly converted condo projects consisting of attached units located in Florida;</li><li>• newly converted non-gut rehabilitation attached units in condo or co-op projects that contain more than four residential units; and</li><li>• all attached and detached units in condo, co-op, and PUD projects consisting of manufactured homes, with the</li></ul> | <b>Optional for:</b> <ul style="list-style-type: none"><li>• established condo projects that do not consist of manufactured homes</li></ul> |

| Standard PERS Process  | Streamlined PERS Process |
|--|--------------------------|
| <p>exception of PUD projects that contain multi-width manufactured homes. (See <a href="#">B4-2.2-08, Additional Requirements for Review of Condo, Co-op, and PUD Projects Comprised of Manufactured Homes</a>, for additional information.)</p> <p><b>Optional for:</b></p> <ul style="list-style-type: none"> <li>all other new or newly converted condo projects, not listed above</li> </ul> |                          |

### Standard PERS Submission Process

The standard PERS submission process is as follows:

| Step | Action  |
|------|---|
| 1.   | <p>The lender performs a basic review to determine if the project satisfies all applicable Fannie Mae project eligibility and underwriting requirements prior to submission to PERS.</p> <p><b>Note:</b> For additional lender pre-PERS submission review requirements</p> <ul style="list-style-type: none"> <li>for newly converted non-gut rehabilitation condo projects, see below; and</li> <li>for projects consisting of manufactured homes, see <a href="#">B4-2.2-08, Additional Requirements for Review of Condo, Co-op, and PUD Projects Comprised of Manufactured Homes</a>.</li> </ul> |
| 2.   | <p>The lender completes a project submission package, which includes:</p> <ul style="list-style-type: none"> <li><i>Project Eligibility Review Service Document Checklist</i> (<a href="#">Form 1030</a>), and</li> <li><i>Application for Project Approval</i> (<a href="#">Form 1026</a>).</li> </ul> <p>See below for additional forms that may be required.</p>   |
| 3.   | <p>The condo project's legal documents must comply with the Fannie Mae's requirements listed in <a href="#">B4-2.2-03, Full Review: Additional Eligibility Requirements for Attached Units in New and Newly Converted Condo Projects</a>.</p>   |

| Step | Action  |
|------|---|
|      | <ul style="list-style-type: none"> <li>A qualified attorney engaged by the lender must review the condo project legal documents and determine that the documents are in compliance with Fannie Mae's requirements.</li> <li>This determination must be documented by the attorney in writing but need not rise to the level of a formal, written legal opinion. The attorney may be the same person who prepared the legal documents or an attorney employed by the lender, but he or she cannot be an employee, principal, or officer of the developer or sponsor of the project.</li> <li>The lender must complete the <i>Warranty of Condominium Project Legal Documents (Form 1054)</i> and attach the attorney review as part of the PERS submission process.</li> </ul> |
| 4.   | The lender submits the complete project package, including all relevant supporting documentation, via email using the PERS Project Submission mailbox. See <a href="#">E-1-03, List of Contacts</a> .   |
| 5.   | A member of the Project Standards team reviews the package to determine if the project is eligible for approval.  |
| 6.   | Upon completion of the review, Fannie Mae issues its decision to the lender via email and posts approved projects on its website. See <a href="#">Condo, Co-op, and Planned Unit Development (PUD) Eligibility</a> for approved projects listed for each state, the District of Columbia, and the U.S. Virgin Islands.  |
| 7.   | Fannie Mae informs the lender of the specific review fee assessed for each PERS submission. Lenders are billed for PERS review fees in their “Monthly Technology Invoice.” For fees, see the <a href="#">Project Eligibility Review Service (PERS) Overview</a> on Fannie Mae's website.  |

### Required Forms for Standard PERS Submission

The forms shown below are required for a standard PERS submission.

| Form                 | Title                                   | Description  |
|----------------------|---|--|
| <a href="#">1026</a> | <i>Application for Project Approval</i> | Requires certification that the lender has “underwritten” the project; includes non-residential space, common areas, sales plan, construction warranty, budget, builder/developer information, status of construction, environmental issues, resale restrictions, phasing, project management. |

| <b>Form</b>           | <b>Title</b>   | <b>Description</b>  |
|-----------------------|--|---|
| <a href="#">1029</a>  | <i>Warranty of Project Presales</i>                              | Requires lender certification of sales and presales information.  |
| <a href="#">1030</a>  | <i>Project Eligibility Review Service Document Checklist</i>     | Checklist confirming all required documents have been provided (see below).   |
| <a href="#">1051</a>  | <i>Project Development/Master Association Plan</i>               | Requires lender certification of submitted information; includes master association and sub-association description and structure, common areas, title policy, master association budget, “as-built” survey or master plan. |
| <a href="#">1054</a>  | <i>Warranty of Condominium Project Legal Documents</i>           | Requires lender certification of compliance with laws and Fannie Mae legal requirements.  |
| <a href="#">1071</a>  | <i>Statement of Insurance and Fidelity Coverage</i>              | Requires lender certification of all insurance requirements; addresses specific insurance types and clauses, and requires the lender to obtain and review all policies.   |
| <a href="#">1073</a>  | <i>Individual Condominium Unit Appraisal</i>                     | Individual condominium appraisal report.  |
| <a href="#">1073A</a> | <i>Analysis of Annual Income and Expenses – Operating Budget</i> | Requires lender certification that the operating budget has been analyzed; detailed operating budget information to be completed by HOA and lender.   |
| <a href="#">1081</a>  | <i>Final Certification of Substantial Project Completion</i>     | Lender certification that project is substantially complete; lender to document any exceptions or uncompleted.  |

The *Project Eligibility Review Service Document Checklist* (Form 1030) also requires that the lender submit the following project documentation to Fannie Mae with the PERS application.

| ✓ | <b>Project Documentation Required by Form 1030</b>   |
|---|--|
|   | Prospectus, Public Offering Statement, or equivalent document  |
|   | Sample contract of sale  |
|   | Sample unit appraisal  |
|   | Phase 1 and/or Phase 2 Environmental Hazard Assessment (if underwriting analysis indicates any environmental concerns) |
|   | Development plan, including marketing materials, unit floor plans, and pricing analysis                                |

|   |   |
|---|---|
| ✓ | <b>Project Documentation Required by Form 1030</b>  |
|   | Engineer’s survey/property condition assessment with reserve analysis and developer’s Schedule of Improvements (if the project is a conversion) |
|   | Recorded plat map/site plan   |
|   | Budget prepared for the project   |
|   | Sales strategy from developer   |
|   | Letter from construction lender indicating loan is in good standing   |
|   | Photographs of subject project (include the site, improvements, recreation facilities, parking, and amenities) and comparable projects          |

Fannie Mae reserves the right to request additional documentation it deems necessary to conduct a full review of the project.

**Additional Requirements—For Newly Converted Non-Gut Rehabilitation Condo or Co-op Projects**

A non-gut rehabilitation refers to the renovation of a property that does not involve structural or functional changes, such as the replacement of all HVAC and electrical components. Rather, the rehabilitation might include, for example, the replacement of appliances and carpeting.

In order for a newly converted non-gut rehabilitation condo or co-op project to receive project approval through the standard PERS process, the project must comply with the following requirements.

|   |  |
|---|--|
| ✓ | <b>Lender Pre-PERS Submission Review Requirements –<br/>For Newly Converted Non-Gut Rehabilitation Condo or Co-op Projects</b>   |
|   | The project cannot be an ineligible project in accordance with <a href="#">B4-2.1-02, Ineligible Projects</a> .  |
|   | For condo projects—The condo project must comply with all requirements of the Full Review (as provided in <a href="#">B4-2.2-02, Full Review Process</a> and <a href="#">B4-2.2-03, Full Review: Additional Eligibility Requirements for Attached Units in New and Newly Converted Condo Projects</a> ).<br><br>For co-op projects—The co-op project must comply with all requirements for co-op projects (as provided in <a href="#">B4-2.3-02, Co-op Project Eligibility</a> , <a href="#">B4-2.3-03, Legal Requirements for Co-op Projects</a> , and <a href="#">B4-2.3-05, Geographic-Specific Co-op Project Considerations</a> ). |



| ✓ | <b>Lender Pre-PERS Submission Review Requirements –<br/>For Newly Converted Non-Gut Rehabilitation Condo or Co-op Projects</b>  |
|---|---|
|   | All rehabilitation work involved in the condo or co-op conversion must have been completed in a professional manner.  |
|   | A current reserve study prepared by a qualified, independent professional company, accompanied by an engineer's report, or functional equivalent, must comment favorably on the structural integrity of the project and the remaining useful life of the major project components.                                  |
|   | The project budget must contain line items for <ul style="list-style-type: none"> <li>• reserves to adequately support the costs identified in the reserve study, and</li> <li>• a utility contingency of at least 10% of the previous year's utility costs if the utilities are not separately metered.</li> </ul> |
|   | Funds to cover the total cost of any items identified in the reserve study or engineer's report that need to be replaced within five years from the date of the study must be deposited in the reserve account of the HOA or of the co-op corporation, in addition to the amount stated immediately above.          |
|   | The developer must provide a detailed description of the work proposed or already completed in order for the project units to be ready for sale.  |
|   | Generally, at least 50% of the total condo units or co-op stocks or shares in the project or subject legal phase must have been conveyed or be under contract for purchase to principal residence or second home purchasers.  |
|   | Up to 30% of the units (or of stocks or shares for co-ops) in projects that are subject to rent regulations, which protect tenants from eviction (if they have chosen not to purchase their unit), will be permitted.   |
|   | Phasing of projects (single building or multiple buildings) will be considered on a project basis.  |
|   | The project sponsor or developer must provide a comprehensive sales and marketing strategy.   |
|   | All projects are subject to a site inspection.  |

**Note:** See [B4-1.3-08, Comparable Sales](#), for information about appraisals of units in newly converted condo projects.

### Streamlined PERS Submission Process—For Established Projects

The streamlined PERS submission process for established condo projects that do not consist of manufactured homes is as follows:

| Step | Action   |
|------|--|
| 1.   | The lender performs a basic review to determine if the project satisfies all applicable Fannie Mae project eligibility and underwriting requirements prior to submission to PERS.  |
| 2.   | The lender completes a project submission package, which includes: <ul style="list-style-type: none"> <li>• <i>Application for Approval of Established Project</i> (<a href="#">Form 1091</a>).</li> <li>• <i>Condominium Project Questionnaire—Full Form</i> (<a href="#">Form 1076</a>), or a substantially similar form, completed within the past 180 days.</li> <li>• An appraisal report for a representative unit in the project. This report must be prepared within 120 days of the PERS application, and include photographs of the project, private streets, recreational amenities, parking, commercial space, and common areas.</li> <li>• Current fiscal year’s approved operating budget that reflects homeowners’ association income and expenses.</li> <li>• Reserve study completed within the past 24 months (only required for projects that are not funding a minimum of a 10% dedicated expense allocation in the budget to a replacement reserve for the future repair/replacement of the project’s major components).</li> </ul> |
| 3.   | The lender submits the complete project package, including all relevant supporting documentation, via email using the PERS Project Submission mailbox. See <a href="#">E-1-03, List of Contacts</a> .  |
| 4.   | A member of the Project Standards team reviews the package to determine if the project is eligible for approval.   |
| 5.   | Upon completion of the review, Fannie Mae issues its decision to the lender via email and posts approved projects on its website. See <a href="#">Condo, Co-op, and Planned Unit Development (PUD) Eligibility</a> for approved projects listed for each state, the District of Columbia, and the U.S. Virgin Islands.   |
| 6.   | Fannie Mae informs the lender of the specific review fee assessed for each PERS submission. Lenders are billed for PERS review fees in their “Monthly Technology   |

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| Step | Action  |
|------|---|
|      | Invoice.” For fees, see the <a href="#">Project Eligibility Review Service (PERS) Overview</a> on Fannie Mae's website. |

Fannie Mae reserves the right to request additional documentation it deems necessary to conduct a full review of the project.

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### Approval Designations

For both standard and streamlined PERS submissions, lenders must submit complete project packages to Fannie Mae via email to PERS Project Submission (see [E-1-03, List of Contacts](#)). Upon completion of its review, Fannie Mae will issue one of the following project approval designations:

- Conditional Project Approval,
- Final Project Approval,
- Ineligible, or
- Suspension of the Application.

Mortgages secured by units in projects must have a valid Fannie Mae Final Project Approval prior to delivery. Mortgages may not be delivered under the Conditional Project Approval, Ineligible, or Suspension of the Application designations.

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### Availability of Project Information

Lenders submitting projects to PERS must ensure that the developer, builder, management company, and/or HOA will provide project information to Fannie Mae as and when requested without charge. In the event the requested information is not provided, Fannie Mae reserves the right to withdraw the PERS approval.

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### Decision Expiration Dates

Conditional Project Approval: expires 9 months from the date of issue.

Final Project Approval: expires 18 months from the date of issue.

**Note:** Fannie Mae, in some instances and in its sole discretion, may set a shorter expiration term.

For information on requesting an extension, see the *Project Eligibility Review Service (PERS) Overview* on Fannie Mae's website.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-04</a> | May 31, 2016      |
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015  |
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014 |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |
| <a href="#">Announcement SEL-2012-04</a> | May 15, 2012      |
| <a href="#">Announcement SEL-2010-16</a> | December 01, 2010 |
| <a href="#">Announcement SEL-2010-06</a> | April 30, 2010    |
| <a href="#">Announcement 08-34</a>       | December 16, 2008 |



## **B4-2.2-08, Additional Requirements for Review of Condo, Co-op, and PUD Projects Comprised of Manufactured Homes (11/10/2014)**

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### Introduction

This topic contains information on additional requirements for reviewing condo, co-op, and PUD projects comprised of manufactured housing, including:

- [Submission to Fannie Mae](#)
- [Lender Requirements](#)
- [Delivering Loans Secured by Manufactured Home Units Accepted by Fannie Mae PERS Project Review](#)

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## Submission to Fannie Mae

All condo and co-op projects comprised of manufactured homes must be submitted to Fannie Mae for review and acceptance through the PERS submission process. Any PUD project comprised of single-wide manufactured homes must also be submitted to Fannie Mae for review and acceptance through the PERS submission process. Lenders that would like to submit a project comprised of manufactured housing for Fannie Mae review must contact the Project Standards team (see [E-1-03, List of Contacts](#)) to discuss the project and Fannie Mae's project submission requirements.

---

## Lender Requirements

Before submitting a project consisting of manufactured homes for a Fannie Mae PERS approval, the lender must perform the following pre-submission project review requirements.

| ✓ | <b>Lender Pre-PERS Submission Review Requirements –<br/>For Projects Consisting of Manufactured Homes</b>  |
|---|--|
|   | Review all aspects of the project to determine that it satisfies Fannie Mae condo eligibility requirements as stated in <a href="#">B4-2.1-01, General Information on Project Standards</a> .            |
|   | Review all aspects of the project to determine that it meets all eligibility requirements for the Full Review for condos or co-ops, requirements for PUDs, and any other applicable requirements.        |
|   | Review the manufactured housing unit to confirm that it meets all requirements of <a href="#">B4-1.4-01, Factory-Built Housing: Manufactured Housing</a> .   |
|   | Perform a thorough underwriting analysis of the project.<br><br><b>Note:</b> The lender must provide its underwriting analysis conclusion when the project is submitted to Fannie Mae for consideration. |

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## Delivering Loans Secured by Manufactured Home Units Accepted by Fannie Mae PERS Project Review

When delivering mortgage loans secured by units in manufactured home projects reviewed under the Fannie Mae PERS Project Review process, the lender must report the Project Type Code T and SFC 235 as part of the delivery data.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014 |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |



## **B4-2.2-09, Projects with Special Considerations and Project Eligibility Waivers (11/10/2014)**

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### Introduction

This topic contains information on projects with special considerations and project eligibility waivers, including:

- [Projects with Special Considerations](#)
- [Project Eligibility Waivers](#)

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### Projects with Special Considerations

Lenders may identify projects that merit special consideration even though the project characteristics do not meet all of the Fannie Mae eligibility requirements. In these instances, lenders can contact the Fannie Mae Project Standards team (see [E-1-03, List of Contacts](#)) to discuss the possibility of accepting such projects. Exceptions to Fannie Mae eligibility and underwriting requirements are considered on a project-by-project basis.

---

### Project Eligibility Waivers

If the lender believes that a specific eligibility requirement should be waived for a particular project with respect to a single loan, then the lender must

- first enter the project into CPM before requesting a waiver through the Credit Variance Administration System (CVAS), and
- request a waiver from Fannie Mae through CVAS.

Fannie Mae's Project Standards team (see [E-1-03, List of Contacts](#)) will determine if a single loan project eligibility waiver is warranted. Fannie Mae charges a nonrefundable \$200 review fee for each waiver request. A higher review fee may be charged based on the complexity of the waiver review.

**Note:** Project eligibility waivers are typically issued only for established projects, though Fannie Mae at its sole discretion reserves the right to allow this type of waiver for a unit in a new project on a case-by-case basis. New or newly converted projects must be reviewed for eligibility through an eligible lender review process or by Fannie Mae through the PERS submission process. Lenders must not request a project eligibility waiver for a unit in a new project to circumvent the required review for new projects.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Dates       |
|--|-------------------|
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014 |

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## Section B4-2.3, PUD and Co-op Eligibility Requirements



### B4-2.3-01, Eligibility Requirements for Units in PUD Projects (08/30/2016)

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#### Introduction

This topic contains information on PUD projects, including:

- [PUD Project Definition](#)
  - [Eligibility Requirements for Units in PUD Projects](#)
- 

#### PUD Project Definition

A PUD is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units. For a project to qualify as a PUD for the purposes of this policy, all of the following requirements must be met:

- each unit owner's membership in the HOA must be automatic and nonseverable,
- the payment of assessments related to the unit must be mandatory,
- common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners, and
- the subject unit must not be part of a condo or co-op project.

Zoning is not a basis for classifying a project or subdivision as a PUD. Units in projects or subdivisions simply zoned as PUDs that include the following characteristics are not defined as PUD projects under Fannie Mae's policies. These projects

- have no common property and improvements,
- do not require the establishment of and membership in an HOA, and



- do not require the payment of assessments.

Fannie Mae classifies PUD projects as either

- Type E—established PUD projects in which the developer has turned over voting control of the HOA to the unit purchasers.
- Type F—new PUD projects in which the developer has not turned over voting control of the HOA to the unit purchasers.

PUD projects are not eligible for review using the PERS process, unless they contain single-wide manufactured housing, which does require a PERS submission.

### Eligibility Requirements for Units in PUD Projects

Lenders must determine that the subject unit meets the following requirements.

| ✓ | <b>Eligibility Requirements –<br/>For Units in PUD Projects</b>   |
|---|---|
|   | The appraisal of the unit meets all appraisal requirements in Chapter B4-1, Appraisal Requirements.   |
|   | The individual unit securing the mortgage must be substantially complete. Any unfinished items must be in compliance with Fannie Mae’s policy for Postponed Improvements (see <a href="#">B4-1.2-03, Requirements for Postponed Improvements</a> ). |
|   | The unit securing the mortgage satisfies all Fannie Mae's insurance requirements in Subpart B7, Insurance, including all provisions applicable to PUD projects.   |
|   | The PUD project must be in compliance with Fannie Mae’s policy for priority liens (see <a href="#">B4-2.1-02, Ineligible Projects</a> ).  |

**Note:** Any unit located in a condo or co-op project within a larger PUD project or master association must meet the applicable requirements for condo or co-op projects.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016   |
| <a href="#">Announcement SEL-2015-09</a> | August 25, 2015   |
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014 |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011     |



## B4-2.3-02, Co-op Project Eligibility (03/29/2016)

### Introduction

This topic contains information on co-op project eligibility, including:

- [Co-op Project Eligibility Overview](#)
- [Request for Co-op Project Information](#)
- [Eligibility Requirements for Co-op Projects](#)

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### Co-op Project Eligibility Overview

Fannie Mae purchases or securitizes co-op share loans for units in co-op projects from lenders specially approved to sell such loans to Fannie Mae. Lenders must determine the acceptability of a co-op project, unless the project is comprised of manufactured homes or is a project that is a newly converted non-gut rehabilitation of a co-op project. Such projects must be submitted via the Project Eligibility Review Service (PERS) to Fannie Mae for review.

The lack of available co-op project data and the inconsistent reporting of co-op project information can be a barrier to obtaining affordable financing for co-op housing. Lenders are responsible for determining the most appropriate method for obtaining information about co-op projects and the accuracy of the information they obtain.

For additional information, see:

- [A1-1-01, Application and Approval of Seller/Service](#),
- [B4-2.3-04, Loan Eligibility for Co-op Share Loans](#),
- [B4-2.2-07, Project Eligibility Review Service \(PERS\)](#),

- [B4-2.1-01, General Information on Project Standards.](#)

### Request for Co-op Project Information

The *Request for Cooperative Project Information* ([Form 1074](#)) includes the project information that lenders, investors, and mortgage insurers may use in their evaluation of the eligibility of a co-op project, and provides an efficient means of collecting basic project information from co-op project management agents, boards of directors, or sponsors/developers.

### Eligibility Requirements for Co-op Projects

The table below provides project eligibility requirements for co-op projects.

| ✓ | <b>Full Review Eligibility Requirements –<br/>For New and Established Co-op Projects</b>  |
|---|---|
|   | <p>In order for a co-op share loan to be eligible for delivery, the co-op project in which the secured unit is located must qualify as a cooperative housing corporation under Section 216 of the Internal Revenue Service Code.</p> <p>The lender’s loan or project approval file must contain evidence regarding the project’s compliance with Section 216.</p> <p><b>Note:</b> If the co-op project does not meet Section 216 requirements, Fannie Mae will not purchase a co-op share loan from within the project.</p> |
|   | <p>The co-op housing project must</p> <ul style="list-style-type: none"> <li>• be designed principally for residential use;</li> <li>• consist of two or more units; and</li> <li>• be located in an area that has a demonstrated market acceptance for the co-op form of ownership, as reflected by the availability of similar comparable sales for co-op units in the market area.</li> </ul>  |
|   | <p>The project must be owned in fee simple.</p>   |
|   | <p>The lender is responsible for determining that the co-op cooperation holds title to the property of the co-op project, including the dwelling units. A type of co-op project that does not meet these requirements is one in which the borrower, not the co-op corporation, owns his or her dwelling unit in the project. Co-op share loans in these projects are commonly referred to as “land-home” or “land-lease” co-op projects and require special approval for delivery to Fannie Mae.</p>                        |

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| ✓ | <b>Full Review Eligibility Requirements –<br/>         For New and Established Co-op Projects</b>   |
|   | <p>The co-op corporation must have good and marketable title to the property, including the dwelling units and amenities. The project premises must be free and clear of liens and encumbrances in accordance with <a href="#">B7-2-05, Title Exceptions and Impediments</a>.</p>   |
|   | <p>The blanket project mortgage may be a market-rate FHA-insured mortgage or a conventional mortgage.</p> <p>The blanket mortgage for the project may be a balloon mortgage. The remaining term may not be less than six months. If the balloon mortgage incorporates an adjustable-rate feature, and the remaining term is less than three years but not less than six months, the current interest rate may not be subject to an interest rate adjustment prior to the maturity date.</p> <p>Fannie Mae purchases or securitizes co-op share loans regardless of whether Fannie Mae owns the blanket mortgage. However, if Fannie Mae owns an interest in the blanket co-op project mortgage, the maximum mortgage amount available to the borrower must be reduced by the portion of the unpaid principal balance of the blanket mortgages(s) that is attributable to the subject unit’s ownership interest.</p> |
|   | <p>Fannie Mae will not purchase or securitize co-op share loans if the co-op project is an ineligible project type, regardless of the characteristics of the share loan. See <a href="#">B4-2.1-02, Ineligible Projects</a>.</p>  |
|   | <p>The project must not be a manufactured housing project, unless the project is approved via the PERS process.</p>   |
|   | <p>The project must meet Fannie Mae’s insurance requirements, as stated in Subpart B7, Insurance.</p>   |
|   | <p>Co-op projects may be newly constructed or conversions of existing buildings.</p>  |
|   | <p>All newly converted non-gut rehabilitation of co-op share projects must be approved through the PERS process.</p> <p>A newly converted non-gut rehabilitation co-op project is defined as follows:</p> <ul style="list-style-type: none"> <li>• a project for which the building has been recently converted from another use such as, but not limited to, apartment use, hotel building, or warehouse;</li> </ul>   |

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| ✓ | <p><b>Full Review Eligibility Requirements –</b></p> <p><b>For New and Established Co-op Projects</b></p>  |
|   | <ul style="list-style-type: none"> <li>• the renovation work did not involve structural or functional changes, such as the replacement of all HVAC and electrical components and was limited to cosmetic or design changes such as painting, flooring, and appliances; and,</li> <li>• the project meets the criteria for being a new project because any of the following conditions exist with respect to the status of the project:                         <ul style="list-style-type: none"> <li>– fewer than 90% of the stock or shares have been sold to purchasers;</li> <li>– the developer or sponsor is in control of the co-op corporation;</li> <li>– the project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a co-op; or</li> <li>– the project is subject to additional phasing or annexation.</li> </ul> </li> </ul> <p>The following newly converted projects may be reviewed by the lender through the standard co-op review process rather than being submitted to PERS:</p> <ul style="list-style-type: none"> <li>• any non-gut rehabilitation conversion project that was converted at least three years prior to the co-op share loan note date that is considered “newly converted” solely because more than 10% of the stock or shares are owned by the sponsor as described in the single entity ownership provisions in <a href="#">B4-2.3-05, Geographic-Specific Co-op Project Considerations</a>; and</li> <li>• two- to four-unit non-gut rehabilitation conversions.</li> </ul> |
|   | <p>All units, common areas, and facilities within the project must be 100% complete. The project cannot be subject to additional phasing or annexation. All construction and rehabilitation for the project must be completed in a professional manner before Fannie Mae purchases or securitizes the share loan, unless the Project Standards Team approves delivery at an earlier date.</p>  |
|   | <p>Phase I and II environmental hazard assessments are not required for co-op projects unless the lender identifies an environmental problem through the performance of its project underwriting and due diligence.</p>  |

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| ✓ | <b>Full Review Eligibility Requirements –<br/>         For New and Established Co-op Projects</b>  |
|   | In the event that environmental problems are identified, the problems must be determined to be acceptable, as described in <a href="#">E-2-02, Suggested Format for Phase I Environmental Hazard Assessments</a> .   |
|   | Stock, share, or other contractual agreement evidencing ownership, and the accompanying occupancy rights that represent at least 50% of the total number of stock or shares in the co-op corporation and the related occupancy rights of units in the project must have been sold and conveyed (or, for new construction, must be under contract for sale) to principal residence purchasers.  |
|   | <p>The project’s most recent operating budget, audited financial statements, or corporate tax returns must</p> <ul style="list-style-type: none"> <li>• be consistent with the nature of the project,</li> <li>• provide for adequate cash flow to service the current debt and operating expenses, and</li> <li>• provide for adequate replacement and operating reserves.</li> </ul> <p>If the most recent budget is not available, the lender may rely on a review of the co-op corporation’s most recent audited financial statements or corporate tax returns to determine that the financial requirements in this section have been met.</p> |
|   | The project must have a good financial record, with no more than 15% of the owners being more than 60 days delinquent in the payment of their financial obligations to the co-op corporation.  |
|   | If the project is a recipient of subsidies or similar benefits (such as tax or assessment abatements) that will terminate partially or fully within the next three years, the lender must evaluate the impact the expiration of such benefit will have on the project. If the benefit is scheduled to expire within three years from the note date, the lender must include the higher monthly fees in the borrower’s monthly liabilities for debt-to-income ratio qualifying purposes.  |
|   | The project and share loan documentation must comply with any specific legal requirements established for the state in which the project is located.   |
|   | The units in the project must be owned in fee simple.  |
|   | The co-op corporation must have the sole ownership interest in the project’s facilities, common elements, and limited common elements, except as noted below.  |

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| ✓ | <p><b>Full Review Eligibility Requirements –</b></p> <p><b>For New and Established Co-op Projects</b></p>  |
|   | <p>Shared amenities are permitted only when two or more residential projects share amenities for the exclusive use of the unit owners. The associations or corporations must have an agreement in place governing the arrangement for shared amenities that includes the following:</p> <ul style="list-style-type: none"> <li>• a description of the shared amenities subject to the arrangement;</li> <li>• a description of the terms under which unit owners in the project may use the shared amenities;</li> <li>• provisions for the funding, management, and upkeep of the shared amenities; and</li> <li>• provisions to resolve conflicts between the residential projects regarding the amenities.</li> </ul> <p>Examples of shared amenities include, but are not limited to, clubhouses, recreational or fitness facilities, and swimming pools.</p> <p>The developer may not retain any ownership interest in any of the facilities related to the project. The amenities and facilities, including parking and recreational facilities, may not be subject to a lease between the unit owners or the co-op corporation and another party. Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable.</p> |

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-03</a> | March 29, 2016    |
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015  |
| <a href="#">Announcement SEL-2015-02</a> | February 24, 2015 |
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014 |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011     |
| <a href="#">Announcement SEL-2010-10</a> | August 12, 2010   |
| <a href="#">Announcement 09-32</a>       | October 30, 2009  |
| <a href="#">Announcement 08-34</a>       | December 16, 2008 |



## **B4-2.3-03, Legal Requirements for Co-op Projects (11/03/2015)**

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### Introduction

This topic contains information on legal requirements for co-op projects, including:

- [Amendments to Documents](#)
- [Co-op Membership](#)
- [Lien Position for Co-op Share Loans](#)
- [Prior Co-op Financing](#)
- [Assignment of Co-op's Lease/Occupancy Rights](#)
- [Co-op Corporation's Recognition Agreement, Responsibilities, and Lender's Rights](#)
- [Lender's Rights](#)

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### Amendments to Documents

The co-op project's documents must provide for the tenant-stockholders to have the right to amend them. In addition, the co-op corporation must be legally bound to notify the holder of a co-op share loan about any proposed material changes to the co-op project with respect to allocation of membership interests, voting rights, insurance coverages, and any other provisions that are for the express benefit of the lender.



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## Co-op Membership

The project documents must require that the sale or transfer of stock, shares, or membership certificates in the co-op corporation be in compliance with federal and state security disclosure laws. The documents also must require tenant-stockholders to own stock, shares, or a membership certificate, and permit the stock, shares, or membership certificates in the co-op corporation to be pledged and registered.

The project documents must give the tenant-stockholder a right to occupy the unit for a period that extends at least to the maturity date of the share loan, although this right should be subject to the terms and conditions of a proprietary lease or occupancy agreement between the tenant-stockholder and the co-op corporation. The documents also must prohibit the co-op corporation from imposing unreasonable limitations on the tenant-stockholder's ability to sell, transfer, or convey his or her membership, or to sublease his or her unit. If the purchaser's right to membership or occupancy is subject to any right of the co-op corporation to give approval, the lender must furnish evidence to clearly show that such approval has been given before Fannie Mae will purchase or securitize the co-op share loan.

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## Lien Position for Co-op Share Loans

The share loan must be secured by the assignment (in pledge or trust) of the borrower's leasehold estate; a pledge or trust of the corporation stock, shares, or membership certificate; and any other documents that are appropriate under individual state or local laws and practices.

The lender that is financing the share loan must receive an assignment of the proprietary lease, occupancy agreement, or other similar evidence of the right to occupy the unit for all share loans that it delivers to Fannie Mae. The lender must also obtain a stock power, assignment, or other similar document that authorizes the lender to transfer ownership interest in the event of a default. Valid financing statements and assignments of financing statements must be executed and filed, if necessary to perfect Fannie Mae's security interest under the Uniform Commercial Code of the state in which the property is located. Information searches or equivalent evidence of filing financing statements and assignments of financing statements must be obtained and must show that the Fannie Mae co-op share loan is in first-lien position. In those states in which co-op units are considered real property, perfection of the lien must comply with state law applicable to real estate.

The share loan must be a first-lien, except that, where custom dictates to the contrary, Fannie Mae will permit its lien to be subordinate to the co-op corporation's lien against the tenant-stockholder's shares for unpaid assessments that represents the *pro rata* share of the corporation's payments for the blanket mortgage, current year's real estate taxes, operating expenses or maintenance fees, and special assessments.

**Note:** The *pro rata* share of the project debt that is related to the co-op share loan cannot exceed 35% of the sum of the related *pro rata* share of the project debt and the appraised equity interest value of the shares. Lenders may use a higher ratio (not to exceed 40%) when there are fully documented compensating factors that justify using the higher ratio.

Fannie Mae will also permit its lien to be subordinate to any assignment of rents or maintenance expenses in any mortgage or deed of trust that is secured by the co-op project, or any Regulatory Agreement entered into by the co-op corporation and the Secretary of HUD as a condition for obtaining HUD mortgage insurance.

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### **Prior Co-op Financing**

The co-op project must be in compliance with the requirements imposed by the holder of any prior financing for the project. If the blanket mortgage on a project includes a due-on-encumbrance clause and the project is located in a state in which share loans are considered to be an encumbrance on the project, the blanket lender must consent to the share loan financing. In the case of a conversion of an existing building, the blanket lender must agree to the use of the building as a co-op and, if it is feasible, agree—in the event of a default on the blanket mortgage—not to wipe out the shares of those tenant-stockholders who are current in the payment of their assessments or carrying charges.

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### **Assignment of Co-op's Lease/Occupancy Rights**

Generally, the project documents should not permit the co-op corporation to restrict the sale, conveyance, or transfer of a unit owned by a lender, its successors, or assigns, nor to place any limits on the assignment of the proprietary lease or occupancy agreement to the lender, its successors, or assigns. This lease or agreement must be assumable by the lender if the tenant-stockholder defaults on the share loan. If the co-op's organizational documents require that a tenant-stockholder be a natural person, they must permit the lender to select a non-corporate designee for any assignment of a proprietary lease or occupancy agreement that it acquires through foreclosure or acceptance of a deed in lieu of foreclosure. If the lender assumes the lease or agreement as the result of the tenant-stockholder's default, the co-op corporation must allow the lender to attempt to sell its interest in the lease or agreement. However, if the lender is unable to effect a satisfactory sale within 60 days—either through its own efforts or with assistance from the co-op corporation—the co-op corporation may not prohibit the lender from subletting the unit.

The project documents may grant the co-op corporation the right to approve a lender's sublessee or to offer an alternate sublessee that is satisfactory to the lender. However, the co-

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op corporation's approval standards and procedures may not be unreasonably restrictive or in violation of applicable law, and the action must be completed within a reasonable time after the lender requests approval of a proposed sublessee.

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### **Co-op Corporation's Recognition Agreement, Responsibilities, and Lender's Rights**

The project documents must either require the co-op corporation to execute a separate agreement—such as a recognition agreement—or include provisions to recognize specific rights of the lender that finances the share loan (or those of its successors or assigns) and the co-op corporation's responsibilities to that lender.

### **Co-op Corporation's Responsibilities**

The recognition agreement (or the project's legal documents) must include, among other things, the following responsibilities for the co-op corporation:

- The co-op corporation must evict a tenant-stockholder who has defaulted on his or her share loan and must terminate that tenant-stockholder's lease, if the share loan holder requests it to do so.
- The co-op corporation must be legally bound to notify the lender of any of the following changes or occurrences:
  - any threatened or actual condemnation, eminent domain proceeding or acquisition, or any actual loss, whether or not covered by insurance, that affects any portion of the co-op project or unit;
  - failure to maintain compliance with co-operative corporation eligibility under IRS Code Section 216;
  - any 30-day delinquency by the co-op corporation in payments due under any blanket mortgage for real estate taxes, assessments, and charges imposed by a government entity or public utility, or under any ground lease;
  - any lapse, cancellation, or material modification of any insurance or fidelity insurance coverages maintained by the co-op project;
  - any proposed action that requires the consent of a specified percentage of eligible share loan holders; and
  - any 90-day delinquency by the tenant-stockholder that is related to the payment of his or her monthly assessments or carrying charges.

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## Lender's Rights

The project documents must grant the lender financing a share loan the right to cure the tenant-stockholder's defaults in his or her assessment payments or carrying charges and the right to review and approve the following actions before the co-op corporation can consent to them:

- any surrender, cancellation, modification, or assignment of any documents evidencing ownership, possession, and use of a unit;
- any sublease of a unit;
- any further or additional pledge or mortgage of any documents evidencing ownership, possession, and use of a unit;
- any action to change the form of ownership of the project; or
- the contraction, expansion, or termination of the co-op project.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015  |
| <a href="#">Announcement SEL-2015-02</a> | February 24, 2015 |



## **B4-2.3-04, Loan Eligibility for Co-op Share Loans (02/23/2016)**

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### Introduction

This topic contains information on loan eligibility for co-op share loans, including:

- [Overview](#)
- [Co-op Share Loan Eligibility Requirements](#)
- [Calculating the LTV Ratio for Co-op Share Loans](#)
- [Co-op Share Loans Subject to Flip Tax](#)
- [Co-op Share Loan Documentation](#)
- [Whole Loan and MBS Delivery Requirements](#)

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## Overview

Co-op share loans finance the purchase or refinancing of the borrower's ownership interest in a co-op housing corporation and accompanying occupancy rights in a residential unit in a co-op project owned by the co-op housing corporation. The property that secures Fannie Mae's first lien is the borrower's ownership interest in a co-op housing corporation that is represented by stock or shares in the co-op housing corporation (or by a membership certificate or other contractual agreement evidencing ownership) and an assignment of the borrower's rights under a proprietary lease or occupancy agreement with the co-op housing corporation.

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## Co-op Share Loan Eligibility Requirements

Fannie Mae will purchase co-op share loans provided borrowers occupy the property as a principal residence or second home. Investment properties are prohibited. Fannie Mae does not purchase or securitize co-op share loans that are subject to subordinate financing except for DU Refi Plus and Refi Plus transactions.

For the applicable credit score, minimum reserve requirements, and maximum debt-to-income ratio requirements, see the [Eligibility Matrix](#).

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## Calculating the LTV Ratio for Co-op Share Loans

The method for calculating the LTV ratio for a co-op share loan is based on whether the borrower assumes his or her *pro rata* share of the blanket mortgage or does not. In those markets where the borrower assumes his or her *pro rata* share of the blanket mortgage, the LTV ratio is determined by dividing the original loan amount by the lower of

- the sales price for the co-op unit (unencumbered by the unit's *pro rata* share of the co-op project's blanket mortgage(s)), or
- the appraised value of the co-op stock or shares and the related occupancy rights (unencumbered by the unit's *pro rata* share of the project's blanket mortgage(s)).

In those markets where the borrower does not assume his or her *pro rata* share of the blanket mortgage, then the LTV ratio is determined by dividing the original loan amount by the lower of

- the sales price for the co-op unit, or
- the appraised value of the co-op stock or shares and the related occupancy rights.

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### **Co-op Share Loans Subject to Flip Tax**

Co-op share loans secured by units in co-op projects that require the payment of a “flip tax” are eligible for delivery as long as the co-op project’s legal documents permit the imposition of a flip tax and provide for one of the following:

- the lender is exempt from paying the flip tax if the lender acquires the co-op unit in foreclosure, in a transfer by the borrower in lieu of foreclosure, or any other transfer of the borrower’s interest in the co-op unit in full or partial satisfaction of the borrower’s obligations under the co-op share loan; or
- the flip tax is payable when the sales price of the co-op unit exceeds the existing unit owner’s purchase price (based on property appreciation) and then is assessed only on the amount of the appreciation in value (this flip tax is profit-based).

If the flip tax does not meet one of these requirements and is due whether or not the sales price exceeds the existing unit owner’s purchase price, then it may still be eligible as long as the amount of the flip tax is less than or equal to 5% of the value of the property (calculated as the lesser of appraised value or sales price) and it is calculated in one of the following ways:

- a flat fee,
- a fee per share,
- a percentage of the appraised value or sales price of the co-op unit, or
- a dollar amount per room.

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### **Co-op Share Loan Documentation**

Fannie Mae does not publish multistate standard co-op share loan instruments because of the variations in state laws pertaining to the co-op form of ownership. If a lender elects to use the Fannie Mae fixed-rate note forms for co-op share loans, the lender represents and warrants that the notes comply with all applicable laws and regulations for co-op share loans in and are enforceable and negotiable under the laws of the applicable jurisdiction.

Fannie Mae publishes state-specific documentation requirements for states in which Fannie Mae purchases co-op share loans on [Fannie Mae's website](#). Those requirements describe documents that must be delivered to the document custodian (for example, co-op Recognition Agreement, assignments to Fannie Mae, and evidence of share ownership) and documents that the lender must retain in the individual loan file.

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## Whole Loan and MBS Delivery Requirements

Co-op share loans may be delivered as whole loans in standard commitments. Co-op share loans pooled in MBS may be eligible for delivery as long as they meet the requirements in

- [C3-2-01, Determining Eligibility for Loans Pooled into MBS](#);
- [C3-4-02, Commingling Fixed-Rate Mortgages in MBS](#);
- [C3-5-08, Commingling ARMs in MBS](#); and
- [C3-6-01, Parameters for Pooling Loans Into Fannie Majors](#).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016  |
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015   |
| <a href="#">Announcement SEL-2015-03</a> | March 31, 2015     |
| <a href="#">Announcement SEL-2015-02</a> | February 24, 2015  |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013    |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011     |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">Announcement SEL-2010-06</a> | April 30, 2010     |
| <a href="#">Announcement SEL-2010-02</a> | March 2, 2010      |



## **B4-2.3-05, Geographic-Specific Co-op Project Considerations (11/03/2015)**

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### **Introduction**

This topic contains information on geographic-specific co-op project considerations, including:

- [Overview](#)
  - [Special Treatment of Single-Entity Ownership Requirements](#)
  - [Negative Cash Flow from Unsold Units](#)
  - [Delivery Requirements](#)
- 

### **Overview**

The policies in this topic are applicable to co-op projects located in the five boroughs of the City of New York and the New York state counties of Nassau, Rockland, Suffolk, and Westchester. These policies provide eligibility flexibilities that address specific local market conditions and may not be applied to co-op projects outside of these geographic areas.

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### **Special Treatment of Single-Entity Ownership Requirements**

The sponsor may own more than 10% of the stock or shares in the corporation and the related occupancy rights provided that any such stock or share ownership above the 10% limitation pertains to units that are subject to statutory rent regulations that limit the sponsor's ability to sell his or her ownership interest in such shares or stocks. The lender must obtain documentation to validate that the stock or share is subject to such regulations.

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### **Negative Cash Flow from Unsold Units**

Negative cash flow from unsold units is permitted provided all of the following requirements are met:

- The co-op corporation's last audited financial statement, current operating budget, and proposed operating budget for the following fiscal year, if any, and the New York State Attorney General's Financial Disclosure Statement ("Attorney General's Disclosure Statement") applicable to such co-op project must demonstrate that to the extent that the project has negative cash flow from unsold units



- such negative cash flow (including, but not limited to, any principal and interest payments relating to the financing obtained by the sponsor to acquire the co-op project) will not exceed an amount equal to 5% of the project’s annual operating budget;
  - no more than 15% of the co-op unit owners are more than 30 days delinquent in the payment of their financial obligations to the co-op corporation; and
  - if the sponsor fails to pay the monthly assessments relating to all co-op units owned by the sponsor, the monthly assessments of the co-op share owners other than the sponsor will not increase by more than 10%.
- The Attorney General’s Disclosure Statement or equivalent sponsor disclosure must also indicate that
    - the sponsor is current on all financial obligations under the offering plan relating to the project;
    - the sponsor is current on all financial obligations relating to any other project in which the sponsor owns or holds more than 10% of the units; and
    - the sponsor has not pledged any of the shares of the co-op project as security for any loan other than to secure, in whole or in part, the financing obtained by the sponsor to acquire the co-op project.
  - The Attorney General’s Disclosure Statement or equivalent sponsor disclosure must be dated no more than 18 months prior to the share loan note date.

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### Delivery Requirements

Co-op share loans delivered with the geographic flexibilities described in this topic must be delivered to Fannie Mae with Special Feature Code (SFC) 107 in addition to any other required SFCs.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b> |
|---|-------------------|
| <a href="#"><u>Announcement SEL-2015-12</u></a> | November 3, 2015  |



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# Subpart B5, Unique Eligibility and Underwriting Considerations



## Unique Eligibility and Underwriting Considerations

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### Introduction

This subpart contains unique eligibility and underwriting considerations pertaining to certain loan, property, and financing types.

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### In This Subpart

This subpart contains the following chapters:

|   |     |
|---|-----|
| B5-1, High-Balance Mortgage Loans .....   | 770 |
| B5-2, Manufactured Housing .....  | 775 |
| B5-3, Construction and Energy Financing .....   | 793 |
| B5-4, Property-Specific Products .....  | 829 |
| B5-5, Community Seconds, Community Land Trusts, DU Refi Plus and Refi Plus, and<br>Loans with Resale Restrictions ..... | 848 |
| B5-6, HomeReady Mortgage .....  | 923 |

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# Chapter B5-1, High-Balance Mortgage Loans



## High-Balance Mortgage Loans

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### Introduction

This chapter describes the policies and requirements related to high-balance mortgage loans.

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### In This Chapter

This chapter contains the following topics:

|   |     |
|---|-----|
| <a href="#">B5-1-01, High-Balance Mortgage Loan Eligibility and Underwriting (02/23/2016)</a>                                   | 770 |
| <a href="#">B5-1-02, High-Balance Pricing, Mortgage Insurance, Special Feature Codes, and Delivery Limitations (12/15/2015)</a> | 773 |

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## B5-1-01, High-Balance Mortgage Loan Eligibility and Underwriting (02/23/2016)

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### Introduction

This topic contains loan eligibility and underwriting information on high-balance mortgage loans, including:

- [Loan Limits](#)
  - [Loan Eligibility and Underwriting Requirements](#)
  - [DU Refi Plus and Refi Plus](#)
  - [Government Mortgage Loans](#)
  - [Appraisal Requirements](#)
- 

### Loan Limits

The high-balance loan requirements apply to mortgage loans with original loan amounts meeting the high-cost area loan limits established by the Federal Housing Finance Agency. Fannie Mae

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publishes on its website the maximum high-cost area loan limits that may apply by state (or territory); however, specific loan limits are established for each county (or equivalent) and may be lower for each specific high-cost area. Refer to [Loan Limits for Conventional Mortgages](#) for additional information, including the loan limits for each area.

Lenders are responsible for ensuring that the original principal balance of each mortgage loan does not exceed the applicable maximum loan limit for the specific area in which the property is located. To assist lenders in determining the applicable limits, Fannie Mae posts reference material on its website, including the Loan Limit Geocoder, which lenders can use to look up loan limits based on a specific address (or batch of addresses).

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### Loan Eligibility and Underwriting Requirements

High-balance mortgage loans must meet all standard Fannie Mae eligibility and underwriting requirements, as outlined in this *Selling Guide*, except as noted in this section. The following guidelines apply to all high-balance mortgage loans:

- Loans must be conventional first-lien mortgages only.
- Loans must meet the LTV, CLTV, and HCLTV ratios as outlined in the [Eligibility Matrix](#).
- All borrowers must have a credit score.
- All loans must be underwritten through DU.

For additional eligibility information, see the *Eligibility Matrix*. For information about loan delivery, see [B5-1-02, High-Balance Pricing, Mortgage Insurance, Special Feature Codes, and Delivery Limitations](#).

**Note:** Unless otherwise notified by Fannie Mae, existing variances in a lender's Master Agreement apply to high-balance mortgage loans; however, the more restrictive of the eligibility requirements of this section or the lender's variance will apply.

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### DU Refi Plus and Refi Plus

High-balance mortgage loans are eligible for DU Refi Plus and Refi Plus. The eligibility and appraisal requirements specific to DU Refi Plus and Refi Plus supersede all requirements that apply to high-balance mortgage loans. See [B5-5.2-01, DU Refi Plus and Refi Plus Eligibility](#), for additional information.

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## Government Mortgage Loans

Lenders may deliver higher balance FHA, VA, and RD mortgage loans to Fannie Mae. For details, see [A2-4-01, Master Agreement Overview](#), [B6-1-01, General Government Mortgage Loan Requirements](#), [B6-1-02, Eligible FHA-Insured Mortgage Loans](#), [B6-1-03, Eligible VA-Guaranteed Mortgages](#), and [B6-1-05, Eligible RD-Guaranteed Mortgages](#).

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## Appraisal Requirements

In addition to the standard *Selling Guide* or DU fieldwork requirements, a *One-Unit Residential Appraisal Field Review Report* ([Form 2000](#)) or a *Two- to Four-Unit Residential Appraisal Field Review Report* ([Form 2000A](#)), is required if the property is valued at \$1,000,000 or more and the LTV, CLTV, or HCLTV ratio is greater than 75%. A Field Review is required to ensure that the appraisal is an accurate representation of value. If the Field Review results in a different opinion of value than the appraisal, the lowest of the original appraised value, the Field Review value, or the sales price (for purchases) should be used to calculate the LTV ratios.

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| Announcements and Release Notes          | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016  |
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2013-01</a> | January 17, 2013   |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">DU Version 9.0</a>           | July 24, 2012      |
| <a href="#">Announcement 09-08R</a>      | June 8, 2009       |
| <a href="#">Announcement 08-27</a>       | October 16, 2008   |

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## **B5-1-02, High-Balance Pricing, Mortgage Insurance, Special Feature Codes, and Delivery Limitations (12/15/2015)**

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### **Introduction**

This topic contains information about the following aspects of high-balance mortgage loans, including:

- [Pricing/Loan-Level Price Adjustments](#)
  - [Mortgage Insurance Requirements](#)
  - [Delivery Data Requirements Including Special Feature Codes](#)
  - [High-Balance Whole Loan and MBS Delivery Limitations](#)
- 

### **Pricing/Loan-Level Price Adjustments**

Live pricing options are provided for high-balance mortgage loan transactions in Fannie Mae's whole loan committing application. Specific additional LLPAs apply to all high-balance mortgage loans, whether delivered under whole loan commitments or MBS contracts. High-balance mortgage loans are also subject to all other applicable LLPAs. All price adjustments are cumulative. For details, see the [Loan-Level Price Adjustment \(LLPA\) Matrix](#).

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### **Mortgage Insurance Requirements**

Mortgage insurance coverage is required for high-balance mortgage loans with LTV ratios greater than 80%. Financed borrower-purchased mortgage insurance is permitted; however, the maximum gross LTV (after the inclusion of the financed premium) cannot exceed 95%.

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### **Delivery Data Requirements Including Special Feature Codes**

SFCs: Lenders must use SFC 808 when delivering high-balance mortgage loans to Fannie Mae, except for government loans and unless otherwise instructed. All other applicable SFCs must also be provided.

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### **High-Balance Whole Loan and MBS Delivery Limitations**

Fannie Mae's requirements regarding delivery limitations for nonstandard loans apply to high-balance mortgage loans. For details see [C2-2-01, General Requirements for Good Delivery of Whole Loans](#), and [C3-2-01, Determining Eligibility for Loans Pooled into MBS](#). Furthermore,

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lenders may deliver high-balance mortgage loans into a Fannie Majors TBA-eligible pool. For details, see [C3-6-01, Parameters for Pooling Loans Into Fannie Majors](#).

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2015-13</a> | December 15, 2015  |
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012      |
| <a href="#">Announcement 09-29</a>       | September 22, 2009 |
| <a href="#">Announcement 09-08R</a>      | June 8, 2009       |
| <a href="#">Announcement 08-27</a>       | October 16, 2008   |

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# Chapter B5-2, Manufactured Housing



## Manufactured Housing

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### Introduction

This chapter describes the requirements for originating and underwriting mortgage loans secured by manufactured housing.

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### In This Chapter

This chapter contains the following topics:

|   |     |
|---|-----|
| B5-2-01, Manufactured Housing (02/23/2016) .....  | 775 |
| B5-2-02, Manufactured Housing Loan Eligibility (04/15/2014) .....   | 777 |
| B5-2-03, Manufactured Housing Underwriting Requirements (07/26/2011) .....  | 779 |
| B5-2-04, Manufactured Housing Pricing, Mortgage Insurance, and Special Feature Code Requirements (12/30/2009) ..... | 784 |
| B5-2-05, Manufactured Housing Legal Considerations (12/06/2016) .....   | 785 |

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## B5-2-01, Manufactured Housing (02/23/2016)

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### Introduction

This topic contains information on manufactured housing, including:

- [Manufactured Housing Overview](#)
  - [Lender Eligibility](#)
  - [Variances](#)
  - [Lender Indemnification](#)
- 

### Manufactured Housing Overview

Any dwelling unit built on a permanent chassis and attached to a permanent foundation system is a manufactured home for purposes of Fannie Mae's guidelines.

The manufactured home and the land on which it is situated must be titled as real property.

Other factory-built housing (not built on a permanent chassis)—such as modular, prefabricated, panelized, or sectional housing—is not considered manufactured housing and mortgage loans secured by such housing are eligible under the guidelines stated in Subpart B2, Eligibility.

Government insured or guaranteed manufactured housing loans are not subject to conventional guidelines for manufactured housing and therefore are not subject to the provisions set forth in Chapter B6–1, Government Insured and Guaranteed Mortgages.

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### **Lender Eligibility**

Lenders are not required to obtain specific approval to deliver mortgages secured by manufactured homes. However, lenders must obtain Fannie Mae’s project acceptance for the following projects if they are composed of manufactured homes:

- Any condo project — Both the land and the dwelling must be subject to the condo association. See the following topics for more information:
    - [B4-2.1-01, General Information on Project Standards](#)
    - [B4-2.2-08, Additional Requirements for Review of Condo, Co-op, and PUD Projects Comprised of Manufactured Homes](#)
  - Any co-op project — Both the land and the dwelling must be owned by the co-op corporation.
  - Any PUD project composed of single-width manufactured homes.
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### **Variances**

Unless specifically stated in the terms of the contract, variances or other terms contained in any lender’s contract are not eligible for use with mortgages secured by manufactured homes.

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### **Lender Indemnification**

Lenders are subject to all indemnification obligations as described in [A2-1-03, Indemnification for Losses](#).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |



## B5-2-02, Manufactured Housing Loan Eligibility (04/15/2014)

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### Introduction

This topic contains information on manufactured housing loan eligibility, including:

- [General Loan Eligibility Criteria](#)
- [Ineligible Manufactured Housing Criteria](#)
- [Manufactured Housing Standards](#)

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### General Loan Eligibility Criteria

Fannie Mae purchases mortgage loans secured by manufactured homes that meet the following general criteria:

- first-lien mortgages only,
- fully amortizing fixed-rate mortgages or
- fully amortizing adjustable-rate mortgages with initial fixed-rate periods of 7 years or 10 years,
- principal residences and second home dwellings.

Refer to the [Eligibility Matrix](#) for maximum allowable LTV, CLTV, and HCLTV ratios.

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### Ineligible Manufactured Housing Criteria

The following are ineligible for mortgage loans secured by manufactured homes:

- 
- temporary buydowns;
  - investment properties;
  - single-width manufactured homes, unless located in a Fannie Mae-approved subdivision, co-op, condo, or PUD project development;
  - homes located on leasehold estates.
- 

### **Manufactured Housing Standards**

The mortgage loan must be secured by both the manufactured home and the land on which it is situated, and both the manufactured home and the land must be legally classified as real property under applicable state law.

The purchase, conveyance, and financing (or refinancing) of the land and the manufactured home must be evidenced and secured by a single valid and enforceable note and first lien mortgage, deed of trust or security deed that is recorded in the land records, in states where applicable state law clearly provides for such a single lien.

See [B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing](#), for additional information.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014    |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013   |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |

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## **B5-2-03, Manufactured Housing Underwriting Requirements (07/26/2011)**

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### **Introduction**

This topic contains information on manufactured housing underwriting considerations, including:

- [Underwriting and DU Requirements](#)
  - [Sales Price and Original Loan Amount](#)
  - [Down Payment Requirements](#)
  - [Trade Equity from the Borrower's Existing Manufactured Home](#)
  - [Traded Manufactured Homes](#)
  - [Purchase Money Transactions](#)
  - [Limited Cash-Out Refinance Transactions](#)
  - [Cash-Out Refinance Transactions](#)
- 

### **Underwriting and DU Requirements**

Mortgages secured by manufactured homes must be underwritten through DU.

When entering the property information into DU, the lender must correctly identify the property type as manufactured housing. DU checks the subject property addresses against manufactured home property addresses in the DU property database. If DU's database indicates the property may be a manufactured home, DU will return a message alerting the lender. DU's issuance of this message does not necessarily mean the property is a manufactured home, nor does the absence of this message indicate that Fannie Mae accepts the accuracy of the property type as it was submitted.

Lenders must research the subject property type. If it is determined the property is a manufactured home, the lender must correct the property type and resubmit the loan casefile to DU. If it is NOT a manufactured home, the loan may be delivered with the appraisal recommendation provided by DU.

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### **Sales Price and Original Loan Amount**

The sales price of the manufactured home may include bona fide and documented transportation, site preparation, and dwelling installation at the site.

Any personal property items (non-realty items) purchased in conjunction with the manufactured home must be deducted from the sales price and cannot be financed as part of the mortgage.

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In addition to the cost of the manufactured home and land, if applicable, the original loan amount may also include:

- the financing of borrower-purchased mortgage insurance premiums as provided for in [B7-1-04, Financed Borrower-Purchased Mortgage Insurance](#);
- the cost of bona fide and documented transportation, site preparation, and dwelling installation at the site.

Financing of other costs is not permitted for purchase money mortgages, but is permitted for limited cash-out refinance transactions, as provided for in [B2-1.2-02, Limited Cash-Out Refinance Transactions](#)

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### Down Payment Requirements

A minimum down payment of 5% must come from the borrower’s own funds unless:

- the LTV or CLTV ratio is less than or equal to 80%; or
- the borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution. See [B3-4.3-04, Personal Gifts](#); [B3-4.3-06, Donations From Entities](#); and [B3-4.3-08, Employer Assistance](#), for additional information.

The borrower's equity in the land is considered the borrower’s own funds. Where the borrower holds title to the land on which the manufactured home will be permanently attached, the value of the land may be credited toward the borrower’s minimum down payment requirement. The borrower’s equity contribution will be the difference between any outstanding liens against the land and the market value of the land.

The following table describes how to determine the value of the land based on when and how the borrower acquired the land.

| <b>Date of Land Purchase</b>                                   | <b>Value of the Land</b>                                      | <b>Documentation Requirements</b>   |
|--|---|---|
| More than 12 months preceding the loan application.            | The current appraised value.                                  | None.   |
| 12 or fewer months preceding the date of the loan application. | The lesser of the sales price or the current appraised value. | The lender must document the borrower’s cash investment by obtaining: <ul style="list-style-type: none"> <li>• a copy of the settlement statement,</li> </ul> |

| Date of Land Purchase   | Value of the Land            | Documentation Requirements   |
|---|------------------------------|--|
|   |                              | <ul style="list-style-type: none"> <li>• a copy of the warranty deed that shows there are no outstanding liens against the property, or</li> <li>• a copy of the release of any prior liens(s).</li> </ul> |
| The borrower acquired the land at any time as a gift, inheritance, or other non-purchase transaction. | The current appraised value. | The lender must obtain appropriate documentation to verify the acquisition and transfer of ownership of the land.  |

### Trade Equity from the Borrower's Existing Manufactured Home

Trade equity from the borrower's existing manufactured home may be used as part of the borrower's minimum down payment requirement. The maximum equity contribution from the traded manufactured home is 90% of the retail value for the traded manufactured home based on the *NADA Manufactured Housing Appraisal Guide* except:

- If the borrower has owned the traded manufactured home for less than 12 months preceding the date of the loan application, the maximum equity contribution is the lesser of 90% of the retail value or the lowest price at which the home was sold during that 12 month period.
- Any costs associated with the removal of the traded home or any outstanding indebtedness secured by liens on the home must be deducted from the maximum equity contribution.

### Traded Manufactured Homes

For traded manufactured homes, Fannie Mae requires a lien search in the appropriate real property and personal property records to verify ownership and to determine whether there are any existing liens on the manufactured home and land, or on the home and the land if they are encumbered by separate liens. The seller of the new manufactured home must provide proof of title transfer and satisfaction of any existing liens on the traded manufactured home.

### Purchase Money Transactions

Purchase money transactions are those in which the mortgage proceeds are used to finance the purchase of the manufactured home or the manufactured home and the land. The land may be

previously owned by the borrower, either free of any mortgage or subject to a mortgage that will be paid off with the proceeds of the new purchase money mortgage.

**Note:** The borrower does not receive any cash back with a purchase money transaction.

#### *New Manufactured Homes*

The LTV ratio (and CLTV/HCLTV ratio, if applicable) for a loan secured by a newly built manufactured home that is being attached to a permanent foundation system in connection with a purchase transaction will be based on the lower of:

- the sales price of the manufactured home plus:
  - the lowest sales price at which the land was sold during that 12 month period if the land was purchased in the 12 months preceding the loan application date; or
  - the current appraised value of the land if the land was purchased more than 12 months preceding the loan application date.
- the “as completed” appraised value of the manufactured home and land.

#### *Existing Manufactured Homes*

The LTV ratio (and CLTV/HCLTV ratio, if applicable) for a loan secured by a manufactured home that already exists on its foundation will be based on the lowest of:

- the sales price of the manufactured home and land;
- the current appraised value of the manufactured home and land; or
- if the manufactured home was built in the 12 months preceding the loan application date, the lowest price at which the home was previously sold during that 12-month period, plus the lower of:
  - the current appraised value of the land, or
  - the lowest price at which the land was sold during that 12 month period (if there was such a sale).

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### **Limited Cash-Out Refinance Transactions**

Limited cash-out refinance transactions involve the payoff of an existing mortgage secured by the manufactured home and land (or existing liens if the home and land were encumbered by separate liens). The maximum LTV ratio (and CLTV ratio, if applicable) for a limited cash-out



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refinance transaction for a loan secured by a manufactured home and land will be based on the lower of:

- the current appraised value of the manufactured home and land; or
- if the manufactured home was owned by the borrower for less than 12 months on the loan application date and:
  - if the home and land are secured by separate liens, the lowest price at which the home was previously sold during that 12-month period plus the lower of the current appraised value of the land, or the lowest sales price at which the land was sold during that 12-month period (if there was such a sale);
  - if the home and land are secured by a single lien, the lowest price at which the home and land were previously sold during that 12-month period.

Proceeds of a limited cash-out refinance mortgage may be used to:

- pay off the outstanding principal balance of an existing first lien mortgage secured by the manufactured home and land (or existing liens if the home and land were encumbered by separate first liens);
- pay off the outstanding principal balance of an existing subordinate mortgage or lien secured by the manufactured home and/or land, but only if it was used to purchase the manufactured home and/or land;
- finance closing costs (including prepaid expenses); and
- provide cash back to the borrower in an amount not to exceed the lesser of 2% of the balance of the new refinance mortgage or \$2,000.

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### **Cash-Out Refinance Transactions**

A cash-out refinance:

- involves the payoff of an existing first lien mortgage secured by the manufactured home and land (or existing liens if the home and land were encumbered by separate first liens); or
- enables the property owner to obtain a mortgage on a property that does not already have a mortgage lien against it, and permits the borrower to take equity out of the property in the form of mortgage proceeds that may be used for any purpose.

To be eligible for a cash-out refinance, the borrower must have owned both the manufactured home and land for at least 12 months preceding the date of the loan application. The LTV

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ratio (and CLTV/HCLTV ratio, if applicable) for a cash-out refinance for a loan secured by a manufactured home and land will be based on the current appraised value of the manufactured home and land.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011      |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011     |
| <a href="#">Announcement SEL-2010-06</a> | December 1, 2010   |
| <a href="#">Announcement 09-29</a>       | September 22, 2009 |

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## **B5-2-04, Manufactured Housing Pricing, Mortgage Insurance, and Special Feature Code Requirements (12/30/2009)**

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### Introduction

This topic contains information about manufactured housing, including:

- [Loan-Level Price Adjustments](#)
  - [Mortgage Insurance](#)
  - [Special Feature Code Requirements](#)
- 

### Loan-Level Price Adjustments

An LLPA applies to all mortgages secured by manufactured homes delivered to Fannie Mae for whole loan purchase or MBS issuance. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. For the current LLPAs, see the [Loan-Level Price Adjustment \(LLPA\) Matrix](#).

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### Mortgage Insurance

For mortgage insurance coverage requirements, see [B7-1-02, Mortgage Insurance Coverage Requirements](#).

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## Special Feature Code Requirements

Loans secured by manufactured homes must be delivered with SFC 235. This code is in addition to any other special feature codes that may apply.

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| Announcements and Release Notes    | Issue Date         |
|------------------------------------|--------------------|
| <a href="#">DU Version 8.0</a>     | September 22, 2009 |
| <a href="#">Announcement 09-29</a> | September 22, 2009 |



## **B5-2-05, Manufactured Housing Legal Considerations (12/06/2016)**

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### Introduction

This topic contains information on manufactured housing legal considerations, including:

- [Closing Instructions](#)
- [Post Closing Items and Conversion to Real Property](#)
- [Certificate of Title](#)
- [Title Issues and Lien Requirements](#)
- [Title Insurance](#)
- [Loan Documents](#)
- [The Security Instrument](#)
- [Affidavit of Affixture](#)
- [Background Information Regarding Titling for Manufactured Homes](#)
- [Background Information on States where Surrender of a Certificate of Title is not Permitted](#)

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### Closing Instructions

Closing instructions must advise closing agents to obtain the required documentation necessary to ensure that the manufactured home is attached to a permanent foundation system on the land, thus becoming part of the real property.

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If a closing agent is not available to perform this action, the lender can rely on the certification of completion completed by the appraiser.

In addition, where state law provides that a manufactured home may be exempt from certificate of title requirements (for instance, where a home is attached initially to a permanent foundation system), such closing instructions must instruct the closing agent to ensure that the manufactured home qualifies for exemption from certificate of title requirements, including monitoring of property installation procedures and the related documentation, and to provide the lender with documentary evidence of that for retention in the loan file.

Where state law allows for the elimination of the certificate of title, the closing instructions must instruct the closing agent to perform all necessary procedures to:

- assure that the certificate of title to the manufactured home is properly retired, and
- provide the lender with documentary evidence for retention in the loan file.

Additionally, lenders must obtain an insured closing protection letter for each mortgage loan that is secured by a manufactured home, if available.

If an insured closing protection letter is not available, then the lender must include a note in the file documenting its unavailability.

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### **Post Closing Items and Conversion to Real Property**

If there are post closing items related to conversion of the manufactured home from personal property to real property, the lender should consider use of a properly circumscribed power of attorney from the borrower that may be used to complete the post closing items. All post closing items must be documented in the loan file and, any relevant documents received after closing must be included in the loan file.

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### **Certificate of Title**

The table below provides conditional requirements pertaining to the manufactured home certificate of title.

| <b>If ...</b>  | <b>Then ...</b>  |
|--|--|
| state law permits the manufactured home to become real property when it is immediately affixed to the permanent foundation system, without issuance of a certificate of title, | the lender must if the transaction involves the purchase of a new manufactured home obtain, and retain as part of the loan file, evidence that no certificate of title was issued. |

| If ...  | Then ...  |
|---|---|
|   | <p>For example, if the lender obtains the manufacturer’s certificate of origin, this would be evidence, in most states, that no certificate of title could have been issued.</p>  |
| <p>a certificate of title has been issued, but state law provides for or permits surrender of the certificate of title,</p>   | <p>the lender must obtain, and retain as part of the loan file, evidence that the certificate has been surrendered.</p> <p>Such evidence includes:</p> <ul style="list-style-type: none"> <li>• the confirmation required to be provided by the authority to which the certificate was surrendered, or</li> <li>• if no such confirmation is obtainable:           <ul style="list-style-type: none"> <li>– a copy of the documents submitted in connection with the surrender, and</li> <li>– evidence that such documents were delivered to the appropriate authority.</li> </ul> </li> </ul>   |
| <p>a certificate of title has been issued, but state law does not permit the manufactured home to become real property without issuance of a certificate of title and does not provide for surrender of the certificate of title,</p> | <p>the lender must adhere to the following requirements:</p> <ul style="list-style-type: none"> <li>• The lien must be indicated on the certificate of title.</li> <li>• The certificate of title must be retained in the loan file.</li> <li>• The lender must assure that no other lien is indicated on the certificate of title.</li> <li>• Ownership of the manufactured home as shown on the certificate of title and ownership of the land as shown on the mortgage, deed of trust, or security deed must be identical (that is, the same individuals must sign both, each using the exact same name on both documents).</li> </ul> |

**Note:** Given certain provisions of Mississippi law and the practice in the state, the requirements in the last row of the above table apply to manufactured homes in Mississippi. (The other two options in this table do not apply.)

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### **Title Issues and Lien Requirements**

To be eligible for purchase by Fannie Mae:

- A manufactured home mortgage loan must be secured by a perfected lien (or liens) on real property consisting of the manufactured home and the land.
- The manufactured home must be legally classified as real property under applicable state law, including relevant statutes, regulations, and judicial decisions.

The following requirements are also applicable:

- The owner of the manufactured home must own the land on which the home is situated.
- The manufactured home must be attached to a permanent foundation on the land and comply with state and jurisdictional requirements for permanent affixation.
- A mortgage, deed of trust, or security deed must be recorded in the land records and must identify the encumbered property as including both the home and the land.
- If applicable state law so permits, any certificate of title to the manufactured home must be surrendered to the appropriate state government authority.
- If the certificate of title cannot be surrendered, the lender must indicate its lien on the certificate.

Fannie Mae prefers that a loan on the manufactured home and the land on which it is situated be secured by a single lien.

However, it is recognized that some state laws do not provide for a single lien on both the manufactured home and the land. Therefore, a loan documented by a lien on the land evidenced by a mortgage, deed of trust or security deed and by a real property lien on the manufactured home evidenced on the certificate of title or other document is acceptable.

**Note:** loans in which there is a chattel lien on the home plus a real property lien on the land are unacceptable.

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## **Title Insurance**

The mortgage must be covered under a standard real property title insurance policy that insures that the manufactured home is part of the real property that secures the loan.

American Land Title Association® (ALTA®) Endorsement 7, 7.1, or 7.2 or any other endorsement required in the applicable jurisdiction for manufactured homes to be treated as real property must be included in the file.

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## **Loan Documents**

Fannie Mae prefers lenders to use the standard Fannie Mae Uniform Instruments (see [Security Instruments](#)).

If the Uniform Instruments are not used, then the lender must adhere to the following requirements:

- A single note must be used evidencing all the debt related to the land and the home, and a mortgage, deed of trust, or Georgia security deed securing such indebtedness (plus the certificate of title if state law so requires).
- The note used must provide the nonstandard document warranties that are referenced in [A2-2.1-03, Document Warranties](#).

Loan documents are not acceptable if they:

- state that the home is personal property or contain other words to that effect;
  - state that the parties do not intend to attach the home to a permanent foundation system on the land, or contain statements inconsistent with that intention;
  - unless required by law, provide that rights of holders in due course are waived, or with other words provide that an assignee note holder may be held liable for claims the borrower may have against other parties; or
  - include consumer finance paper which combines the note and security instrument in a single document or a retail installment sales contract.
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## **The Security Instrument**

The security instrument must:

- 
- state that the manufactured home is an improvement to the land and an immovable fixture, or include similar language as may be required by applicable law to assure, to the greatest extent possible, that the manufactured home will be treated as real property under applicable state law. If applicable law provides specific obligatory wording, such wording must be used; and
  - include a comprehensive description of the manufactured home and the land in the property description section.

The description must include the serial or VIN number (or the serial number or VIN for each unit if the home is multi-width), make, model, size, and any other information that may be required by applicable law to definitively identify the home.

**Note:** The serial number is located on the HUD Data Plate located on the interior of the home, usually near the electrical box. In addition, the serial number is generally cold-stamped on the frame front cross member of each transportable section.

Some jurisdictions may not allow any information in the property description section of the security instrument other than what is customary for other real property transactions. If this is the case, then an addendum may be used, which must be attached to the security instrument and included in the loan file.

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### **Affidavit of Affixture**

The borrower(s) and any lender with a personal property security interest in the manufactured home must sign an Affidavit that acknowledges their intent for the manufactured home to be permanently part of the real property that secures the mortgage free of any personal property security interest. The Affidavit must also contain any specific language that may be required by applicable law.

It is preferable that the signed Affidavit be recorded, and it must be retained in the loan file.

**Note:** Failure to include the Affidavit of Affixture in the loan file may result in the loan being ineligible for delivery to Fannie Mae.

If state law requires a Uniform Commercial Code (UCC) filing in order to perfect a security interest in a manufactured home, the lender must make such filing in any and all appropriate locations.

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### **Background Information Regarding Titling for Manufactured Homes**

Titling is complex and further complicated by the lack of a federal standard. Consequently, all states devise their own laws resulting in diverse approaches to manufactured home titling and



lien perfection. The variety of approaches is particularly challenging for lenders originating manufactured home loans in more than one state. Laws of some states do not clearly provide for a single lien on the manufactured home, together with the land on which it is situated, but instead, for example, require that the lien on the manufactured home be evidenced by notation on the certificate of title.

While the laws of some states establish a procedure for surrender of the certificate of title when the manufactured home has become so permanently affixed to the land that it has become real property, the laws of other states do not allow for the elimination of the certificate of title to a manufactured home regardless of the degree of affixation of the home to the land. In these states, the lien on the land (evidenced by the mortgage, deed of trust or security deed) may be legally distinct from the lien on the manufactured home (evidenced on the certificate of title), though both are liens on real property. In this instance, the manufactured home is often treated as an “immovable fixture” (personal property that has become so permanently attached to the land that it has become real property).

Research on state laws affecting manufactured housing liens indicates, more specifically, that in order to document a lien on a manufactured home that is real property, state laws take several approaches:

- surrendering the certificate of title when the manufactured home is permanently affixed to the land;
- statutory, regulatory, or judicial authority for recognizing a manufactured home as part of the real property, without surrender of the certificate of title. A few states also require UCC filings; or
- recognizing the manufactured home as real property without issuing a certificate of title when the unit is affixed to the land.

Most states permitting manufactured homes to be treated as real property without first being titled as personal property also have procedures for issuing a certificate of title and then surrendering it.

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### **Background Information on States where Surrender of a Certificate of Title is not Permitted**

State law that does not provide for surrender of the certificate of title may pose some additional risk to the lender and Fannie Mae.

Under the UCC, as adopted in almost every state, a lien evidenced on any outstanding certificate of title will have priority over a lien on real property to which the manufactured home is affixed, which is evidenced by a mortgage, deed of trust, or security deed.

However, Fannie Mae believes that if a lender follows procedures tailored to take advantage of all protection offered under existing state law—including taking steps to assure that no certificate of title still exists that bears evidence of any lien securing any other loan—sufficient legal protection is afforded.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b> |
|---|-------------------|
| <a href="#"><u>Announcement SEL-2016-09</u></a> | December 06, 2016 |
| <a href="#"><u>Announcement SEL-2015-06</u></a> | May 26, 2015      |
| <a href="#"><u>Announcement SEL-2013-05</u></a> | July 30, 2013     |

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# Chapter B5-3, Construction and Energy Financing



## Construction and Energy Financing

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### Introduction

This chapter describes the policies and requirements for construction and energy financing transactions.

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### In This Chapter

This chapter contains the following sections:

|   |     |
|---|-----|
| B5-3.1, Conversion of Construction-to-Permanent Financing ..... | 794 |
| B5-3.2, HomeStyle Renovation Mortgage .....                     | 804 |
| B5-3.3, HomeStyle Energy Mortgages .....                        | 820 |
| B5-3.4, Property Assessed Clean Energy Loans .....              | 827 |

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## Section B5-3.1, Conversion of Construction-to-Permanent Financing



### **B5-3.1-01, Conversion of Construction-to-Permanent Financing: Overview (01/31/2012)**

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#### **Introduction**

This topic contains an overview of conversion of construction-to-permanent mortgage loan financing.

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#### **Conversion of Construction-to-Permanent Financing Overview**

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim construction financing that the borrower has obtained to fund the construction of a new residence.

Construction-to-permanent financing can be structured as a transaction with one closing or a transaction with two separate closings. The borrower must hold title to the lot, which may have been previously acquired or be purchased as part of the transaction.

All construction work, including any work that could entitle a party to file a mechanics' or materialmen's lien, must be completed and paid for, and all mechanics' liens, materialmen's liens, and any other liens and claims that could become liens relating to the construction must be satisfied before the mortgage loan is delivered to Fannie Mae. The lender must retain in its individual loan file the appraiser's certificate of completion and a photograph of the completed property. When a construction-to-permanent mortgage loan provides funds for acquisition or refinancing of an unimproved lot and the construction of a residence on the lot, the lender must retain a certificate of occupancy or an equivalent form from the applicable government authority.

The lender must use Fannie Mae's uniform mortgage instruments to document the permanent mortgage. These documents may not be altered to include any reference to construction of the property, other than any alteration that Fannie Mae specifically requires.

Units in a condo or co-op project and manufactured housing are not eligible for construction-to-permanent financing.

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For guidance on data entry for construction-to-permanent transactions in DU, see the related [Desktop Underwriter Job Aid](#).

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                               | Issue Date        |
|---|-------------------|
| <a href="#">Announcement SEL-2012-01</a>    | January 31, 2012  |
| <a href="#">Announcement SEL-2011-09</a>    | August 30, 2011   |
| <a href="#">Announcement SEL-2010-04</a>    | March 29, 2010    |
| <a href="#">DU Version 8.0 April Update</a> | February 26, 2010 |
| <a href="#">Announcement 09-28</a>          | August 21, 2009   |

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## **B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions (05/31/2016)**

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### Introduction

This topic contains information on construction-to-permanent financing loan eligibility for single-closing transactions, including:

- [Single-Closing Transaction Overview](#)
  - [Terms of Construction Loan Period for Single-Closing Construction-to-Permanent Mortgages](#)
  - [Eligible Loan Purposes for Single-Closing Construction-to-Permanent Mortgages](#)
  - [Calculating the LTV Ratio for Single-Closing Construction-to-Permanent Mortgages](#)
  - [Down Payment Requirements for Single-Closing Purchase Transactions](#)
  - [Modifications of Single-Closing Construction-to-Permanent Mortgages](#)
  - [Underwriting Single-Closing Construction-to-Permanent Mortgages](#)
  - [Age of Credit and Appraisal Documents](#)
  - [Loan Conversion Documentation Options](#)
- 

### Single-Closing Transaction Overview

Single-closing transactions may be used for both the construction loan and the permanent financing if the borrower wants to close on both the construction loan and the permanent

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financing at the same time. When a single-closing transaction is used, the lender will be responsible for managing the disbursement of the loan proceeds to the builder, contractor, or other authorized suppliers.

Because the loan documents specify the terms of the permanent financing, the construction loan will automatically convert to a permanent long-term mortgage upon completion of the construction.

Loans that combine construction and permanent financing into a single transaction cannot be pooled or delivered to Fannie Mae until the construction is completed and the terms of the construction loan have converted to the permanent financing. Lenders must use SFC 151 when delivering single-closing construction-to-permanent mortgage loans to Fannie Mae.

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### **Terms of Construction Loan Period for Single-Closing Construction-to-Permanent Mortgages**

For all single-closing construction-to-permanent transactions, the construction loan must be structured as a temporary loan exempt from the ability to repay requirements under Regulation Z. The construction loan period for single-closing construction-to-permanent transactions may have no single period of more than 12 months and the total period may not exceed 18 months. Lenders may, when needed to complete the construction, provide an extension to the original period to total no more than 18 months but the documents may not indicate an initial construction period or subsequent extension of more than 12 months. After conversion to permanent financing, the loan must have a loan term not exceeding 30 years (disregarding the construction period).

As examples, lenders may structure the construction loan period as follows:

- three 6-month periods,
- one 12-month period and one 6-month period, or
- six 3-month periods.

Exceptions to the 12-month and 18-month periods will not be granted. The above construction period requirements do not apply to two-closing construction-to-permanent transactions. If the construction loan period exceeds the requirements above, the lender must process the loan as a two-closing construction-to-permanent transaction in order for the loan to be eligible for sale to Fannie Mae (see [B5-3.1-03, Conversion of Construction-to-Permanent Financing: Two-Closing Transactions](#)).

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### **Eligible Loan Purposes for Single-Closing Construction-to-Permanent Mortgages**

A single-closing construction-to-permanent mortgage loan may be closed as:

- a purchase transaction, or
- a limited cash-out refinance transaction.

When a purchase transaction is used, the borrower is not the owner of the lot prior to the loan application, and the borrower is using the proceeds from the interim construction financing to purchase the lot and finance the construction of the property.

When a limited cash-out refinance transaction is used, the borrower must have held legal title to the lot before he or she applied for the interim construction financing. The borrower is using the proceeds from the construction financing to pay off any existing liens on the lot and finance the construction of the property. This type of transaction is not a “true” limited cash-out refinance whereby the borrower refinances a loan(s) that was used to purchase a completed property; however, all other requirements for limited cash-out refinances apply. See [B2-1.2-02, Limited Cash-Out Refinance Transactions](#).

**Note:** Cash-out refinance transactions are not eligible for single-closing construction-to-permanent mortgages.

### Calculating the LTV Ratio for Single-Closing Construction-to-Permanent Mortgages

Single-closing construction-to-permanent mortgages are subject to the purchase and limited cash-out refinance maximum LTV, CLTV, and HCLTV ratios provided in the [Eligibility Matrix](#), as applicable.

The LTV ratio calculation differs depending on whether the transaction is a purchase or a limited cash-out refinance, as shown in the table below.

| Transaction Type | Lot Ownership Requirement   | LTV Ratio Calculation   |
|------------------|---|---|
| Purchase         | The borrower is not the owner of record of the lot at the time of loan application. | Divide the loan amount of the construction-to-permanent financing by the lesser of: <ul style="list-style-type: none"> <li>• the purchase price (sum of the cost of construction and the sales price of the lot), or</li> <li>• the “as completed” appraised value of the property (the lot and improvements).</li> </ul> |

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| Transaction Type           | Lot Ownership Requirement   | LTV Ratio Calculation   |
|----------------------------|---|---|
| Limited Cash-out Refinance | The borrower is the owner of record of the lot at the time of loan application. | Divide the loan amount of the construction-to-permanent financing by the “as completed” appraised value of the property (the lot and improvements). |

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### Down Payment Requirements for Single-Closing Purchase Transactions

The borrower must use his or her own funds to make the minimum borrower contribution unless:

- the LTV, CLTV, or HCLTV ratio is less than or equal to 80%; or
- the borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution. See [B2-1.2-04, Prohibited Refinancing Practices](#); [B3-4.3-06, Donations From Entities](#); and [B3-4.3-08, Employer Assistance](#), for additional information.

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### Modifications of Single-Closing Construction-to-Permanent Mortgages

If the terms of the permanent financing change after the original closing date of the construction loan, the loan may be modified to reflect the new terms if it meets all of the following criteria:

- The modification must take place prior to or at the time of conversion.
- Only the following loan terms may be modified in a single-closing transaction:
  - interest rate,
  - loan amount,
  - loan term, and
  - amortization type.

The only amortization change permitted is from an adjustable-rate amortization to a fixed-rate amortization.

Changes made to any other loan terms will require a two-closing construction-to-permanent transaction.



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- The loan must be underwritten based on the terms of the loan as modified and delivered to Fannie Mae. If the final (modified) terms of the loan do not match the last submission to DU, the loan must be re-submitted to DU (subject to the re-submission tolerances described in the table below).
  - Increases to the loan amount are permitted only as necessary to cover documented increased costs of construction of the property.
  - If the modification results in an increase in the original loan amount, the lender remains responsible for all standard title insurance requirements. In addition, the lender must obtain an endorsement to the title insurance policy that
    - extends the effective date of the coverage to the date of the recording of the modification agreement;
    - increases the amount of the policy to the original loan amount, as increased; and
    - confirms that the lien of the mortgage, as modified, continues to be a first lien.

**Note:** Both the original construction loan amount at closing and the final modified loan amount delivered to Fannie Mae must meet the loan limits currently in effect.

- The original construction loan must be documented on Fannie Mae uniform instruments or substantially similar documents, subject to the non-standard document representations and warranties.
- The modification must be documented on one of the following:
  - *Loan Modification Agreement (Providing for Fixed Interest Rate)* ([Fannie Mae Form 3179](#));
  - *Loan Modification Agreement (Providing for Adjustable Interest Rate)* ([Fannie Mae Form 3161](#)); or
  - A substantially similar document, subject to the non-standard document representations and warranties.

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### **Underwriting Single-Closing Construction-to-Permanent Mortgages**

The lender must underwrite a single-closing construction-to-permanent loan based on the terms of the permanent financing. If the permanent financing terms are modified, and no longer reflect the terms on which the underwriting was based, the loan must be re-underwritten, subject to certain re-underwriting tolerances. The loan data at delivery must match the data in the final submission of the loan casefile to DU.

As described in the table below, re-underwriting tolerances may be applied if the interest rate or loan amount was modified. (All other modifications require re-underwriting.)

| Loan Term Modified | Re-underwriting Tolerances  |
|--------------------|---|
| Interest Rate      | <ul style="list-style-type: none"> <li>• For loans underwritten through DU, see the permitted re-underwriting tolerances in <a href="#">B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report</a>.</li> <li>• For manually underwritten loans, the loan must be re-underwritten if the new, modified interest rate causes the DTI ratio               <ul style="list-style-type: none"> <li>– to exceed 45%, or</li> <li>– to increase by 3 percentage points or more (if the recalculated DTI ratio is less than 45%).</li> </ul> </li> </ul> <p>(See the DTI Ratio Tolerance and Re-Underwriting Criteria in <a href="#">B3-6-02, Debt-to-Income Ratios</a>.)</p> |
| Loan Amount        | See the permitted re-underwriting tolerances in DU Tolerances for Refinance Transaction Loan Amount Changes in <a href="#">B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report</a> .   |

### Age of Credit and Appraisal Documents

Single-closing transactions with credit and appraisal documents dated more than 4 months but not exceeding 18 months old at the time of the conversion to permanent financing are eligible for delivery if all of the following conditions were met at the time of the original closing of the construction loan:

- The documents were dated within 120 days of the original closing date of the construction loan.
- The LTV, CLTV, and HCLTV ratios do not exceed 70%.
- The borrower has a minimum credit score of 700.
- The loan casefile was underwritten through DU and received an Approve/Eligible recommendation. Manual underwriting is not permitted.

If any one of the above conditions was not met or an eligible loan term was modified subsequent to the last DU submission, the lender must

- obtain updated credit documents and an appraisal update completed on an *Appraisal Update and/or Completion Report* ([Form 1004D](#)), and
- re-qualify the borrowers before the mortgage loan is delivered to Fannie Mae.

See [B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns](#) and [B4-1.2-02, Appraisal Age and Use Requirements](#), for additional information.

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### **Loan Conversion Documentation Options**

The construction loan may be converted into a permanent mortgage loan in either of the following ways:

- Option 1: A construction loan rider must be used to modify Fannie Mae's uniform instrument that will be used for the permanent mortgage. The rider must state the construction loan terms, and the construction-related provisions of the rider must become null and void at the end of the construction period and before the permanent mortgage is sold to Fannie Mae. Because the permanent mortgage cannot be sold before it is scheduled to begin amortizing, a lender will need to amend the construction loan rider, and the accompanying uniform instrument, if the construction is completed sooner or later than originally anticipated. The amendment(s) should provide the new dates on which amortization for the permanent mortgage will begin and end. The lender also will need to record the amended documents before the permanent mortgage is sold.
- Option 2: A separate modification agreement must be used to convert the construction loan into permanent financing. This agreement must be executed and recorded in the applicable jurisdiction before the permanent mortgage is delivered to Fannie Mae.

The lender must include the applicable conversion document in its loan submission package. When amended documents are recorded in connection with a construction loan rider, the lender also must include a copy of the original documentation that the borrower signed.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-04</a> | May 31, 2016       |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013    |
| <a href="#">Announcement SEL-2012-01</a> | January 31, 2012   |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011     |
| <a href="#">Announcement SEL-2010-16</a> | December 01, 2010  |
| <a href="#">Announcement SEL-2010-07</a> | May 27, 2010       |
| <a href="#">Announcement 09-28</a>       | August 21, 2009    |
| <a href="#">Announcement 09-19</a>       | June 8, 2009       |



## B5-3.1-03, Conversion of Construction-to-Permanent Financing: Two-Closing Transactions (08/20/2013)

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### Introduction

This topic contains information on conversion of construction-to-permanent financing loan eligibility for two-closing transactions, including:

- [Two-Closing Transactions Overview](#)
- [Eligible Loan Purposes for Two-Closing Construction-to-Permanent Mortgages](#)

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### Two-Closing Transactions Overview

Two-closing construction-to-permanent mortgage transactions utilize two separate loan closings with two separate sets of legal documents. A modification may not be used to update the original note, rather a new note must be completed and signed by the borrower(s). The first closing is to obtain the interim construction financing (and may include the purchase of the lot), and the second closing is to obtain the permanent financing upon completion of the improvements. Fannie Mae does not provide financing for construction loans; however, Fannie Mae does purchase loans that were used to provide the permanent financing.

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The lender that provides the permanent long-term mortgage may be a different lender than the one that provided the interim financing. The lender must underwrite the borrower based on the terms of the permanent mortgage.

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### **Eligible Loan Purposes for Two-Closing Construction-to-Permanent Mortgages**

In a two-closing construction-to-permanent transaction, the permanent mortgage delivered to Fannie Mae may be closed as:

- a limited cash-out refinance transaction, or
- a cash-out refinance transaction.

Two-closing construction-to-permanent mortgages are subject to the limited cash-out and cash-out refinance maximum LTV, CLTV, and HCLTV ratios provided in the [Eligibility Matrix](#), as applicable. For the borrower to be eligible for a cash-out refinance transaction, the borrower must have held legal title to the lot for at least six months prior to the closing of the permanent mortgage. All other standard cash-out refinance eligibility and underwriting requirements apply.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013   |
| <a href="#">Announcement SEL-2012-01</a> | January 31, 2012  |

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## Section B5-3.2, HomeStyle Renovation Mortgage



### B5-3.2-01, HomeStyle Renovation Mortgages (12/06/2016)

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#### Introduction

This topic contains information on HomeStyle Renovation mortgages, including:

- [Overview](#)
  - [Lender Eligibility](#)
  - [Lender Responsibilities](#)
  - [Delivery and Recourse Requirements](#)
  - [Removal of Recourse](#)
- 

#### Overview

The HomeStyle Renovation mortgage enables a borrower to obtain a purchase transaction mortgage or a limited cash-out refinance mortgage and receive funds to cover the costs of repairs, remodeling, renovations, or energy improvements to the property. The mortgage may be delivered to Fannie Mae prior to completion of the renovation, subject to limited recourse as described below.

There are no required improvements or restrictions on the types of renovations allowed or a minimum dollar amount for the renovations. Renovations, however, must be permanently affixed to the real property and add value to the property.

**Note:** For loan casefiles underwritten through DU, DU will determine that the transaction is a HomeStyle Renovation Mortgage if there is an amount entered on line b. Alterations, Improvements, Repairs in the Details of Transaction section of the loan application.

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#### Lender Eligibility

HomeStyle Renovation mortgage loans have specific product requirements and guidelines with which lenders must ensure detailed compliance. Lenders must obtain special approval to deliver

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these types of mortgage loans to Fannie Mae. See [A1-1-01, Application and Approval of Seller/Servicer](#) for additional information.

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### **Lender Responsibilities**

Renovation work must be completed no later than 12 months from date the mortgage loan is delivered.

The lender is responsible for monitoring the completion of the renovation work. The lender must exercise all approval and oversight responsibilities that are customary and required to comply with specific state laws and to ensure that clear title to the property is maintained.

If any action the lender takes or fails to take in overseeing the renovation work affects Fannie Mae's ability to acquire clear title to the property, the lender may be required to repurchase the mortgage.

The lender must maintain a copy of all of the documentation that supports the renovation work, plans and specifications, "as completed" appraisal, renovation contract, renovation loan agreement, certificate of completion, title insurance endorsements or updates, etc., in the individual mortgage file. For more information about the specialized legal documentation Fannie Mae requires for a HomeStyle Renovation mortgage, see Subpart B8, Closing: Legal Documents.

When the HomeStyle Renovation mortgage is used to finance energy-related improvements, the lender must review an energy report, obtained by the borrower, that identifies recommended energy improvements to the property and the estimated cost savings associated with those improvements. See [B5-3.3-01, HomeStyle Energy for Energy Improvements on Existing Properties](#), for additional requirements related to mortgage loans with energy improvement features.

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### **Delivery and Recourse Requirements**

A lender may deliver a HomeStyle Renovation mortgage as soon as it is closed; the renovation does not need to have been completed when the mortgage is delivered as long as the lender delivers that loan with recourse. If the borrower defaults under the terms of the mortgage loan before the work is completed, and that default continues for at least 120 days, the lender may be required to repurchase the mortgage.

When the HomeStyle Renovation mortgage includes financing of energy-related improvements, the lender may be eligible for an LLPA credit of \$500. Lenders will receive the LLPA credit only if Special Feature Code 375 is delivered, as shown below.

| <b>If the HomeStyle Renovation mortgage is delivered ...</b>  | <b>And the lender delivers ...</b>  | <b>Then ...</b>   |
|---|---|---|
| <ul style="list-style-type: none"> <li>the renovation is not complete,</li> </ul>   | <ul style="list-style-type: none"> <li>SFC 215</li> </ul>                       | <ul style="list-style-type: none"> <li>the loan is delivered with recourse.</li> </ul>  |
| <ul style="list-style-type: none"> <li>the renovation is complete,</li> </ul>   | <ul style="list-style-type: none"> <li>SFC 279</li> </ul>                       | <ul style="list-style-type: none"> <li>no recourse obligation applies.</li> </ul>   |
| <ul style="list-style-type: none"> <li>the renovation is not complete, and</li> <li>the renovation includes HomeStyle Energy improvements.</li> </ul> | <ul style="list-style-type: none"> <li>SFC 215, and</li> <li>SFC 375</li> </ul> | <ul style="list-style-type: none"> <li>the loan is delivered with recourse, and</li> <li>Fannie Mae applies an LLPA credit of \$500.</li> </ul> |
| <ul style="list-style-type: none"> <li>the renovation is complete, and</li> <li>the renovation includes HomeStyle Energy improvements.</li> </ul>     | <ul style="list-style-type: none"> <li>SFC 279, and</li> <li>SFC 375</li> </ul> | <ul style="list-style-type: none"> <li>no recourse obligation applies, and</li> <li>Fannie Mae applies an LLPA credit of \$500.</li> </ul>      |

### Removal of Recourse

For loans delivered with recourse, the lender may have the recourse obligation removed when the renovation is complete. The required documentation to remove recourse is either a certification of completion from the appraiser on the *Appraisal Update and/or Completion Report* ([Form 1004D](#)) or a *HomeStyle Completion Certificate* ([Form 1036](#)) completed with all applicable signatures. Lenders must submit HomeStyle Renovation recourse removal requests and documents to the HomeStyle mailbox, (see [E-1-03, List of Contacts](#)). Submissions must include the following:

- Fannie Mae loan number(s) must be identified in the email request and attached documents must have the loan numbers in the title.
- Documents must be clear and complete. For example, it is a best practice to include photos of completed renovations with all submissions.
- Manage email and attachment size to ensure delivery by
  - submitting no more than 5–7 attachments per message, and
  - properly numbering emails if there are multiple emails for the same submission on the same day. For example, 1 of 3 emails, 2 of 3 emails, 3 of 3 emails.



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See [B5-3.2-05, HomeStyle Renovation Mortgages: Completion Certification](#), for additional information.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 06, 2016 |
| <a href="#">Announcement SEL-2016-03</a> | March 29, 2016    |
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2015-09</a> | August 25, 2015   |
| <a href="#">Announcement SEL-2010-15</a> | December 1, 2010  |

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## **B5-3.2-02, HomeStyle Renovation Mortgages: Loan and Borrower Eligibility (03/29/2016)**

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### Introduction

This topic contains information on HomeStyle Renovation mortgage loans and borrower eligibility requirements, including:

- [Renovation-Related Costs](#)
  - [Property Requirements](#)
  - [HomeReady Eligibility](#)
  - [Mortgage Terms](#)
  - [LTV Ratios](#)
  - [Limited Cash-out Transactions](#)
  - [Borrower Requirements](#)
- 

### Renovation-Related Costs

Renovation-related costs that may be considered as part of the total renovation costs include:

- property inspection fees;
  - costs and fees for the title update;
  - architectural and engineering fees;
-

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- independent consultant fees;
  - costs for required permits; and
  - other documented charges, such as fees for energy reports, appraisals, review of renovation plans, and fees charged for processing renovation draws.

**Note:** An amount for sweat equity may not be factored into the renovation costs.

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### **Property Requirements**

The security property for a HomeStyle Renovation mortgage must be

- a one- to four-unit principal residence,
- a one-unit second home, or
- a one-unit investment property.

The security property for a HomeStyle Renovation mortgage may be a unit in an eligible PUD, condo, or co-op project. Manufactured homes are not permitted.

When the security property is a unit in a condo or co-op project, the project must be one for which the proposed renovation work is permissible under the bylaws of the homeowners' association or co-op corporation or one for which the homeowners' association or co-op corporation has given written approval for the renovation work.

The renovation work for a condo or co-op unit must be limited to the interior of the unit, including the installation of fire walls in the attic.

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### **HomeReady Eligibility**

HomeReady mortgage loans are eligible in combination with HomeStyle Renovation; however, the more restrictive requirements of HomeReady or HomeStyle Renovation apply when these two products are combined on a loan. For example, a HomeReady HomeStyle Renovation mortgage must be a principal residence transaction, whereas standard HomeStyle Renovation permits second homes and investment properties.

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### **Mortgage Terms**

A HomeStyle Renovation mortgage may be either a fixed-rate mortgage or an ARM loan. The original principal amount of the mortgage may not exceed Fannie Mae's maximum allowable mortgage amount for a conventional first mortgage.

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Fannie Mae provides *HomeStyle Renovation Maximum Mortgage Worksheet (Form 1035)*, to assist lenders in calculating the maximum loan amount. The cost of renovations is limited to 50% of the “as completed” appraised value of the property.

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### **LTV Ratios**

All of the applicable LTV, CLTV, and HCLTV ratios for HomeStyle Renovation mortgages can be found in the *Eligibility Matrix*.

The LTV ratio calculation differs based on the applicable transaction type.

- For a purchase money transaction, the LTV ratio is determined by dividing the original loan amount by the lesser of the “as completed” appraised value of the property or the sum of the purchase price of the property and the total rehabilitation costs.
  - For a refinance transaction, the LTV ratio is determined by dividing the original loan amount by the “as completed” appraised value of the property.
- 

### **Limited Cash-out Transactions**

When a HomeStyle Renovation mortgage loan is originated as a limited cash-out refinance transaction, the mortgage amount may include the amount required to satisfy the existing first mortgage, the amount required to satisfy any outstanding subordinate mortgage liens that were used to acquire the property, closing costs, prepaids, points, and the total renovation costs, including allowable renovation-related costs for the home improvements up to the maximum permitted LTV and CLTV ratios.

However, the borrower may not obtain any other funds from the transaction, including those that are generally allowed for a limited cash-out refinance transaction. Excess funds, if any, after renovations are completed, may be applied to the loan balance as a curtailment or may be reimbursed to the borrower for the cost of actual supplies or additional renovations for which paid receipts are provided. The value of sweat equity may not be reimbursed.

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### **Borrower Requirements**

An individual home buyer or homeowner, a for-profit or nonprofit investor, or a local government agency that purchases existing dwellings for renovation is an eligible borrower for a HomeStyle Renovation mortgage.

When a nonprofit investor is the borrower, the lender must assess the nonprofit investor’s viability, by looking at its track record for raising funds for renovation, the background of its

board members, a copy of the organization’s bylaws and purpose, a copy of the organization’s Internal Revenue Code Section 501(c)(3) statement, a copy of the organization’s latest IRS Form 990, and a copy of a board resolution authorizing the nonprofit to purchase and renovate the security property.

To ensure that the borrower understands all of the terms of a HomeStyle Renovation mortgage, the lender may use Fannie Mae’s *HomeStyle Renovation Consumer Tips* ([Form 1204](#)), as a checklist for the key facts that need to be disclosed to the borrower, and the borrower’s signature will serve as an acknowledgement of his or her understanding of these facts.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-03</a> | March 29, 2016     |
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2015-09</a> | August 25, 2015    |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013    |
| <a href="#">Announcement SEL-2010-15</a> | December 1, 2010   |
| <a href="#">Announcement SEL-2010-09</a> | June 30, 2010      |



## **B5-3.2-03, HomeStyle Renovation Mortgages: Collateral Considerations (08/25/2015)**

### Introduction

This topic contains information on HomeStyle Renovation mortgage collateral considerations, including:

- [Appraisal Requirements](#)
- [Energy Report Requirements](#)
- [Contractor Requirements](#)
- [Plans and Specifications](#)

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## Appraisal Requirements

The appraisal report for a HomeStyle Renovation mortgage must provide an “as completed” appraised value that estimates the value of the property after completion of the renovation work. (See [B5-3.2-02, HomeStyle Renovation Mortgages: Loan and Borrower Eligibility](#), for requirements pertaining to the cost of the renovations as a percentage of the appraised value.

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## Energy Report Requirements

When a HomeStyle Renovation mortgage is used to finance energy-related improvements, a Home Energy Rating Systems (HERS) energy rater must prepare a written energy report. See [B5-3.3-01, HomeStyle Energy for Energy Improvements on Existing Properties](#), for additional information concerning the requirements related to the energy report.

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## Contractor Requirements

All renovation work must be performed by a licensed contractor.

A borrower must choose his or her own contractor to perform the needed renovation, subject to the lender’s determination that the contractor is qualified and experienced, has all appropriate credentials required by the state, is financially able to perform the duties necessary to complete the renovation work in a timely manner, and agrees to indemnify the borrower for all property losses or damages caused by its employees or subcontractors.

The lender may not choose the contractor or refer the borrower to any one specific contractor.

However, the lender may require the borrower to obtain a completed *Contractor Profile Report* ([Form 1202](#)) from the contractor that he or she has selected to ensure that the lender has sufficient information available to make a determination about the contractor’s qualifications.

Under Fannie Mae’s “Do It Yourself” repair option, which is available for one-unit properties only, the borrower may complete repairs that the lender reviews and approves in advance.

Do It Yourself repairs may not represent more than 10% of the “as completed” value of the property; the lender must inspect the completion of all repair items that cost more than \$5,000.

A borrower may request reimbursement for his or her payments for the cost of materials or for the cost of properly documented contract labor, but not for the cost of his or her sweat equity. When a borrower chooses this repair option, the lender must fully budget for the cost of labor and materials related to the repairs so that, should the borrower be unable to complete the work, a contractor can be hired to finish any of the Do It Yourself repairs.

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## Plans and Specifications

The plans and specifications must be prepared by a registered, licensed, or certified general contractor, renovation consultant, or architect. The plans and specifications should fully describe all of the work to be done and provide an indication of when various jobs or stages of completion will be scheduled (including both the start and completion dates).

The lender must use the plans and specifications to document and evaluate the quantity, quality, and cost of the renovation work that is to be done and to determine the amount of financing that will be available. These plans and specifications also must be used by the appraiser in the development of his or her opinion of the “as completed” value of the property.

Before approving any change a borrower wants to make to the original plans and specifications, the lender may require the borrower to submit a *HomeStyle Change Order Request* ([Form 1200](#)) to provide a detailed description of the change(s), the cost of the change(s), and the estimated completion date(s).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2015-09</a> | August 25, 2015  |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011   |
| <a href="#">Announcement SEL-2010-15</a> | December 1, 2010 |
| <a href="#">Announcement SEL-2010-09</a> | June 30, 2010    |



## **B5-3.2-04, HomeStyle Renovation Mortgages: Costs and Escrow Accounts (04/01/2009)**

### Introduction

This topic contains information on HomeStyle Renovation costs and escrow accounts, including:

- [Costs and Escrow Accounts](#)
- [Contingency Reserve](#)
- [Mortgage Payment Escrow Accounts](#)
- [Renovation Escrow Account](#)

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## Costs and Escrow Accounts

The costs of the renovations will be based on the plans and specifications for the work and on the contractor's bids for all of the work requested by the borrower. The renovation costs may include a contingency reserve, renovation-related costs, and an escrow for mortgage payments that come due during the renovation period, if the borrower is unable to occupy the property during the renovation.

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## Contingency Reserve

A contingency reserve equal to 10% of the total costs of the repairs and renovation work must be established and funded for a mortgage that is secured by a two- to four-unit property to cover required unforeseen repairs or deficiencies that are discovered during the renovation. The lender also may establish this contingency reserve for a mortgage secured by a one-unit property.

The contingency reserve may be considered as part of the total renovation costs or the borrower may fund it separately. The contingency reserve may be released only if required, necessary, and unforeseen repairs or deficiencies are discovered during the renovation. Unused contingency funds, unless they were received directly from the borrower, must be used to reduce the outstanding balance of the renovation mortgage after all of the renovation work has been completed and the certification of completion has been obtained.

However, a borrower may use the remaining contingency reserve funds for making improvements or repairs that are permanently affixed to the real property and add value to the property, not to purchase personal property, if the lender:

- warrants that the work scheduled and described in the plans and specifications was completed and the contingency reserve funds have already been reduced by any cost overruns; and
  - ensures that the contingency reserve funds that are to be used for additional improvements or repairs are actually used to improve the real property, are documented with paid receipts from the borrower's own funds, and inspections of the additional work or installations are completed by the appraiser who prepared the "as completed" value appraisal report.
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## Mortgage Payment Escrow Accounts

An escrow for mortgage payments (PITI) that will become due during the renovation period generally may be included as part of the total renovation costs for a principal residence property if the property cannot be occupied during the renovation period.

To make PITI payments while the home is unable to be occupied during rehabilitation, the lender must set up a PITI escrow account, at the loan level, if the borrower chooses to do so.

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This mortgage payment escrow must represent only those payments that come due during the period in which the property cannot be occupied.

The maximum amount that may be escrowed is six full payments of principal, interest, taxes, and insurance.

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### **Renovation Escrow Account**

At closing, the lender must deposit all of the renovation costs, including the contingency reserve and, if applicable, any escrowed mortgage payments or funds that the borrower provides from his or her own funds, into an interest-bearing renovation escrow account for the benefit of the borrower.

All interest earned on this account, less any administrative expenses involved in maintaining the account, must be paid or credited to the borrower.

The renovation escrow account must be a custodial account that is established in a depository institution insured by the FDIC or the National Credit Union Administration and that otherwise satisfies Fannie Mae's criteria for custodial accounts.

A lender may commingle the renovation escrow accounts for different borrowers in the same custodial account.

The funds in the renovation escrow account must be used to complete the repair and renovation work and, if applicable, to make any mortgage payments that come due during the renovation period.

The lender, or its agent, is responsible for administering this account and ensuring that the repairs and renovation are completed in a timely manner and in accordance with the plans and specifications and the contractor's estimated bids.

The lender should release funds from this account to the contractor and the borrower only when any given renovation work has been completed, and then only in accordance with the agreed-upon schedule and after receipt of a specific request.

Should there be an increase in costs during the renovation period, the borrower, or the lender, must fund the amount of the increase; Fannie Mae will not increase the mortgage amount to offset any increase in costs. The lender must ensure that the additional funds are obtained in a manner that will not affect the priority of Fannie Mae's lien.

Once the renovation has been completed, all funds remaining in the renovation escrow account, including any mortgage payment reserves, may be used to either reduce the unpaid principal



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balance of the mortgage, unless they represent funds deposited separately by the borrower, or to make additional improvements or repairs to the property that are permanently affixed and add value to the property.

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## **B5-3.2-05, HomeStyle Renovation Mortgages: Completion Certification (08/25/2015)**

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### **Introduction**

This topic contains information on HomeStyle Renovation mortgage completion certification.

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### **HomeStyle Renovation Completion Certification**

Following completion of the renovation work, the lender must obtain a certification of completion stating that the renovation was completed in accordance with the submitted plans and specifications. The certification must be documented on the *Appraisal Update and/or Completion Report* ([Form 1004D](#)), or a *HomeStyle Completion Certificate* ([Form 1036](#)), completed with all applicable signatures.

Concurrent with the last disbursement of funds, the lender must obtain a title update through the date the renovation was completed, thus ensuring the continuance of Fannie Mae's first lien priority and the absence of any mechanics' or materialmen's liens. When the property is located in a state in which contractors', subcontractors', or materialmen's liens have priority over mortgage liens, the lender must obtain all necessary lien releases or take any other action that may be required to ensure that the title to the property is clear of all liens and encumbrances.

The lender also must obtain for retention in the individual mortgage file a certification regarding the adequacy of the property insurance following completion of the renovation. The certification must confirm that the coverage has been increased, if necessary, to comply with Fannie Mae's standard property and flood insurance requirements.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2015-09</a> | August 25, 2015   |



## **B5-3.2-06, HomeStyle Construction Contract, Construction Loan Agreement, and Lien Waiver (12/30/2009)**

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### **Introduction**

This topic contains information on HomeStyle documents, including:

- [HomeStyle Construction Contract](#)
  - [Construction Loan Agreement](#)
  - [Lien Waiver](#)
- 

### **HomeStyle Construction Contract**

The construction contract must:

- itemize the specific work that the contractor agrees to perform for the borrower,
- state the agreed-upon cost of the renovation,
- identify all subcontractors and suppliers,
- include an itemized description that establishes the schedule for completing each stage of the work and the corresponding payments to be made to the contractor.

This contract, which must be executed by both the contractor and the borrower, should also require the contractor to:

- be duly licensed (if required by applicable law);
- obtain all required insurance coverages (such as all-risk, public liability, workmen's compensation, and automobile liability);
- complete the work in compliance with the contract and all applicable government regulations (such as building codes and zoning restrictions);
- obtain the necessary building permits (including a certificate of occupancy, if required);
- provide for appropriate remedies for resolving disputes (including an agreement to indemnify the borrower for all property losses or damages caused by the contractor's employees or subcontractors).

Fannie Mae has developed a model *Construction Contract* ([Form 3734](#)) to document the construction contract between the borrower and the contractor.

HomeStyle mortgages may be subject to a variety of laws and regulations, based on the type of transaction or the types of lenders originating the mortgages. Therefore, when Fannie Mae's model document is used, all appropriate, required changes must be made.

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### **Construction Loan Agreement**

A construction loan agreement is a written agreement between the borrower and the lender that:

- states the terms and conditions of the loan prior to the completion of the improvements
- states the events that constitute a borrower default and indicates the remedies available to the lender if the borrower defaults under the terms of either the construction contract or other loan documents
- requires the contractor to have any license required by any government regulations, and to obtain and keep in force an all-risk insurance policy (with a physical loss form endorsement and a mortgagee's loss payable clause) equal to 100% of the full replacement cost of the improvements, public liability insurance, workmen's compensation insurance (as required by applicable state law), and automobile liability insurance
- requires that either the borrower or the contractor obtain (and keep in force) all work permits required by any government agency, and comply with all applicable laws or government regulations
- requires the borrower to:
  - submit to the lender a title policy, an appraisal (if applicable), and a survey
  - permit the lender to make property inspections, and
  - pay all costs and expenses required to satisfy any conditions of the agreement (including costs overruns, the costs of change orders, and the costs of enforcement of the agreement in the event of default)
- includes provisions for extending the completion date if the construction (or renovation) cannot be completed on time as the result of a tornado, flood, or fire, and states the terms under which the lender may grant such extensions
- includes provisions related to:

- the time, manner, and method by which the lender disburses advances of the loan proceeds
  - conditions on how the advances may be used
  - procedures on how to request an advance (including the proper format, information, and required signatories)
  - documentation required to support each request for disbursement of an advance (such as the title policy, any required lien waivers from all contractors, subcontractors, and suppliers) and any required inspection reports and
  - the number and amount of payments that the lender is to make to the borrower and/or the contractor.
- obligates the borrower and the contractor to enter into a construction agreement for all labor and materials to renovate the improvements, and provide the lender with a copy of:
    - that contract
    - the applicable plans and specifications that fully describe all work to be performed
    - the construction budget (which provides a timetable for stages of completion and the schedule for advances for payment of amounts due)
    - a schedule of advances for payment of the renovation costs, and
    - the requirements for requesting (and obtaining approval of) change orders.

Fannie Mae has developed a model *Construction Loan Agreement* ([Form 3735](#)) to document the construction loan agreement between the borrower and the lender.

Because HomeStyle mortgages may be subject to a variety of laws and regulations based on the type of transaction or the type of lender originating the mortgages, a lender that uses Fannie Mae's model documents must make all appropriate, required changes to them.

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### **Lien Waiver**

Before a lender makes any disbursements during the renovation period for a HomeStyle mortgage, it must obtain a lien waiver or a clear title report that releases all contractor, subcontractor, and supplier liens. Fannie Mae's model document—*Lien Waiver* ([Form 3739](#))—may be used for this, provided the lender makes any changes to it that may be required by applicable law.

In order to receive proceeds from an advance, the lender must receive lien waivers from the contractor, all subcontractors, and suppliers upon completion of each stage.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>               | <b>Issue Date</b> |
|------------------------------------|-------------------|
| <a href="#">Announcement 09-37</a> | December 30, 2009 |
| <a href="#">Announcement 09-28</a> | August 21, 2009   |

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## Section B5-3.3, HomeStyle Energy Mortgages



### **B5-3.3-01, HomeStyle Energy for Energy Improvements on Existing Properties (05/31/2016)**

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#### **Introduction**

This topic contains the following information concerning mortgage loans on existing properties where energy improvements are included as part of the transaction, including:

- [Overview](#)
  - [Eligible Property and Occupancy Types](#)
  - [Energy Report Requirements](#)
  - [Product Eligibility](#)
  - [Underwriting with DU](#)
  - [Manual Underwriting](#)
  - [Appraisal Requirements](#)
  - [Lender Responsibilities](#)
  - [Loan-Level Price Adjustment Credit](#)
  - [Special Feature Code](#)
- 

#### **Overview**

There are a number of HomeStyle Energy financing options available to a borrower who wishes to improve the energy efficiency of an existing property and decrease its related utility costs. These options include

- paying off a PACE loan or other debt incurred for energy-related improvements in a limited cash-out refinance (described in [B2-1.2-02, Limited Cash-Out Refinance Transactions](#)), or
- financing energy-related renovations up to 15% of the “as completed” value of the property in a purchase or limited cash-out refinance transaction.

There is no minimum dollar amount for the energy improvements; the maximum dollar amount depends on the type of HomeStyle Energy activity and the transaction, described in the table below.

**Note:** HomeStyle Renovation approved lenders may use HomeStyle Energy financing in conjunction with HomeStyle Renovation to finance energy-related and other renovations totaling up to 50% of the “as completed” value of the property. See Section B5–3.2, HomeStyle Renovation Mortgage, for the requirements.

| HomeStyle Energy Activity   | Maximum Amount to Finance Energy-Related Items  |
|---|---|
| Payoff of existing PACE loan  | For limited cash-out refinances of: <ul style="list-style-type: none"> <li>• a PACE loan originated prior to July 6, 2010, the entire limited cash-out refinance loan amount may be used to pay off the PACE loan. See <a href="#">B5-3.4-01, Property Assessed Clean Energy Loans</a>.</li> <li>• a PACE loan originated on or after July 6, 2010, or other debt used for energy improvements, limited to 15% of the appraised value of the property.</li> </ul> |
| Payoff of other secured or unsecured debt that financed energy-related improvements | For limited cash-out refinances: <ul style="list-style-type: none"> <li>• up to 15% of the appraised value of the property.</li> </ul>  |
| Renovation of an existing property to improve its energy efficiency                 | For purchases or limited cash-out refinances: <ul style="list-style-type: none"> <li>• up to 15% of the “as completed” appraised value of the property.</li> </ul>  |

A lender does not need special approval to deliver HomeStyle Energy loans to Fannie Mae.

A lender may deliver a HomeStyle Energy mortgage loan with energy improvements as soon as the loan is closed. The energy-related improvements do not have to be completed when the mortgage is delivered to Fannie Mae. HomeStyle Energy loans are not subject to recourse.

The lender must establish a completion escrow for incomplete energy improvements. The improvements must be completed no later than 180 days from the date of the mortgage note. For requirements related to the completion of the postponed improvements, including escrow accounts, disposition of funds after work completion, and title reports, see the *Requirements for HomeStyle Energy Improvements on Existing Construction* table in [B4-1.2-03, Requirements for Postponed Improvements](#).

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## Eligible Property and Occupancy Types

All one- to four-unit existing properties are eligible for the energy improvement feature with the exception of manufactured homes. All occupancy types are permitted.

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## Energy Report Requirements

Borrowers are required to obtain a residential or home energy report to identify the recommended energy improvements to the property and the estimated cost savings associated with those improvements.

The energy report must be reviewed by the lender and must

- identify the recommended energy improvements and expected costs of the completed improvements;
- specify the monthly energy savings to the borrower; and
- verify that the recommended energy improvements are cost-effective. Energy improvements are determined to be cost-effective when the cost of the improvements, including maintenance, is less than the present value of the energy saved over the useful life of the improvements. (The cost-effectiveness of the improvements may be assessed in the aggregate and are not required to be assessed separately for each energy improvement.)

The report must meet at least one of the following standards:

- A Home Energy Rating Systems (HERS) report completed by a HERS rater who is accredited under the Mortgage Industry National Home Energy Rating Standards (HERS Standards), as adopted by the Residential Energy Services Network (RESNET®). A list of accredited HERS raters by state can be located at [RESNET's website](#).
- A Department of Energy (DOE) Home Energy Score Report completed by an independent third-party energy assessor with credentials obtained through one or more of the organizations listed as eligible under the DOE program. A list of acceptable organizations can be found on the [DOE website](#).
- A rating report completed by an independent and certified home energy consultant or auditor, comparable in rating methods and scope to the HERS or Home Energy Score evaluation, and that is permitted under a local or state level home energy certification or audit program.

The energy report must be dated



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- no earlier than 120 days prior to the note date; or,
  - if related to expenses previously incurred and being paid off with a refinance transaction, within 120 days of the energy-related expenses.

If the cost of the energy report is paid for by the borrower, the cost may be financed as part of the mortgage by including it in the cost of the energy improvements. The cost must be included on the settlement statement if it is financed in the mortgage loan.

**Exceptions to Energy Report Requirements:** Alternative documentation (other than an energy report) is acceptable in the following circumstances.

- Weatherization items – If the mortgage transaction only involves financing the purchase of basic weatherization items (such as programmable thermostats and insulation) or water efficiency devices (such as low-flow showerheads) totalling less than \$3,500, a residential energy report is not required. Acceptable documentation includes, but is not limited to, a copy of invoices or receipts for energy-related expenses or copies of contractor invoices for completing the basic weatherization items.
- Payoff of PACE loans – Documentation must show that the funds are used solely to pay off the PACE loan obtained for energy improvements on the subject property.

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### Product Eligibility

Energy-related improvements are permitted on existing properties in conjunction with all standard Guide products and features including, but not limited to:

- high-balance loans,
- Community Seconds,
- loans with deed restrictions (including programs that allow below market rate mortgages),
- down payment assistance programs,
- HomeReady loans, and
- Community Land Trusts.

Energy improvements cannot be financed in the loan amount of a Refi Plus or DU Refi Plus loan. Loans with energy improvements are subject to the applicable LTV, CLTV, and HCLTV ratios found in the [Eligibility Matrix](#) (which can never exceed an LTV ratio of 95%).

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**Purchase Transactions:** In a purchase transaction, the proceeds can be used to finance the acquisition of the property and the energy improvements. The LTV ratio is determined by dividing the original loan amount (including the cost of the energy improvements) by the lesser of the “as completed” appraised value of the property or the sum of the purchase price of the property and the cost of the energy improvements.

**Limited Cash-out Refinance Transactions:** When a mortgage loan is originated as a limited cash-out refinance, the loan must meet all of the standard requirements for limited cash-out refinances (as described in [B2-1.2-02, Limited Cash-Out Refinance Transactions](#)).

Energy-related improvements may be financed in the loan amount. Proceeds may also be used to pay off an existing PACE loan or other debt (secured or unsecured) that financed an energy-related improvement. The standard cash back allowance of the lesser of 2% of the loan amount or \$2,000 is permitted on these loans.

For limited cash-out refinance transactions, the LTV ratio is determined by dividing the original loan amount (including the cost of the energy improvements) by the “as completed” appraised value of the property when the mortgage is being delivered prior to the completion of the improvements. If the appraisal was completed after the completion of the improvements, then the LTV ratio is determined by dividing the original loan amount (including the cost of energy improvement debt to be included in the loan amount) by the appraised value of the property.

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## Underwriting with DU

Mortgage loans with an energy improvement feature can be underwritten manually or through DU. However, DU is not able to identify the transaction as having an energy improvement feature and as such, will not issue any specific verification messages. The lender must confirm outside of DU that all requirements of the energy improvement feature described in this section are met.

For purchase transactions, the lender must include the cost of the energy improvements in the sales price in the online loan application in order for the cash to close and LTV ratio to be accurately determined. For limited cash-out refinance transactions, the inclusion of the cost of the energy improvements in the loan amount may make it appear that the borrower is receiving more than the allowable cash back at closing.

Because DU will be applying the standard limited cash-out refinance cash back policy, the loan casefile may receive an Ineligible recommendation when it appears the borrower is receiving more than 2%/\$2,000 cash back. The lender may deliver the loan with the Ineligible recommendation and retain the DU limited waiver of underwriting representations and warranties provided the mortgage loan meets the requirements contained in this section (e.g.,

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maximum cash back at closing) as well as those contained in [A2-2.1-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU](#).

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### **Manual Underwriting**

For mortgage loans involving energy-related improvements that are underwritten manually, a maximum debt-to-income ratio of 38% is allowed. All other underwriting requirements, such as the down payment, credit score, and reserve requirements, are identical to those for a similar transaction with a maximum debt-to-income ratio of 36%. In addition, for all mortgage loans with debt-to-income ratios greater than 36% up to the maximum of 38%, a DOE Home Energy Score Report must be completed and the subject property must receive a Home Energy Score greater than 6 (or comparable industry standard measure that demonstrates the property has met the standards for increased energy efficiency).

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### **Appraisal Requirements**

All mortgage loans with energy improvement features require an appraisal based on an interior and exterior property inspection and must be completed on the appropriate form depending on the property type. When the mortgage is being delivered prior to the completion of the energy improvements, appraisers must determine the “as completed” value of the property subject to the energy improvements being completed. A certification of completion is required when the mortgage is delivered prior to the completion of the improvements. For requirements related to the certification of completion, see [B4-1.2-03, Requirements for Postponed Improvements](#).

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### **Lender Responsibilities**

The lender is responsible for

- ensuring that the appraiser has been provided with a copy of the energy report,
- managing the escrow account in which improvement funds are held, and
- monitoring the completion of the energy improvement work.

See the requirements related to the energy improvement feature in [B4-1.2-03, Requirements for Postponed Improvements](#).

The lender must maintain a copy of all of the documentation in the individual mortgage file that supports the energy improvement work, such as the energy report, “as completed” appraisal, home improvement contract, certification of completion, and title insurance endorsements or updates (if applicable).

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### Loan-Level Price Adjustment Credit

Fannie Mae will credit the lender a \$500 LLPA for mortgage loans that financed energy improvements on existing properties. See the [Loan-Level Price Adjustment \(LLPA\) Matrix](#).

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### Special Feature Code

When delivering a mortgage loan with financed energy improvements, the lender must include SFC 375 as part of the delivery information. Lenders will not receive the \$500 LLPA credit without delivery of SFC 375. See the list of [Special Feature Codes](#) on Fannie Mae's website.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2016-04</a> | May 31, 2016     |
| <a href="#">Announcement SEL-2016-03</a> | March 29, 2016   |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013    |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011   |
| <a href="#">Announcement SEL-2010-15</a> | December 1, 2010 |

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## Section B5-3.4, Property Assessed Clean Energy Loans



### B5-3.4-01, Property Assessed Clean Energy Loans (12/01/2010)

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#### Introduction

This topic contains information on Property Assessed Clean Energy (PACE) loans, including:

- [Overview](#)
  - [Eligibility](#)
  - [Refinancing Options for Properties with a PACE Loan](#)
  - [Delivery Requirements](#)
- 

#### Overview

Certain energy retrofit lending programs, often referred to as Property Assessed Clean Energy (PACE) programs, are made by localities to finance residential energy improvements and are generally repaid through the homeowner's real estate tax bill. These loans typically have automatic first lien priority over previously recorded mortgages. The terms of the Fannie Mae/Freddie Mac Uniform Security Instruments prohibit loans that have senior lien status to a mortgage.

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#### Eligibility

Fannie Mae will not purchase mortgage loans secured by properties with an outstanding PACE loan unless the terms of the PACE loan program do not provide for lien priority over first mortgage liens. Lenders must monitor state and local law to determine which jurisdictions offer PACE loans that may provide for lien priority.

If the PACE loan is structured as a subordinate lien or unsecured loan, the first mortgage loan may be underwritten to Fannie Mae's standard guidelines.

However, for PACE loans originated prior to July 6, 2010, Fannie Mae waives the uniform security instrument prohibition against a PACE loan with lien priority if the corresponding

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mortgage loan was purchased before July 6, 2010 or is in an MBS pool with an issue date on or before July 1, 2010.

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### Refinancing Options for Properties with a PACE Loan

The following requirements apply to borrowers with loans that are owned or securitized by Fannie Mae who seek to refinance and who obtained a PACE loan prior to July 6, 2010:

- **Paying off the PACE loan:** The lender must first attempt to qualify the borrower for either a cash-out or limited cash-out refinance option, with the PACE loan being paid off as part of the refinance. To mitigate the risk posed by PACE obligations that take lien priority over the mortgage, Fannie Mae requires that borrowers with sufficient equity pay off the existing PACE obligation as a condition to obtaining a new mortgage loan. The prohibition against using the proceeds of a limited cash-out refinance to pay off a loan not used to purchase the property will not apply. Due to the complexity of data entry options in DU for limited cash-out refinance transactions in which the PACE loan is being paid off with mortgage proceeds, these transactions must be manually underwritten.
  - **Retaining the PACE loan:** If the borrower is unable to qualify for a cash-out or limited cash-out refinance with sufficient proceeds to pay off the PACE loan, the lender may underwrite the loan as a limited cash-out refinance, DU Refi Plus, or Refi Plus loan, as applicable, with the PACE loan remaining in place. In these cases, it will not be necessary to include the PACE loan in the calculation of the CLTV ratio, though it must be included in the monthly housing expense (PITIA) and debt-to-income calculation.
- 

### Delivery Requirements

For those eligible limited cash-out refinances where the PACE loan remains in place, the mortgage loans must be delivered with SFC 173.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010 |
| <a href="#">Announcement SEL-2010-12</a> | August 31, 2010  |

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# Chapter B5-4, Property-Specific Products



## Property-Specific Products

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### Introduction

This chapter describes the policies and requirements for property-specific products.

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### In This Chapter

This chapter contains the following topics:

|   |     |
|---|-----|
| B5-4-01, Native American Conventional Lending Initiative (NACLI) (06/26/2012) . . . . .   | 829 |
| B5-4-02, Disaster-Related Limited Cash-Out Refinance Flexibilities (06/26/2012) . . . . . | 831 |
| B5-4-03, Loans Secured by HomePath Properties (05/31/2016) . . . . .                      | 834 |
| B5-4.1, General Requirements of Texas Section 50(a)(6) Mortgages (03/29/2010) . . . . .   | 836 |

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## B5-4-01, Native American Conventional Lending Initiative (NACLI) (06/26/2012)

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### Introduction

This topic contains information on Native American Conventional Lending Initiative (NACLI), including:

- [Overview](#)
  - [Lender Eligibility](#)
  - [Eligibility Requirements](#)
  - [Special Feature Codes](#)
- 

### Overview

As part of Fannie Mae's commitment to offering conventional loan products to address special housing needs of the underserved, Fannie Mae developed its set of Native American conventional Housing Initiatives.

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Through these initiatives, Fannie Mae purchases conventional mortgages that are made to Native Americans.

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### **Lender Eligibility**

Any lender that is interested in participating in NACLI must obtain separate approval from Fannie Mae.

Upon approval, the lender will obtain the applicable set of terms and conditions that may vary for the specific tribal community.

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### **Eligibility Requirements**

Tribes that have jurisdiction over lands restricted to tribal members are eligible.

Before any lending may take place, a tribe's ordinances must be reviewed to ensure that there is appropriate support for mortgage lending. This includes Fannie Mae's confirmation that the tribe has appropriate ordinances involving such issues as the recording of mortgages, resale, lien priority, foreclosure, and eviction.

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### **Special Feature Codes**

A lender must report SFC 221 for a mortgage originated under NACLI when it delivers a mortgage originated under Fannie Mae's Native American Housing Initiatives.

In addition, the lender should report all other applicable special feature codes that are needed to describe other special mortgage characteristics.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |

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## **B5-4-02, Disaster-Related Limited Cash-Out Refinance Flexibilities (06/26/2012)**

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### **Introduction**

This topic contains information on disaster-related limited cash-out refinance flexibilities, including:

- [Disaster-Related Limited Cash-Out Refinance Flexibilities Overview](#)
  - [Location of Property](#)
  - [Occupancy Status](#)
  - [Transaction Types](#)
  - [Documentation of Eligible Disaster-Related Expenses and Financing](#)
  - [Limited Cash-Out Refinance DU Requirements](#)
  - [Appraisal Requirements](#)
  - [Delivery](#)
  - [Special Feature Codes](#)
- 

### **Disaster-Related Limited Cash-Out Refinance Flexibilities Overview**

Fannie Mae provides flexibilities to standard limited cash-out refinance policies for borrowers who have been impacted by a natural disaster. These guidelines:

- permit the refinance of non-purchase money subordinate mortgage loans obtained to finance disaster-related property repairs, and
- provide for a higher cash-out amount to reimburse borrowers for documented out-of-pocket expenses related to disaster-related property repairs.

This topic outlines the specific eligibility requirements for these additional flexibilities.

---

### **Location of Property**

These flexibilities may be applied to mortgage loans on properties located in any counties, cities, or parishes that are designated by the Federal Emergency Management Agency ([FEMA](#)) as eligible for Individual Assistance as a result of a natural disaster (these areas are referred to as “FEMA Disaster Areas”).

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## Occupancy Status

These guidelines are applicable only to mortgage loans secured by the borrower's principal residence, and may not be used in connection with second homes or investment properties.

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## Transaction Types

A borrower may obtain:

- a limited cash-out refinance to consolidate non-purchase money subordinate financing used for repair of disaster-related property damage to his or her principal residence. To be eligible, the subordinate financing, including any draws on an existing HELOC, must post-date the disaster. However, the borrower may pay off the entire HELOC through the limited cash-out refinance, provided that a portion of the amount was used for disaster-related expenses to repair property damage to the principal residence.
- cash-out for reimbursement of documented out-of-pocket expenses for the completed repair of disaster-related property damage to his or her principal residence in an amount not to exceed the lesser of 10% of the balance of the new refinance mortgage loan or \$15,000.

All existing guidelines and requirements for limited cash-out refinance transactions listed in this section continue to apply, including those for Texas 50(a)(6) mortgages (see [B5-4.1-01, Texas Section 50\(a\)\(6\) Mortgage Loans](#)).

---

## Documentation of Eligible Disaster-Related Expenses and Financing

The lender must document that the subordinate financing (or a portion of the HELOC) or the entire requested cash-out amount represents funds used for completed disaster-related property repairs.

Generally, documentation includes copies of receipts, work orders, canceled checks, etc., related to the cost of materials and labor.

The borrower may not receive any reimbursement for amounts representing his or her sweat equity in connection with the repairs.

**Note:** All documentation must post-date the disaster and be directly related to completed repairs of damage to the property resulting from the disaster.

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## Limited Cash-Out Refinance DU Requirements

Certain messages on the DU Underwriting Findings Report will not apply to mortgage loans originated under the disaster-related limited cash-out refinance requirements.

When the mortgage loan complies with the requirements of this section, lenders may disregard the following messages:

- This case is ineligible because the amount of cash taken out of the subject property equity exceeds the limit of 2% of the loan amount or \$2,000 for limited cash-out refinances.
- If any subordinate lien that was not used to acquire the subject property is to be paid off with first mortgage proceeds, the loan is ineligible as a limited cash-out refinance. The loan must be resubmitted as a cash-out refinance.
- If subordinate liens are being paid off with the first mortgage proceeds, obtain written documentation that the subordinate lien was used to acquire the subject property.

Fannie Mae will grant the lender the limited waiver of underwriting representations and warranties for these mortgage loans, including those mortgages that receive an Approve/Ineligible recommendation, provided the mortgage loan meets the requirements contained in this section as well as those contained in [A2-2.1-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU](#).

---

## Appraisal Requirements

The appraisal for the property must follow standard requirements contained in Chapter B4–1, Appraisal Guidelines.

Those guidelines allow an appraisal to be based on the “as is” condition of the property provided there are no conditions that affect the safety, soundness, or structural integrity of the property. If those conditions do exist, the property must be appraised subject to completion of the specific alterations or repairs (“as repaired”) and a completion report must be obtained from the appraiser prior to delivery of the mortgage to Fannie Mae.

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## Delivery

Mortgage loans originated in accordance with this section must be delivered to Fannie Mae no later than two years from the date of the disaster declaration by [FEMA](#).

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## Special Feature Codes

Mortgage loans delivered under these guidelines must include SFC 416 as part of the delivery data.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date    |
|--|---------------|
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012 |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011 |



## **B5-4-03, Loans Secured by HomePath Properties (05/31/2016)**

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### Introduction

This topic describes exceptions to standard policies that are permitted for HomePath properties and delivery requirements, including:

- [Eligibility Exceptions for HomePath Properties](#)
- [Interested Party Contributions](#)
- [Certain Resale Restrictions](#)
- [Special Feature Code for HomePath Properties with an Eligible Exception](#)

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### Eligibility Exceptions for HomePath Properties

A HomePath property is a property that was owned and sold by Fannie Mae through a transaction resulting in the disposition of its real estate owned (REO). When the property secured by the mortgage is a HomePath property, Fannie Mae will allow certain exceptions to standard *Selling Guide* eligibility policies as described below.

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### Interested Party Contributions

In cases where the subject property is a HomePath property, an exception to the maximum interested party contribution (IPC) limit for principal residences is permitted, as described in the

table below. All other requirements related to IPCs, as described in [B3-4.1-02, Interested Party Contributions \(IPCs\)](#), continue to apply.

| Occupancy Type      | LTV/CLTV Ratio   | Maximum IPC |
|---------------------|------------------|-------------|
| Principal Residence | Greater than 90% | 6%          |

**Note:** DU is not able to determine if the subject property is a sale of a HomePath property. DU will issue a message if the amount of the IPC appears to exceed the standard limits described in [B3-4.1-02, Interested Party Contributions \(IPCs\)](#). The lender must determine whether the subject transaction is a purchase of a HomePath property eligible for the higher IPC limit and document the loan file accordingly.

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### Certain Resale Restrictions

Notwithstanding any other provision of this *Selling Guide*, loans subject to resale restrictions imposed by Fannie Mae as the seller of its REO property are eligible.

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### Special Feature Code for HomePath Properties with an Eligible Exception

Lenders must use SFC 679 when delivering a loan secured by a HomePath property if the IPC exceptions apply to the transaction. This code is in addition to any other special feature codes that may apply. SFC 679 is not required for a loan secured by a HomePath property that is subject solely to the resale restriction exception.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-04</a> | May 31, 2016       |
| <a href="#">Announcement SEL-2016-03</a> | March 29, 2016     |
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014      |
| <a href="#">Announcement SEL-2014-07</a> | June 24, 2014      |

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## Section B5-4.1, General Requirements of Texas Section 50(a)(6) Mortgages (03/292010)



### B5-4.1-01, Texas Section 50(a)(6) Mortgage Loans (03/29/2016)

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#### Introduction

This topic contains information on Texas Section 50(a)(6) mortgage loans, including:

- [Overview](#)
  - [Lender Eligibility](#)
  - [Loan Origination and Compliance](#)
  - [Lender Certification](#)
  - [Servicer's Obligations to Maintain Procedures for Curing Violations](#)
- 

#### Overview

A Texas Section 50(a)(6) mortgage loan is a mortgage originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions.

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#### Lender Eligibility

Unless otherwise notified in writing, all lenders are eligible to sell and/or service Texas Section 50(a)(6) mortgage loans. However, lenders must meet the eligibility criteria specified in the Texas Constitution. A lender that intends to sell Texas Section 50(a)(6) mortgage loans originated by a third-party originator is also responsible for ensuring that the originating lender qualifies as an “authorized lender” under the Texas Constitution.

---

#### Loan Origination and Compliance

In addition to Fannie Mae's other origination and compliance requirements for Texas Section 50(a)(6) mortgages in this chapter, lender agrees to the following:

| ✓ | <b>Requirement</b>  |
|---|---|
|   | By sale of a Texas Section 50(a)(6) mortgage to Fannie Mae, lenders represent and warrant that the mortgage loan complies with the Article XVI, Section 50(a)(6), of the Texas Constitution and all applicable requirements of the <i>Selling Guide</i> .   |
|   | The borrower’s first payment must be due no later than two months after closing.  |
|   | <p>The lender must provide the title company with a detailed closing instruction letter, and require an acknowledgment of its receipt.</p> <p>The closing instructions must require the title company to conduct the closing in a way that ensures compliance with all applicable provisions of Section 50(a)(6) of the Texas Constitution.</p> <p>For purposes of the compliance with the acknowledgment of the “fair market” value of the homestead property requirement, the “fair market value” must be based on an appraisal or an evaluation that is prepared “in accordance with a state or federal requirement applicable to the extension of credit” and the appraisal must be attached to the written acknowledgment. See <a href="#">B5-4.1-03, Texas Section 50(a)(6) Underwriting and Collateral Considerations</a> for Fannie Mae's appraisal requirements.</p>                         |
|   | <p>The proceeds from a Texas Section 50(a)(6) mortgage must not be used to acquire or improve the homestead if a mortgage for that purpose could have been made under a different provision of the Texas Constitution.</p> <p>Fannie Mae has no other restrictions on the use of the loan proceeds.</p>   |
|   | If the new mortgage is a Texas Section 50(a)(6) refinance transaction originated in order to cure a failure in the original mortgage to comply with Section 50(a)(6), then the Texas law requirement that at least 12 months have passed since any previous Section 50(a)(6) mortgage secured by the homestead property was closed does not apply and the mortgage is eligible for sale to Fannie Mae provided that it complies in all respects with Fannie Mae’s requirements. However, unless a refinance transaction has been completed to cure a failure in the original mortgage transaction to comply with Section 50(a)(6), a Texas Section 50(a)(6) mortgage loan is ineligible for sale to Fannie Mae if the lender has either identified or been notified by the borrower of a failure to comply, whether or not there has already been a cure or an attempt to cure the failure to comply. |
|   | DU does not contain the specific eligibility rules needed to determine eligibility in accordance with Article XVI, Section 50(a)(6) of the Texas Constitution or the <i>Selling Guide</i> .   |

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| ✓ | Requirement  |
|---|--|
|   | Lenders must determine whether refinance mortgages securing properties in Texas are eligible for sale to Fannie Mae, and should be aware that even though a loan may receive an “Eligible” recommendation, the loan may not be eligible for delivery according to Section 50(a)(6) of the Texas Constitution or the <i>Selling Guide</i> . |

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### Lender Certification

By sale of a Texas Section 50(a)(6) mortgage to Fannie Mae, the lender certifies that with respect to all of the Texas Section 50(a)(6) mortgages delivered to Fannie Mae, whether or not originated by the lender:

- All Texas Section 50(a)(6) mortgages were (or will be) originated pursuant to written processes and procedures that comply with the provisions of the Texas Constitution applicable to mortgage loans authorized by Section 50(a)(6), Article XVI of the Texas Constitution, as amended from time to time.
- The lender has in place a specific process for the receipt, handling, and monitoring of notices from borrowers that lender (or the mortgage originator, if lender is the servicer but not the originator) failed to comply with the provisions of the law applicable to Texas Section 50(a)(6) mortgages. Such process must be adequate to ensure that the lender will correct the failure to comply by one of the authorized means no later than the 60th day after the date the lender is notified of the failure to comply by the borrower.
- An attorney familiar with the provisions of Section 50(a)(6), Article XVI of the Texas Constitution was consulted (or will be consulted prior to origination of the Texas Section 50(a)(6) mortgages) in connection with the development and implementation of the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages.
- To ensure ongoing compliance with the law applicable to mortgage loans authorized by Section 50(a)(6), Article XVI of the Texas Constitution, the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages will be reviewed by the lender regularly and will be updated and revised, as appropriate pursuant to clarifications of the law, on a regular and continual basis.
- The matters certified herein are representations and warranties of the lender given to Fannie Mae in connection with each Texas Section 50(a)(6) mortgage.



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### **Servicer’s Obligations to Maintain Procedures for Curing Violations**

In addition to having processes and procedures to ensure compliance with Texas Section 50(a)(6), lenders and servicers must have specific processes in place to cure any failure to comply with Section 50(a)(6) identified with respect to a mortgage loan serviced on behalf of Fannie Mae by one of the authorized means, as required by the “Lender Certification” requirements described above. A lender’s or servicer’s failure to cure within 60 days after being notified of a failure to comply may, under Texas law, result in the forfeiture of all principal and interest due under the Texas Section 50(a)(6) mortgage loan. However, any action taken, or not taken, in connection with a failure to comply with Texas Section 50(a)(6), even if such action is a result of the lender’s or servicer’s effort to cure a failure to comply, that results in any of the following constitutes a breach of the lender’s selling representations and warranties and/or servicing obligations and requirements:

- a forfeiture of any principal or interest due under the mortgage loan;
- invalidation of the mortgage as a first lien;
- abatement of accrual of interest and the borrower’s obligations under the mortgage loan;
- reduction in the principal amount of the mortgage; or
- any modification of the amount, interest rate, term, or other provision of the mortgage loan.

Such action, taken or not taken, shall be deemed a failure to correct a significant defect and/or a servicing defect that permits Fannie Mae to exercise any of the remedies provided in the Lender Contract, including the right to require repurchase of the mortgage loan.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-03</a> | March 29, 2016    |
| <a href="#">Announcement SEL-2010-04</a> | March 29, 2010    |



## **B5-4.1-02, Texas Section 50(a)(6) Mortgage Loan Eligibility (04/15/2014)**

---

### **Introduction**

This topic contains information on Texas Section 50(a)(6) mortgage loan eligibility, including:

- [Refinance Classifications](#)
  - [Eligible Mortgage Products and Transaction Types](#)
  - [Texas Section 50\(a\)\(6\) Security Property](#)
- 

### **Refinance Classifications**

Lenders should be aware that Fannie Mae’s classification of mortgage transactions as “cash-out refinance” or “limited cash-out refinance” may differ from the way mortgages are classified under Texas law for purposes of compliance with the Amendment.

Texas law determines whether or not a mortgage is a Texas Section 50(a)(6) mortgage, and Fannie Mae’s policy determines whether the mortgage must be delivered as a cash-out refinance transaction or as a limited cash-out refinance transaction.

The lender is responsible for determining:

- the applicability of Section 50(a)(6) of the Texas Constitution, regardless of Fannie Mae’s definitions of cash-out and limited cash-out refinance transactions; and
- if the mortgage should be delivered to Fannie Mae as a cash-out refinance (including SFC 003 and payment of all applicable LLPAs) or a limited cash-out refinance transaction (including SFC 007).

All mortgages that constitute Texas Section 50(a)(6) mortgages under Texas law must comply with these provisions, regardless of whether the mortgage loan is classified as a “cash-out refinance” or “rate/term refinance” in the *Selling Guide*. See [B5-4.1-03, Texas Section 50\(a\)\(6\) Underwriting and Collateral Considerations](#).

Accordingly, lenders should not rely on Fannie Mae’s categorization of refinance mortgages for purposes of determining whether compliance with the provisions of Section 50(a)(6) is required. Rather, such lenders should consult with their counsel to determine the applicability of Section 50(a)(6) to a particular loan transaction.

### Eligible Mortgage Products and Transaction Types

Texas Section 50(a)(6) mortgages must be fully amortizing mortgages with payments due on a monthly basis. The following are eligible as Texas Section 50(a)(6) mortgages:

- first liens only;
- fixed-rate mortgages; and
- certain five-, seven-, and ten-year ARM plans (shown in the table below).

| Eligible ARM Plans |                 |               |
|--------------------|-----------------|---------------|
| Five-year ARMs     | Seven-year ARMs | Ten-year ARMs |
| • 659              | • 750           | • 1423        |
| • 660              | • 751           | • 1437        |
| • 661              | • 2726          | • 2728        |
| • 1677             | • 2727          | • 2729        |
| • 2724             |                 |               |
| • 2725             |                 |               |
| • 2737             |                 |               |

These ARM plans should be structured in the same way that they are for other mortgages, except that the mortgage may not be assumable at any time over its full term. Only the ARM plans listed above are eligible, due to the MBS disclosure impact resulting from the non-assumable nature of these ARMs.

The following are not eligible as Texas Section 50(a)(6) mortgages:

- loans that are not in first-lien position,
- ARM plans not listed in the Eligible ARM Plans table above, and
- loans with temporary interest rate buydowns.

---

## Texas Section 50(a)(6) Security Property

A Texas Section 50(a)(6) mortgage must be secured by a single-unit principal residence constituting the borrower's homestead under Texas law. Mortgages secured by two- to four-unit properties, investment properties, or second homes are not eligible. The security property may be

- a detached dwelling,
- an attached dwelling,
- a unit in a PUD project,
- a unit in a condo project, or
- a manufactured home. (A manufactured home is eligible only if it is classified as real property under Texas law, and satisfies all special Fannie Mae eligibility criteria for manufactured homes.)

The borrower's property may not exceed the applicable acreage limit as determined by Texas law when the Texas Section 50(a)(6) mortgage is originated.

A borrower that owns adjacent land must submit appropriate evidence, such as a survey, that the mortgaged homestead property is a separate parcel that does not exceed the permissible acreage.

**Note:** An *inter vivos* revocable trust that meets Fannie Mae's borrower eligibility criteria (as described in [B2-2-05, Inter Vivos Revocable Trusts](#)), may be a borrower under a Texas Section 50(a)(6) mortgage, provided that the trust meets the requirements for a "qualifying trust" under Texas law for purposes of owning residential property that qualifies for the homestead exemption.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2014-03</a> | April 15, 2014   |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013  |
| <a href="#">Announcement SEL-2013-04</a> | May 28, 2013     |
| <a href="#">Announcement SEL-2013-01</a> | January 17, 2013 |
| <a href="#">Announcement SEL-2010-04</a> | March 29, 2010   |



## **B5-4.1-03, Texas Section 50(a)(6) Underwriting and Collateral Considerations (10/24/2016)**

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### **Introduction**

This topic contains information on Texas Section 50(a)(6) underwriting and collateral considerations, including:

- [LTV/CLTV](#)
  - [Underwriting and Loan Documentation](#)
  - [Property Valuation](#)
- 

### **LTV/CLTV**

Per Texas law, the maximum allowable LTV and combined LTV is 80%, notwithstanding any conflicting provisions of this Guide or any specific DU recommendation or finding. HELOC subordinate financing is not permitted, so no maximum HCLTV is applicable.

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### **Underwriting and Loan Documentation**

Texas Section 50(a)(6) mortgages are eligible for the reduced documentation requirements recommended by DU, provided that all other terms and conditions described herein for Texas Section 50(a)(6) mortgages shall apply.

This includes, but is not limited to, the additional representations and warranties, and requirements related to mortgage documentation, property valuation, title insurance, committing and delivery and servicing.

For a mortgage that represents the refinance of a Texas Section 50(a)(6) mortgage, the borrower must requalify even if the lender is currently servicing the existing mortgage that is being refinanced.

Manually underwritten Texas Section 50(a)(6) mortgages are subject to minimum credit score requirements per the *Selling Guide*, based on the transaction as either a cash-out refinance or a limited cash-out refinance, as applicable.

**Note:** Texas Section 50(a)(6) mortgages are eligible for refinance under DU Refi Plus and Refi Plus. See [B5-5.2-01, DU Refi Plus and Refi Plus Eligibility](#).

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## Property Valuation

Lenders must obtain a new full appraisal, including both interior and exterior inspections, to determine current value on either *Uniform Residential Appraisal Report* ([Form 1004](#)), or *Individual Condominium Unit Appraisal Report* ([Form 1073](#)), even if DU recommends a different property valuation method or a PIW.

The appraisal for the property and the acknowledgment of fair market value must not include any property other than the homestead.

The survey (or other acceptable evidence) must demonstrate that:

- the homestead property and any adjacent land are separate parcels, and
- the homestead property is a separately platted and subdivided lot for which full ingress and egress is available.

The lender selling the mortgage to Fannie Mae must not have any interest (such as an option to purchase, a security interest, or an easement) in any parcel adjacent to the homestead property that is owned by the borrower, if such interest could constitute additional security for the Texas Section 50(a)(6) mortgage.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016  |
| <a href="#">Announcement SEL-2010-04</a> | March 29, 2010    |
| <a href="#">Announcement 09-13</a>       | May 11, 2009      |



## **B5-4.1-04, Texas Section 50(a)(6) Mortgage Loan Delivery and Servicing Considerations (03/29/2016)**

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### **Introduction**

This topic contains information on Texas Section 50(a)(6) mortgage delivery considerations, including:

- [Special Feature Codes and Pricing](#)
  - [Servicing](#)
- 

### **Special Feature Codes and Pricing**

All Texas Section 50(a)(6) mortgages must be identified at delivery with SFC 304. In addition, the lender must enter the following special feature codes at loan delivery:

- SFC 304 and SFC 003 for each Texas Section 50(a)(6) mortgage that is classified as a cash-out refinance under Fannie Mae's policy,
- SFC 304 and SFC 007 for each Texas Section 50(a)(6) mortgage that is classified as a limited cash-out refinance under Fannie Mae's policy,
- These codes apply to both whole loans and MBS pool deliveries.

If the lender determines that a mortgage secured by a homestead property in Texas is classified as a cash-out refinance per this Guide but is not subject to Article XVI, Section 50(a)(6), of the Texas Constitution (i.e., is not a Texas Section 50(a)(6) mortgage), then the mortgage should be delivered as a standard (non-Texas Section 50(a)(6) mortgage) cash-out refinance transaction but should not be identified with SFC 304. (See [B2-1.2-03, Cash-Out Refinance Transactions](#).)

At delivery, all Texas Section 50(a)(6) mortgages that are classified as cash-out refinance transactions are subject to the loan-level price adjustments applicable to cash-out refinance mortgages per this Guide, as may be amended from time to time.

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### **Servicing**

A lender that delivers a Texas Section 50(a)(6) mortgage to Fannie Mae may either service the mortgage, enter into a subservicing arrangement with another lender, or assign the servicing concurrent with its delivery to Fannie Mae.

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Except as otherwise noted in the *Servicing Guide*, standard Fannie Mae servicing requirements apply to Texas Section 50(a)(6) mortgages.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date     |
|--|----------------|
| <a href="#">Announcement SEL-2016-03</a> | March 29, 2016 |
| <a href="#">Announcement SEL-2010-04</a> | March 29, 2010 |

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## **B5-4.1-05, Texas Section 50(a)(6) Mortgage Legal Considerations (09/30/2014)**

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### Introduction

This topic contains information on Texas Section 50(a)(6) mortgage legal considerations, including:

- [Mortgage Documentation](#)
  - [Title Insurance](#)
- 

### Mortgage Documentation

Lenders must originate Texas Section 50(a)(6) mortgages using the *Texas Home Equity Security Instrument (First Lien)* (Form 3044.1) and the specific Texas Section 50(a)(6) notes and riders, as well as a special Section 50(a)(6) borrower affidavit. Refer to [B8-5-03, Texas Section 50\(a\)\(6\) Mortgage Documentation](#).

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### Title Insurance

For all Texas Section 50(a)(6) mortgages, a title insurance policy written on Texas Land Title Association forms (standard or short form), supplemented by an *Equity Loan Mortgage Endorsement* (Form T-42) and a *Supplemental Coverage Equity Loan Mortgage Endorsement* (Form T-42.1), is required.

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**Note:** There may be no exceptions or deletions to the coverage provided by Paragraphs 2(a) through (e) of the T-42 endorsement, and the endorsement must include the optional coverage provided by Paragraph 2(f), as well as the additional coverage provided by Endorsement T-42.1.

The title insurance policy cannot include language that:

- excludes coverage for a title defect that arises because financed origination expenses are held not to be “reasonable costs necessary to refinance” or
- defines the “reasonable costs necessary to refinance” requirement as a “consumer credit protection” law since the standard title policy excludes coverage when lien validity is questioned due to a failure to comply with consumer credit protection laws.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2014-12</a> | September 30, 2014 |
| <a href="#">Announcement SEL-2010-04</a> | March 29, 2010     |

# Chapter B5-5, Community Seconds, Community Land Trusts, DU Refi Plus and Refi Plus, and Loans with Resale Restrictions



## Community Seconds, Community Land Trusts, DU Refi Plus and Refi Plus, and Loans with Resale Restrictions

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### Introduction

This chapter describes product policies and requirements for community seconds, community land trusts, DU Refi Plus and Refi Plus, and loans with resale restrictions.

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### In This Chapter

This chapter contains the following sections:

|   |     |
|---|-----|
| B5-5.1, Community Seconds and Community Land Trusts ..... | 849 |
| B5-5.2, DU Refi Plus and Refi Plus Mortgage Loans .....   | 865 |
| B5-5.3, Loans with Resale Restrictions .....              | 911 |

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## Section B5-5.1, Community Seconds and Community Land Trusts



### B5-5.1-01, Community Seconds Mortgages (04/09/2013)

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#### Introduction

This topic contains information on Community Seconds mortgages, including:

- [Community Seconds Overview](#)
  - [Review of Community Seconds Programs](#)
- 

#### Community Seconds Overview

The specific terms and structures that are associated with a Community Seconds mortgage may vary depending upon the provider. Fannie Mae provides the eligibility requirements for subordinate Community Seconds mortgages in connection with first mortgages delivered to Fannie Mae. Mortgage loans delivered to Fannie Mae with a Community Seconds mortgage must meet Fannie Mae requirements or receive prior approval on a negotiated basis.

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#### Review of Community Seconds Programs

The lender is responsible for reviewing the Community Seconds programs that are used in those transactions to ensure that the programs are in compliance with Fannie Mae's requirements.

The [Community Seconds Checklist](#) includes a checklist that a lender may use to evaluate key considerations in determining whether to grant approval of a Community Seconds program.

The lender's evaluation of the Community Seconds program must include a review of all of the documents applicable to the program, including the legal documents (such as the promissory note and the security instrument), the program description, and any other pertinent documents.

If the Community Seconds program includes recorded deed restrictions or option agreements, or local ordinances that impose similar restrictions, these restrictions and agreements must be evaluated for compliance with other Fannie Mae policies, such as those applicable to resale restrictions (see Section B5-5.3, Loans with Resale Restrictions).

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The lender must determine that the deed of trust or mortgage for the Community Seconds mortgage is clearly subordinate to the first mortgage lien. The title insurance in effect must ensure priority of the first mortgage being delivered to Fannie Mae by showing the Community Seconds mortgage in a subordinate position.

The Community Seconds documents do not need to explicitly state the fact that the Community Seconds mortgage will be subordinate to the first mortgage; however the documentation must allow the holder of the first mortgage to foreclose and acquire title to the property free and clear of all interests of the Community Seconds provider.

**Note:** If a provider assumes the first mortgage and cures all outstanding defaults under that mortgage, the Community Seconds financing may be maintained.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |
| <a href="#">Announcement 08-35</a>       | December 18, 2008 |



## **B5-5.1-02, Community Seconds Loan Eligibility (03/29/2016)**

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### Introduction

This topic contains information on Community Seconds Loan Eligibility, including:

- [Community Seconds Mortgage Terms/Proceeds](#)
- [Rural Development Section 502 Leveraged \(Blended\) Loan Program](#)
- [Minimum Borrower Contribution Requirements](#)
- [Repayment](#)
- [Subsidizing the Sales Price](#)
- [Provider's Share in Appreciation in Value](#)

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### Community Seconds Mortgage Terms/Proceeds

A Community Seconds mortgage may be funded by a federal agency, municipality, state, county, state or local housing finance agency, nonprofit organization, a regional Federal Home Loan

Bank under one of its affordable housing programs, or an employer (see [B3-4.3-08, Employer Assistance](#), for additional information). It may not be funded by the property seller or any other interested party to the transaction; however, a lender may fund a Community Seconds mortgage that an employer guarantees as part of its affordable housing program.

The Community Seconds financing must be subordinate to the mortgage purchased by Fannie Mae.

A borrower of a mortgage loan secured by a principal residence may use funds received from a Community Seconds mortgage to fund all or part of the down payment or closing costs, renovations to the property (including energy-related improvements), or to fund a permanent interest rate buydown. Community Seconds are not allowed on co-op share loans, second homes, or investment properties. See [B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements](#), for additional information about HomeReady mortgage minimum borrower contribution and down payment requirements.

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### Rural Development Section 502 Leveraged (Blended) Loan Program

The subordinate lien originated in connection with a conventional first mortgage under the RD Section 502 Leveraged (Blended) Loan Program is eligible for the Community Seconds program. The standard review of Community Seconds programs described in [B5-5.1-01, Community Seconds Mortgages](#), is not required; however, the subordinate lien must meet all RD guidelines. See [B6-1-05, Eligible RD-Guaranteed Mortgages](#), for additional information.

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### Minimum Borrower Contribution Requirements

The following table describes the minimum borrower contribution requirements for transactions that contain a Community Seconds:

| LTV, CLTV, or HCLTV Ratio | Minimum Borrower Contribution Requirement from Borrower's Own Funds |  |
|---------------------------|---|--|
| 80% or less               | One- to four-unit principal residence                               | A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a Community Seconds. |
| Greater than 80%          | One-unit principal residence  | A minimum borrower contribution from the borrower's own funds is not   |

| LTV, CLTV, or HCLTV Ratio | Minimum Borrower Contribution Requirement from Borrower's Own Funds |   |
|---------------------------|---|---|
|                           |   | required. All funds needed to complete the transaction can come from a Community Seconds.   |
|                           | Two- to four-unit principal residence                               | The borrower must make a 5% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, a Community Seconds can be used to supplement the down payment, closing costs, and renovations (including those that are energy-related) or to fund a permanent interest rate buydown.<br><br>See <a href="#">B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements</a> , for additional information about HomeReady mortgage minimum borrower contribution and down payment requirements. |

In addition to HomeReady mortgages (see Chapter B5–6, HomeReady Mortgage), non-community lending mortgages may be used in a Community Seconds transaction with the following limitations:

- All non-community lending mortgages are eligible, with the exception of ARMs with an initial fixed-rate period of less than 5 years.
- The transaction is limited to a purchase or limited cash-out refinance.
- For a limited cash-out refinance transaction, the Community Seconds mortgage holder must acknowledge the lien position by executing a subordination agreement, which must be recorded to ensure enforceability.
- Only principal residences are eligible.

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- If the product is secured by a manufactured home, the loan must comply with all manufactured home policies, including the LTV and CLTV ratios.
  - If the loan type is an ARM, the loan must comply with the maximum ARM LTV and CLTV ratios.
  - The maximum LTV of the underlying product remains unchanged.
  - If the mortgage does not have an independent CLTV cap (such as the CLTV cap for manufactured housing or ARMs), the CLTV can be expanded to 105%, provided the subordinate financing meets all conditions of a Community Seconds mortgage.
  - Non-community lending mortgages do not mandate any income restrictions for the borrower(s); the income limits that the Community Seconds provider imposes will apply.
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## Repayment

Repayment of the Community Seconds mortgage may be structured in any number of ways as long as the terms are consistent with the type of terms Fannie Mae considers acceptable, such as:

- requiring fully amortizing, level monthly payments;
- deferring payments for some period before changing to fully amortizing, level monthly payments;
- deferring payments over the entire term, unless the mortgage is paid off or the property is sold before the maturity date of the mortgage; or
- forgiving the debt over time.

When the borrower's employer is the provider of the Community Seconds mortgage, the financing terms may provide for the employer to require full repayment of the debt should an employee's employment terminate (either voluntarily or involuntarily, for reasons other than those related to disability) before the maturity date of the Community Seconds mortgage.

Where repayment of the Community Seconds mortgage is deferred for five years or more, a lender is not required to include a monthly payment for the Community Seconds mortgage in its calculation of the borrower's debt-to-income ratio.

Where repayment is deferred for fewer than five years, the lender must include the monthly payment amount that will be required after the end of the deferral period in its calculation.

Fannie Mae will purchase or securitize a first mortgage with subordinate financing under the Community Seconds option that provides for a balloon payment no earlier than fifteen years from the note date of the first mortgage loan or the maturity date of the first mortgage loan.

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The interest rate for the Community Seconds mortgage may not be more than 2% higher than the interest rate of the first mortgage.

**Note:** Interest that is imposed as a penalty should the mortgage be declared in default and called due and payable under its terms is not subject to this interest rate cap.

The Community Seconds mortgage may not provide for negative amortization.

However, because negative amortization will occur if the interest rate is greater than zero and the payment of interest is deferred for a period of time, negative amortization will otherwise be acceptable as long as:

- interest is accrued on a simple-interest basis at a rate that is not more than 75% of the rate of the related First Lien Loan, and the accrued interest is fully deferred until
  - sale or transfer of the property,
  - the mortgage loan is refinanced or other full repayment of the first lien loan, or
  - declaration of an event of default under the subordinate note or the security instrument, or
- the accrued interest is assessed only as a penalty upon declaration of an event of default under the subordinate note or the security instrument.

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### **Subsidizing the Sales Price**

As an additional affordable lending tool, the Community Seconds option is sometimes used by eligible providers as a means to “subsidize” the sales price of a property. Unlike traditional Community Seconds in which the funds are used to supplement the borrower’s down payment or closing costs, the Community Seconds transaction secures the subsidy amount, thereby imposing a type of resale restriction.

Occasionally, a government agency will contract with a local nonprofit corporation to administer the subsidy. Under these circumstances, the nonprofit corporation may be considered a “government agency” if the lender can document that the sole source of the subsidy provided by the nonprofit is from the government agency and the nonprofit is merely acting as the administrator. A typical scenario where the subsidization may occur is the case of a government agency approaching a developer with incentives to provide a certain percentage of the units within the project at a below market sales price (typically 10% to 20% less).

These incentives can include:

- reduced permit and inspection fees, and



- expedited review and approval of permit applications for the builder.

In addition, because the government agency typically maintains a waiting list of eligible applicants, the builder is provided with prospective buyers for the properties.

The eligible provider secures a Community Seconds mortgage against the property representing the difference between the market sales price and the reduced sales price accepted by the builder (referred to as the subsidy). In most cases, the subordinate mortgage has deferred payments and will be forgiven at the end of a set period of time, typically the term of the first mortgage. The subordinate mortgage acts as a resale restriction by preventing the borrower from selling the property at a profit or obtaining a cash-out refinance. The terms of the mortgage may not, however, restrict the sale of the property upon foreclosure or acceptance of a deed in lieu of foreclosure.

When the subordinate mortgage is used as a subsidy to reduce the sales price to the borrower, the “unsubsidized sales price” must be used in determining:

- the minimum down payment;
- the borrower contribution, if applicable, that must be made from the borrower’s own resources; and
- the level of mortgage insurance.

The unsubsidized sales price represents the market sales price, and is calculated by adding the reduced sales price by the builder plus the subordinate mortgage amount secured by the government agency.

The LTV and CLTV ratios are calculated using the lesser of the unsubsidized sales price or the appraised value.

The following example is provided for clarity. It assumes:

- the market sales price equals the appraised value, and
- a borrower contribution of 5%.

| <b>Item</b>   | <b>Value</b> |
|---|--------------|
| Market Value (supported by appraisal)<br>(the unsubsidized sales price) | \$150,000.00 |
| Community Seconds mortgage representing subsidy amount                  | \$ 40,000.00 |
| Buyer’s Purchase Price; i.e., reduced sales price                       | \$110,000.00 |

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| <b>Item</b>                                   | <b>Value</b>            |
|---|-------------------------|
| (the subsidized sales price)                  |                         |
| Closing Costs/Prepays                         | \$ 5,000.00             |
| Total Cost to Borrower                        | \$115,000.00            |
| Borrower Contribution (5%)                    | \$ 7,500.00             |
| First Mortgage Amount                         | \$107,500.00            |
| (may never exceed the subsidized sales price) |                         |
| LTV Ratio                                     | 71.67% (rounded to 72%) |
| CLTV Ratio                                    | 98.33% (rounded to 99%) |

Lenders must review the terms of the Community Seconds program to ensure that the program otherwise meets the requirements of Community Seconds found in [B5-5.1-01, Community Seconds Mortgages](#).

These transactions can be underwritten manually or with DU. When using DU, the lender must enter “Affordable LTV” in the Product Description field in the Additional Data section on the online application, which will result in DU calculating the LTV and CLTV ratios based solely on the appraised value for purchase transactions (and not the lesser of the sales price or appraised value).

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### **Provider’s Share in Appreciation in Value**

The repayment terms of the Community Seconds mortgage may provide for the provider to share in any appreciation in the value of the security property in lieu of charging interest.

If the Community Seconds mortgage provides for both a stated interest rate and a sharing in the property appreciation, the first mortgage cannot be sold to Fannie Mae unless the provider chooses only one of the options.

The appreciation in value must be based on:

- the actual sales price of a property that is sold on the open market,
- the appraised value of the property, or
- the amount of a successful bid at a foreclosure sale.

When the property is subsequently sold (or foreclosed), the sales price or value determination should be paid, first, to the first mortgagee in an amount required to pay off the first mortgage in full, and only then, to other entitled parties, such as the Community Seconds provider and the borrower.

The provider's share of the equity generally may not exceed the percentage derived by dividing the original principal amount of the Community Seconds mortgage by the original value of the property.

However, the provider's share in the appreciation can be greater than this calculated percentage in two instances:

- As long as the Community Seconds program gives the borrower the right to recover all of the following before the provider is able to share in the appreciation:
  - any portion of the down payment that came from the borrower's own funds,
  - reasonable costs of selling the property (such as a sales commission),
  - the costs of any improvements made to the property (as long as they were allowed under the program guidelines),
  - the principal portion of all payments the borrower made on the first mortgage.
- As long as the provider's share does not initially exceed 75% and is reduced over time so that the percentage of the appreciation will be equal to or less than the percentage usually allowed by no later than five years after the date the Community Seconds mortgage was originated.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-03</a> | March 29, 2016     |
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2015-08</a> | July 28, 2015      |
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015      |
| <a href="#">Announcement SEL-2014-11</a> | August 26, 2014    |
| <a href="#">Announcement SEL-2014-07</a> | June 24, 2014      |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012      |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011      |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">Announcement SEL-2010-07</a> | May 27, 2010       |



## **B5-5.1-03, Community Seconds Delivery Considerations (07/28/2015)**

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### Introduction

This topic contains information on Community Seconds delivery considerations, including:

- [Special Feature Codes and Other Reporting](#)
- [Loan-Level Price Adjustments](#)

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### Special Feature Codes and Other Reporting

The lender must always report SFC 118 when it delivers a first mortgage that is originated as part of a Community Seconds transaction. Additionally, SFC 630 must also be delivered if the affordable LTV ratio calculation method was used (see [B5-5.1-02, Community Seconds Loan Eligibility](#)).

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The lender must report all other applicable special feature codes.

The lender is required to provide the Community Seconds mortgage amount and the principal and interest payment for the Community Seconds mortgage so that the CLTV ratio and monthly housing expenses are accurately reported.

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### Loan-Level Price Adjustments

If subordinate financing qualifies as a Community Seconds, loan-level price adjustments otherwise applicable to subordinate financing do not apply.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date    |
|--|---------------|
| <a href="#">Announcement SEL-2015-08</a> | July 28, 2015 |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013 |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012 |

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## **B5-5.1-04, Community Land Trusts (09/29/2015)**

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### Introduction

This topic contains information concerning mortgage loans secured by a leasehold estate on property owned by a community land trust, including:

- [Community Land Trusts Overview](#)
- [Eligible Borrowers](#)
- [Eligible Property and Occupancy Types](#)
- [Loan Eligibility](#)
- [Underwriting Considerations](#)
- [Ground Lease Requirements](#)
- [LTV Ratio Calculation](#)
- [Delivery Data](#)
- [Notification to Third Parties](#)
- [Legal Considerations](#)
- [Title Insurance Requirements](#)

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## Community Land Trusts Overview

Fannie Mae purchases or securitizes first mortgage loans secured by a leasehold estate on property owned by a community land trust and the improvements on the property as long as the property is acceptable as security for the mortgage.

Community land trusts are created to preserve long-term affordable housing by purchasing homes in their communities, then leasing the land using a long-term ground lease to low-income and moderate-income families at affordable monthly ground rents. Eligible community land trusts must be nonprofit organizations or public entities, such as state or local governments, counties, school districts, universities, or colleges. The ground lease includes provisions that require the continued use of the property for low-income and moderate-income families in the future.

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## Eligible Borrowers

Because of the affordable terms that it offers, a community land trust usually includes in its ground lease restrictions on borrower eligibility, as well as on the resale of the property improvements. Eligible borrowers must satisfy the specific eligibility criteria set up by the community land trust.

**Note:** If the lender is using a HomeReady mortgage loan and the borrower income limits for the HomeReady loan are more restrictive than those for the community land trust, the HomeReady income limits apply. See [B5-6-02, HomeReady Mortgage Loan and Borrower Eligibility](#). Otherwise, the income limits established by the community land trust apply.

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## Eligible Property and Occupancy Types

All mortgage loans secured by one- and two-unit principal residences are eligible for purchase by Fannie Mae with the exception of manufactured homes and units in a co-op project.

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## Loan Eligibility

Eligible transaction types include first mortgages secured by community land trust properties that are either purchase or refinance transactions. The community land trust may permit the borrower to refinance the mortgage loan, including cash-out transactions. However, the community land trust organization guidelines may limit the refinance amount in order to protect the subsidy invested in the property. Lenders must document that the community land trust has approved a refinance transaction and must ensure that the refinance amount complies with the provisions of

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the lessee's ground lease. Adjustable-rate mortgages with an initial fixed period of less than five years are not eligible.

### Underwriting Considerations

These loans may be underwritten manually or with DU. The following table describes requirements related to mortgage loans secured by properties held by community land trusts.

| ✓ | <b>Requirements for Mortgage Loans Secured by Properties Held by a Community Land Trust</b>   |
|---|---|
|   | The community land trust organization must have the capacity to administer leasehold mortgages.   |
|   | The community land trust or its affiliated organization must have at least two years experience in successfully managing affordable housing, which can be evidenced by an organizational resume or history that summarizes the organization's experience in providing affordable housing.   |
|   | The lender must review a list of the staff responsible for the community land trust's homeownership program, their titles, and their resumes to determine if they have sufficient experience and skills to manage affordable housing.   |
|   | The lender must review the most current annual report or other report documenting the history and successful performance of the community land trust for the most current year.   |
|   | The lender must review the subject community land trust's ground lease to confirm that it is based upon either the <i>National Community Land Trust Network (NCLTN) 2011 CLT Network Model Ground Lease</i> or the <i>Institute for Community Economics (ICE) Model Ground Lease</i> . The lender can request a copy of either model ground lease from NCLTN. If the ground lease is not based on either of these model leases, the lender must obtain Fannie Mae's approval of the ground lease. |

**Note:** If the community land trust organization does not meet the requirements noted above, the lender may discuss the community land trust's qualifications with its lead Fannie Mae regional office and obtain approval for an exception (see [E-1-03, List of Contacts](#)).

### Ground Lease Requirements

The term of the estate created by the ground lease must extend for at least five years beyond the maturity date of the mortgage that is delivered to Fannie Mae.

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The community land trust ground lease may include certain restrictions limiting future property purchasers to low-income and moderate-income families and to limit the maximum sales price of the property. The resale restrictions in the ground lease must terminate automatically on foreclosure (or the expiration of any applicable redemption period) of, or acceptance of a deed-in-lieu of foreclosure for, the leasehold mortgage. Once any resale restrictions have been terminated by foreclosure (or the expiration of any applicable redemption period) or acceptance of a deed-in-lieu of foreclosure, they may not be automatically reinstated for subsequent purchasers of the property.

When a mortgage is secured by property held by a community land trust, the lender must confirm that all ground lease rents and other payments or assessments that have come due have been paid before it delivers the mortgage to Fannie Mae. In addition, the borrower must not be in default under any other provisions of the ground lease, nor may the ground lessor have claimed such a default.

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### **LTV Ratio Calculation**

The LTV and CLTV ratios (and HCLTV ratio if applicable) will be determined by dividing the original loan amount by the value of the leasehold interest and improvements reported on the property appraisal. The sales price for the improvements situated on the land does not include the subsidy amount used to acquire the land, which means that a borrower will pay a lower purchase price for his or her home (often less than the leasehold interest in the property). Therefore, the community land trust sales price may not be a reliable indicator of market value for the leasehold estate.

When using DU, the lender must enter “Affordable LTV” in the Product Description field in the Additional Data section on the online loan application, which will result in DU calculating the LTV, CLTV, and HCLTV ratios based solely on the appraised value for purchase transactions (and not the lesser of the sales price or appraised value).

See [B4-1.4-06, Community Land Trust Appraisal Requirements](#), for information when appraising properties in a community land trust.

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### **Delivery Data**

Lenders selling and servicing mortgage loans secured by properties held by a community land trust must be able to identify and track those mortgages in their systems and must have sufficiently trained staff to originate and service those mortgages.

When delivering mortgage loans secured by community land trust properties, the lender must



- include SFC 054 as part of the delivery data,
  - enter the value of the leasehold (inclusive of the improvements) as the appraisal amount in Loan Delivery, and
  - calculate the LTV and CLTV ratio using the leasehold value and include this ratio as part of the delivery data.
- 

### **Notification to Third Parties**

Fannie Mae will purchase mortgages secured by community land trust properties that require the lender to notify a third party, such as a housing authority or government agency, upon the borrower's default or property foreclosure, as required by the community land trust ground lease. The lender must ensure that proper notification is provided, as required by the community land trust ground lease. If notification requirements exist, the servicer is still responsible for adhering to Fannie Mae's established time frames within which routine foreclosures must be completed. Third-party notifications required in addition to the required statutory notifications will not be considered an impairment to the servicer's ability to foreclose.

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### **Legal Considerations**

The leasehold estate created by the community land trust ground lease must constitute real property under applicable law. In all respects, the ground lease must be valid, enforceable, and in full force and effect. Lenders must ensure that any mortgage secured by a community land trust property and delivered to Fannie Mae is supported by the appropriate leasehold interest documents, including the community land trust ground lease and the *Community Land Trust Ground Lease Rider* ([Form 2100](#)). Form 2100 must be executed by the borrower and recorded along with the ground lease. This form was developed for use with either the *NCLTN 2011 CLT Network Model Ground Lease* or the *ICE Model Ground Lease*. The form

- ensures that the ground lease is in conformity with Fannie Mae requirements for community land trust mortgages without a delay that would result from Fannie Mae's prior review and approval of each ground lease, and
- removes resale restrictions as well as any other restrictions that may be included in the ground lease that could affect the value of the property from the community land trust's ground lease.

The land records for the subject property must include adoption of the terms and conditions that are incorporated in this ground lease rider. Fannie Mae's approval is required if the rider is modified or is not executed.

## **Title Insurance Requirements**

The lender's title insurance policy or an endorsement to the policy must expressly confirm

- the recording of the complete community land trust ground lease or ground lease memorandum;
  - the recording of Form 2100;
  - that the community land trust mortgage loan is a first lien on the leasehold estate and the improvements;
  - that there are no existing mortgage loans or other liens on the fee estate, except as may be permitted under Form 2100;
  - that the ground lessor's reversionary interest is subordinate to the community land trust mortgage; and
  - that there are no related community land trust ground lease occupancy and resale restrictions, covenants, or agreements that "run with the land," and that have been recorded apart from the ground lease, except as may be permitted under Form 2100.
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## **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b>  |
|---|--------------------|
| <a href="#"><u>Announcement SEL-2015-10</u></a> | September 29, 2015 |
| <a href="#"><u>Announcement SEL-2015-08</u></a> | July 28, 2015      |
| <a href="#"><u>Announcement SEL-2014-11</u></a> | August 26, 2014    |
| <a href="#"><u>Announcement SEL-2014-03</u></a> | April 15, 2014     |
| <a href="#"><u>Announcement SEL-2011-03</u></a> | March 31, 2011     |
| <a href="#"><u>Announcement SEL-2011-01</u></a> | January 27, 2011   |

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## Section B5-5.2, DU Refi Plus and Refi Plus Mortgage Loans



### **B5-5.2-01, DU Refi Plus and Refi Plus Eligibility (10/24/2016)**

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#### **Introduction**

This topic contains information on refinance options for existing Fannie Mae loans, including:

- [DU Refi Plus and Refi Plus Overview](#)
  - [Program Expiration](#)
  - [Permissible Refinance Solicitation Practices](#)
  - [Lender Incentives for Borrowers](#)
  - [Loan Purpose](#)
  - [Maximum LTV, CLTV, and HCLTV Ratios and Eligible New Mortgage Loan Types](#)
  - [Eligible Subordinate Financing](#)
  - [Using Hardest Hit Fund Programs for Principal Reduction or Closing Cost Assistance](#)
  - [Ineligible New Mortgage Loan Types](#)
  - [Lender Eligibility](#)
  - [Borrower Eligibility](#)
  - [Occupancy and Property Eligibility](#)
  - [Texas Section 50\(a\)\(6\) Mortgage Loans](#)
  - [Leasehold Estates Eligibility](#)
  - [Eligible Existing Mortgage Loan Types](#)
  - [Ineligible Existing Mortgage Loan Types](#)
  - [Refi Plus: Documentation Retention Requirements](#)
  - [Representations and Warranties](#)
- 

#### **DU Refi Plus and Refi Plus Overview**

Fannie Mae's DU Refi Plus and manually underwritten Refi Plus provide two flexible refinance options for existing Fannie Mae-owned or -securitized loans. These refinance options are for borrowers who have demonstrated an acceptable payment history on their mortgage, but due to a decline in home prices or the lack of available mortgage insurance, have been unable to refinance.

|  |   |
|--|---|
| <b>DU Refi Plus</b>                      | <ul style="list-style-type: none"> <li>• Leverages DU to extend underwriting flexibilities and documentation efficiencies to eligible loan casefiles of existing Fannie Mae loans.</li> <li>• DU determines if the borrower(s) and subject property address on the loan casefile match an existing eligible Fannie Mae loan. A successful match is required in order for the loan casefile to be eligible for DU Refi Plus underwriting flexibilities.</li> </ul> |
| <b>Refi Plus — manually underwritten</b> | Relies on information contained in the original fully-documented mortgage loan file and permits streamlined documentation flexibilities unless the lender chooses to obtain full documentation for the new mortgage loan. Mortgage eligibility focuses on the borrower’s financial stability demonstrated by their mortgage payment history.  |

The following topics provide requirements for DU Refi Plus and Refi Plus mortgage loans:

- [B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations](#),
- [B5-5.2-03, DU Refi Plus and Refi Plus Property Valuation and Project Standards](#), and
- [B5-5.2-04, DU Refi Plus and Refi Plus Closing, Pricing, and Delivery](#).

### Program Expiration

DU Refi Plus and Refi Plus mortgage loans must have application dates on or before September 30, 2017. All DU Refi Plus and Refi Plus whole loans must be purchased by Fannie Mae on or before June 30, 2018, or in MBS pools with issue dates on or before June 1, 2018.

### Permissible Refinance Solicitation Practices

The following requirements apply to the solicitation of borrowers for Refi Plus or DU Refi Plus mortgage loans, and differ depending on the LTV ratio of the existing mortgage loan currently serviced by the lender.

|   |   |
|---|---|
| ✓ | <b>Permissible Solicitation Practices for Refi Plus and DU Refi Plus Mortgage Loans with LTV Ratios Greater than 80%</b>  |
|   | Lenders may solicit borrowers with mortgages owned or securitized by a particular GSE, provided that the lender simultaneously applies the same advertising and |

| ✓ | <b>Permissible Solicitation Practices for Refi Plus and DU Refi Plus Mortgage Loans with LTV Ratios Greater than 80%</b>   |
|---|--|
|   | solicitation activities with respect to borrowers of mortgage loans with LTV ratios greater than 80% and owned or securitized by the other GSE.  |
|   | Lenders must apply the same advertising and solicitation activities to all mortgage loans with LTV ratios greater than 80% and serviced for a particular GSE, regardless of whether the lender or a third party owns the associated Fannie Mae MBS pools or Freddie Mac PC pools.  |
|   | All other provisions of <a href="#">B2-1.2-04, Prohibited Refinancing Practices</a> , regarding refinance practices remain in effect.  |
|   | <p>If lenders choose to reach out to borrowers, and the lender's communication includes a reference to a GSE, then the communication must include the following:</p> <ul style="list-style-type: none"> <li>• “Freddie Mac and Fannie Mae have adopted changes to the Home Affordable Refinance Program (HARP) and you may be eligible to take advantage of these changes.”</li> <li>• “If your mortgage is owned or guaranteed by either Freddie Mac or Fannie Mae, you may be eligible to refinance your mortgage under the enhanced and expanded provisions of HARP.”</li> <li>• “You can determine whether your mortgage is owned by either Freddie Mac or Fannie Mae by checking the following websites:                             <ul style="list-style-type: none"> <li>– <a href="http://www.freddiemac.com/mymortgage">http://www.freddiemac.com/mymortgage</a> or <a href="http://www.fanniema.com/loanlookup/">http://www.fanniema.com/loanlookup/</a>.”</li> </ul> </li> </ul> |

| ✓ | <b>Permissible Solicitation Practices for Refi Plus and DU Refi Plus Mortgage Loans with LTV Ratios Less than or Equal to 80%</b>  |
|---|--|
|   | Lenders must comply with the provisions of <a href="#">B2-1.2-04, Prohibited Refinancing Practices</a> , which, among other requirements, prohibit lenders from specifically soliciting borrowers to refinance whose mortgages are owned or securitized by Fannie Mae. |

### **Lender Incentives for Borrowers**

Lenders may provide borrowers with the following incentives to refinance through DU Refi Plus or Refi Plus:

- 
- cash or cash-like (e.g., gift cards) incentives that are not part of the refinance transaction in an amount not to exceed \$500; and
  - a payment to pay off a portion of the mortgage loan being refinanced not to exceed \$2,000.

Refer to [B3-4.1-02, Interested Party Contributions \(IPCs\)](#), (Lender Incentives for Borrowers), for additional requirements that apply to lender incentives.

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### Loan Purpose

The standard limited cash-out refinance requirements are modified as follows for DU Refi Plus and Refi Plus loan transactions. All other guidelines for limited cash-out refinances continue to apply. See [B2-1.2-02, Limited Cash-Out Refinance Transactions](#).

DU Refi Plus and Refi Plus loans must be originated according to the following limited cash-out refinance requirements:

- The new loan amount can include:
    - payoff of the unpaid principal balance on the existing first mortgage;
    - the financing of the payment of closing costs, prepaid items, and points;
    - cash back to the borrower in an amount of no more than \$250. For DU Refi Plus, if the borrower is receiving more than \$250 cash back, as reflected in the Details of Transaction section of the loan application, the loan casefile will not be underwritten as a DU Refi Plus transaction. Any excess funds at closing must be applied as a principal curtailment. See [B5-5.2-04, DU Refi Plus and Refi Plus Closing, Pricing, and Delivery](#).
  - Subordinate financing is permitted. See the Eligible Subordinate Financing section below for additional requirements.
- 

### Maximum LTV, CLTV, and HCLTV Ratios and Eligible New Mortgage Loan Types

The following table provides maximum LTV, CLTV, and HCLTV ratios, loan type, and amortization requirements for DU Refi Plus and Refi Plus mortgage loans. For comprehensive requirements see the [Eligibility Matrix](#) on Fannie Mae's website.

| DU Refi Plus and Refi Plus Maximum LTV, CLTV, and HCLTV Ratios by Loan Type and Term |  |
|--|--|
| Maximum LTV ratio  | For all occupancy and property types: <ul style="list-style-type: none"><li>• No maximum for fixed-rate loans.</li></ul> |

| <b>DU Refi Plus and Refi Plus Maximum LTV, CLTV,<br/>and HCLTV Ratios by Loan Type and Term</b> |  |
|---|--|
|   | <ul style="list-style-type: none"> <li>• 105% for ARMs with initial fixed periods greater than or equal to 5 years.</li> </ul> Exceptions to the LTV ratio limits apply to Texas 50(a)(6) mortgages. See requirements that follow. |
| Maximum Term  | The term of the mortgage loan may not exceed 30 years.   |
| Maximum CLTV ratio  | No maximum. Exceptions apply to Texas 50(a)(6) mortgages. See requirements that follow.  |
| Maximum HCLTV ratio   | No maximum.  |

All DU Refi Plus and Refi Plus mortgage loans must be fully amortizing and must meet Fannie Mae's current loan limit requirements.

### **Eligible Subordinate Financing**

The following policies apply to subordinate financing:

- New subordinate financing is only permitted if it replaces existing subordinate financing.
- Existing subordinate financing may not be satisfied with the proceeds of the new DU Refi Plus or Refi Plus mortgage loan.
- Existing subordinate financing can remain in place as long as it is resubordinated to the new DU Refi Plus or Refi Plus mortgage loan.
- Existing subordinate financing may be simultaneously refinanced as long as the new subordinate lien loan amount does not exceed the existing unpaid principal balance.

Lenders must comply with the following provisions outlined in [B2-1.1-04, Subordinate Financing](#), related to any subordinate financing for DU Refi Plus and Refi Plus transactions:

- Subordinate Financing Requirements, and
- Resubordination Requirements for Refinance Transactions.

The remaining provisions related to existing subordinate financing, including acceptable subordinate financing types, do not apply to DU Refi Plus and Refi Plus transactions.

**Note:** Although standard Fannie Mae policy prohibits subordinate financing on co-op share loans, an exception is permitted for DU Refi Plus and Refi Plus transactions. The lender must ensure that the subordinate lien is subordinate to the new co-op share loan.

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### **Using Hardest Hit Fund Programs for Principal Reduction or Closing Cost Assistance**

Housing Finance Agencies (HFAs) have established programs utilizing Hardest Hit Fund (HHF) programs, which provide funding for various purposes, including funds for principal curtailment, to help homeowners obtain more affordable mortgages or to help homeowners retain their homes. Each participating HFA establishes its own eligibility guidelines for borrower participation and approves the provision of the funds.

Fannie Mae permits grant-like unsecured financing provided to the borrower through an HFA's HHF program for the purpose of paying down the unpaid principal balance at the time of closing resulting in a lower new loan amount. The HHFs may also be used for the payment of closing costs. The following requirements apply to HHFs:

- The funds must be reflected in the *Uniform Residential Loan Application* (Form 1003 or 1003(S)) (and in the online loan application for DU Refi Plus) in Section VII, Details of Transaction as an Other Credit.
- The loan file must be documented with a copy of the promissory note or other documentation specifying the terms and conditions of the loan. If the promissory note (or other documentation) indicates that repayment of the HHF funds is expected, the monthly payment must be included in the debt-to-income (DTI) ratio, unless repayment is only due upon sale or default.
- The transfer of the loan proceeds must be reflected on the settlement statement.

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### **Ineligible New Mortgage Loan Types**

The following are ineligible new mortgage loan types for DU Refi Plus and Refi Plus transactions:

- ARM loans with initial fixed periods of less than five years;
- HomeStyle Renovation mortgage loans prior to the completion of the property;
- HomeReady mortgage loans; and
- mortgage loans with temporary interest rate buydowns, unless dated before July 1, 2009, and delivered to Fannie Mae prior to December 1, 2009.

---

### **Lender Eligibility**

The following table provides lender eligibility requirements applicable to DU Refi Plus and Refi Plus mortgage loans.



| Lender Eligibility | DU Refi Plus  | Refi Plus   |
|--------------------|---|---|
|                    | <ul style="list-style-type: none"> <li>• Available to all Fannie Mae approved lenders using DU. The lender does not have to be the current servicer of the mortgage loan.</li> <li>• Available across all origination types — retail, broker, and correspondent.</li> </ul> | <ul style="list-style-type: none"> <li>• The lender (or an affiliate or subsidiary of the lender) must be the originator of the new mortgage and must be the current servicer of the existing mortgage.</li> <li>• The new mortgage cannot be originated by a subprime affiliate or subprime correspondent lender, or originated by the lender on any subprime lending platform. The new mortgage must be a retail origination from the lender’s prime lending channel only.</li> </ul> |

### Borrower Eligibility

The following table provides borrower eligibility requirements applicable to DU Refi Plus mortgage loans.

| ✓ | <b>DU Refi Plus</b><br><b>Borrower Eligibility</b>   |
|---|--|
|   | An existing borrower(s) may be removed from the new loan provided that at least one of the original borrower(s) is retained on the new loan. |
|   | Borrower(s) may be added to the new loan, provided the existing borrower(s) is retained.   |

The following table provides borrower eligibility requirements applicable to Refi Plus mortgage loans:

| ✓ | <b>Refi Plus</b><br><b>Borrower Eligibility</b>   |
|---|---|
|   | Generally, the borrower(s) on the existing mortgage (or the current borrower(s) if the existing mortgage was assumed) must be identical to the borrower(s) on the |

| ✓ | <b>Refi Plus</b><br><br><b>Borrower Eligibility</b>   |
|---|---|
|   | <p>new mortgage. However, an existing borrower may be removed from the new loan provided that at least one of the original borrower(s) is retained on the new loan and that one of the following conditions is met:</p> <ul style="list-style-type: none"> <li>• The remaining borrower(s) meets the mortgage payment history requirements described in <a href="#">B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations</a>, and provides evidence that he or she has been making the payments on the existing mortgage from his or her own funds for the most recent 12 months prior to the application of the new mortgage. This 12-month payment history must be on the existing mortgage, and may not be satisfied using multiple consecutive first mortgages; or</li> <li>• The remaining borrower(s) may be qualified based on the eligibility and underwriting requirements applicable to Refi Plus loans with principal and interest increases &gt; 20% (regardless of actual payment change). This includes, but is not limited to, a maximum total DTI ratio of 45%, a new credit report supporting a minimum credit score of 620, and documentation of income and assets required for closing.</li> <li>• If the borrower is being removed due to death, evidence of the deceased borrower's death must be documented in the loan file.</li> </ul> |
|   | A new borrower may be added to the new loan, provided the existing borrower(s) is retained.   |
|   | If the existing mortgage was assumed by the current borrower(s) prior to the application of the new Refi Plus mortgage loan, the current borrowers must have been qualified for the existing mortgage under the assumability criteria stated in the <i>Servicing Guide</i> , Chapter D1–4, Transfers of Ownership.  |

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.)

### Occupancy and Property Eligibility

The following occupancy and property types are eligible for securing a DU Refi Plus or Refi Plus mortgage loan:

- 
- one- to four-unit principal residences,
  - one-unit second homes, and
  - one- to four-unit investment properties.

All property types are eligible including detached, attached, manufactured housing, and units in a PUD, condo, or co-op project. See Leasehold Estates Eligibility (below) for leasehold estate requirements and [B5-5.2-03, DU Refi Plus and Refi Plus Property Valuation and Project Standards](#) for project standards requirements.

The existing mortgage and the new DU Refi Plus or Refi Plus mortgage loan do not have to represent the same occupancy. The occupancy of the subject property may have changed by the time of the new mortgage transaction. Because the loan represents existing Fannie Mae risk, there is no requirement that the occupancy has stayed the same.

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### **Texas Section 50(a)(6) Mortgage Loans**

If the existing loan was originated as a Texas Section 50(a)(6) mortgage, then the new DU Refi Plus or Refi Plus loan will be a Texas Section 50(a)(6) mortgage and must meet the most restrictive of the Texas Section 50(a)(6) mortgage requirements, per the *Selling Guide* or the DU Refi Plus and Refi Plus requirements, as applicable. The only exceptions to this requirement are that a minimum credit score does not apply (unless the monthly principal and interest payment is increasing more than 20%) and the DU Refi Plus and Refi Plus loan-level price adjustments are applicable.

All Texas Section 50(a)(6) mortgage requirements apply, including the following, which may be different than the standard DU Refi Plus or Refi Plus requirements:

- maximum 80% LTV and CLTV ratio;
- minimum 12 months seasoning;
- one-unit principal residences only;
- a new full appraisal is required — *Uniform Residential Appraisal Report* ([Form 1004](#)), *Manufactured Home Appraisal Report* ([Form 1004C](#)), or *Individual Condominium Unit Appraisal Report* ([Form 1073](#)), as applicable;
- title insurance requirements for Texas Section 50(a)(6) loans must be met. See [B5-4.1-05, Texas Section 50\(a\)\(6\) Mortgage Legal Considerations](#);

- all applicable special feature codes must be delivered, including but not limited to 304, 147, or 288 (identifying the loan as a Texas Section 50(a)(6), DU Refi Plus or Refi Plus, respectively); and
- only mortgage products approved for Texas Section 50(a)(6) mortgages are eligible.

DU is not able to determine if Texas Section 50(a)(6) applies to specific limited cash-out loan casefiles; therefore, the lender must make the determination and apply the corresponding eligibility requirements. All other DU Refi Plus or Refi Plus requirements apply.

### Leasehold Estates Eligibility

For DU Refi Plus and Refi Plus loans that are secured by leasehold estates, the term of the leasehold estate must run for at least five years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower. If the term of the leasehold estate does not extend five years beyond the maturity date of the mortgage, the lender should consider offering the borrower a product with a shorter term as a remedy. The lender is not required to perform any additional review of the leasehold terms.

### Eligible Existing Mortgage Loan Types

The following existing mortgage loan types are eligible for DU Refi Plus.

| ✓ | <b>DU Refi Plus</b>  |
|---|--|
|   | <b>Eligible Existing Mortgage Loans</b>  |
|   | Mortgage loans with note dates prior to June 1, 2009.  |
|   | Jumbo-conforming mortgages and high-balance mortgage loans:<br><br>The eligibility parameters for DU Refi Plus supersede those for the high-balance feature. The new loan may have a high-balance feature, subject to current loan limits. |

The following existing mortgage loan types are eligible for Refi Plus:

| ✓ | <b>Refi Plus</b>                                      |
|---|---|
|   | <b>Eligible Existing Mortgage Loans</b>               |
|   | Mortgage loans with note dates prior to June 1, 2009. |

|   |  |
|---|--|
| ✓ | <b>Refi Plus</b>   |
|   | <b>Eligible Existing Mortgage Loans</b>  |
|   | Fully documented mortgage loans originated and underwritten in accordance with the <i>Selling Guide</i> , or the <i>Guide to Underwriting with DU</i> .  |
|   | Existing mortgages that were underwritten through DU that received an Approve recommendation and were fully documented according to the original DU Underwriting Findings report.  |
|   | Existing mortgages that received a Refer with Caution/IV recommendation from DU due to erroneous credit information provided all of the following are met: <ul style="list-style-type: none"> <li>• the original loan was delivered with Special Feature Code 343;</li> <li>• the existing mortgage was underwritten in accordance with Fannie Mae policy, which permitted a lender to deliver a loan with Refer with Caution/IV recommendation when the recommendation is based on erroneous credit data (see <a href="#">B3-2-09, Erroneous Credit Report Data</a>); and</li> <li>• the loan file includes appropriate documentation.</li> </ul> |
|   | Mortgage loans that were previously streamlined refinance loans, i.e., originated under the prior guidelines for Streamlined Refinance Option A, Option A Select, or Option B, provided all Refi Plus: Documentation Retention Requirements below are met.   |
|   | Jumbo-conforming mortgages and high-balance mortgage loans:<br><br>The eligibility parameters for Refi Plus supersede those for the high-balance feature. The new loan may have a high-balance feature, subject to current loan limits.  |

Existing mortgages with the following types of credit enhancement or mortgage insurance coverage are eligible for refinancing under DU Refi Plus and Refi Plus.

|   |   |
|---|---|
| ✓ | <b>DU Refi Plus</b>   |
|   | <b>Eligible Existing Mortgage Loans with Credit Enhancement or Mortgage Insurance</b> |
|   | Borrower-paid primary mortgage insurance (including financed premiums).               |
|   | Lender-paid primary mortgage insurance.   |
|   | Lender-paid pool insurance coverage (often referred to as GSE pool insurance).        |

|   |  |
|---|--|
| ✓ | <b>DU Refi Plus</b><br><br><b>Eligible Existing Mortgage Loans with<br/>Credit Enhancement or Mortgage Insurance</b>   |
|   | <p>Investor-paid primary or pool insurance coverage.</p> <p><i>Existing loans with investor-paid mortgage insurance necessary to meet Fannie Mae minimum credit enhancement requirements applicable to loans with LTV ratios greater than 80% are eligible for DU Refi Plus with conversion of the existing mortgage insurance to borrower-paid or lender-paid coverage. If coverage cannot be converted from investor-paid, existing loans will remain ineligible for DU Refi Plus.</i></p>   |
|   | <p>Recourse or indemnification agreements, or secondary market coverage agreements (to the extent the secondary market coverage reverts to the original primary mortgage insurance).</p> <p><i>Existing loans are ineligible for DU Refi Plus if the agreements were necessary to meet Fannie Mae minimum credit enhancement requirements applicable to loans with LTV ratios greater than 80% LTV. To discuss potential options for ineligible existing mortgages, lenders may contact their lead Fannie Mae regional office. See <a href="#">E-1-03, List of Contacts</a>.</i></p> |

|   |   |
|---|---|
| ✓ | <b>Refi Plus</b><br><br><b>Eligible Existing Mortgage Loans with<br/>Credit Enhancement or Mortgage Insurance</b>   |
|   | Borrower-paid primary mortgage insurance (including financed premiums).   |
|   | Lender-paid primary mortgage insurance.   |
|   | Lender-paid pool insurance coverage (often referred to as GSE pool insurance).  |
|   | *Investor-paid primary or pool insurance coverage.  |
|   | *Conditional or other partial recourse or indemnification agreements.   |
|   | *Loans covered by full unconditional recourse, including less than life of loan recourse, provided the new Refi Plus mortgage loan is delivered with life of loan recourse. |
|   | *Secondary market coverage agreements (to the extent the secondary market coverage reverts to the original primary mortgage insurance).                                     |

*\*Existing loans are ineligible for Refi Plus if these mortgage insurance policies or agreements are necessary to meet Fannie Mae minimum credit enhancement requirements applicable to*

loans with LTV ratios greater than 80% LTV. To discuss potential options for ineligible existing mortgages, lenders may contact their lead Fannie Mae regional office. See [E-1-03, List of Contacts](#).

### Ineligible Existing Mortgage Loan Types

The following existing mortgage loan types are ineligible for DU Refi Plus.

| ✓  | <b>DU Refi Plus</b>   |
|--|---|
| <b>Ineligible Existing Mortgage Loan Types</b> |   |
|  | Mortgage loans that are currently subject to any outstanding repurchase demand from Fannie Mae.   |
|  | Reverse mortgage loans.   |
|  | Second mortgage loans.  |
|  | Government mortgage loans.  |
|  | Existing mortgage loans with certain types of credit enhancement. See Eligible Existing Mortgage Loans with Credit Enhancement or Mortgage Insurance above. Lenders should contact their lead Fannie Mae regional office to explore options for these loans. See <a href="#">E-1-03, List of Contacts</a> . |

The following existing mortgage loan types are ineligible for Refi Plus.

| ✓  | <b>Refi Plus</b>   |
|--|--|
| <b>Ineligible Existing Mortgage Loan Types</b> |  |
|  | Mortgage loans that were not originated or underwritten in accordance with the <i>Selling Guide</i> or the <i>Guide to Underwriting with DU</i> .                  |
|  | Mortgage loans that received a DU Expanded Approval, Refer with Caution/IV (see exception in Eligible Mortgage Loan Types), or an Ineligible recommendation in DU. |
|  | Alt-A mortgage loans.  |
|  | Subprime mortgage loans.   |
|  | Mortgage loans that are currently subject to any outstanding repurchase demand from Fannie Mae.  |
|  | Reverse mortgage loans.  |
|  | Second mortgage loans.   |
|  | Government mortgage loans.   |

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|   |   |
|---|---|
| ✓ | <b>Refi Plus</b><br><br><b>Ineligible Existing Mortgage Loan Types</b>  |
|   | Existing mortgage loans with certain types of credit enhancement. See Eligible Existing Mortgage Loans with Credit Enhancement or Mortgage Insurance above. Lenders should contact their lead Fannie Mae regional office to explore options for these loans. See <a href="#">E-1-03, List of Contacts</a> . |

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### **Refi Plus: Documentation Retention Requirements**

For a new Refi Plus mortgage loan, the lender must be the existing servicer, and have complete underwriting and servicing files: the full documentation loan file, including borrower and property information, and any subsequent streamlined refinance loan files. All previous loan files will become part of the application package for the new loan and must be retained for the life of the new mortgage loan.

If the loan being refinanced was assumed by the current borrower(s) at any time since the original borrower(s) was qualified, the credit documents used to qualify the current borrower(s) at the time of the assumption must be included as part of the new mortgage loan file.

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### **Representations and Warranties**

For DU Refi Plus and Refi Plus mortgage loans, lenders are responsible for the standard representations and warranties described in the *Selling Guide*, with a number of exceptions as noted below.

#### **DU Refi Plus:**

- The lender is not responsible for any of the representations and warranties associated with the original loan.
- The lender is relieved of the standard underwriting representations and warranties (eligibility, credit history, liabilities, income and asset assessment) with respect to the new mortgage loan if the lender meets all of the following requirements:
  - All data in the loan casefile is complete, accurate, and not fraudulent.
  - The lender follows the instructions in the DU Underwriting Findings report regarding income, employment, asset, and fieldwork documentation.
  - The lender complies with all other requirements documented in [A2-2.1-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU](#).



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- When a lender exercises a DU Refi Plus property fieldwork waiver, Fannie Mae accepts the property value estimate submitted to DU as the market value for the subject property, and the lender is not required to make any representation or warranty as to the value, marketability, or condition of the subject property.
  - If the lender obtains an appraisal for the subject property, the lender is not responsible for the standard representations and warranties related to the value, marketability, and condition of the property as reflected in the property valuation.
    - 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 [B4-1.1-02, Lender Responsibilities](#), of the *Selling Guide*:
      - 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.
  - The lender is not responsible for the standard representations and warranties related to project eligibility, with the exception that the lender must represent and warrant that the property is not a condo or co-op hotel or motel, houseboat project, or a timeshare or segmented ownership project.
  - See [B5-5.2-03, DU Refi Plus and Refi Plus Property Valuation and Project Standards](#), for additional information about property and project requirements.

**Note:** As a reminder, the limited waiver of contractual warranties for mortgage loans submitted to DU applies to DU Refi Plus loan casefiles that receive an Approve/Eligible recommendation.

**Refi Plus:**

- 
- With respect to the original loan, the lender must represent and warrant to the following:
    - The loan was originated in compliance with laws. See [A3-2-01, Compliance With Laws](#).
    - The lender represents and warrants that the original loan being refinanced by a Refi Plus mortgage loan was not originated or sold pursuant to any scheme or pattern of fraud that involved two or more mortgages and two or more perpetrators acting in common effort with respect to such mortgages. For purposes of the foregoing, “fraud” is defined as a misstatement, misrepresentation, or omission that cannot be corrected and that was relied upon by Fannie Mae to purchase the mortgage being refinanced. For purposes of the foregoing, a “perpetrator” is an individual or entity involved in the origination or sale of the mortgage or the related real estate transaction, including, but not limited to, a mortgage broker, loan officer, appraiser, appraisal company, title or closing agent, or property seller, or the borrower(s) acting in conjunction with one of the former.
    - If the subject property is in a condo, co-op, or PUD project, the project met Fannie Mae's requirements at the time the original loan was originated.
  - With respect to the appraisal and property condition, the lender is not responsible for the standard representations and warranties related to the value, condition, and marketability of the property as reflected in the appraisal.
    - 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 [B4-1.1-02, Lender Responsibilities](#), of the *Selling Guide*:
      - 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.

- 
- See [B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations](#), for additional information regarding property and project requirements.
  - Fannie Mae's quality control process for Refi Plus loans will not:
    - hold the lender responsible for information that may be obtained as a result of Fannie Mae's review of income or assets stated by the borrower (applicable when the principal and interest payment is not increasing by more than 20%);
    - impose any maximum DTI ratio or other underwriting criteria (except when the principal and interest payment increases by more than 20%);
    - require the lender to represent and warrant that the borrower has an acceptable credit history other than the credit score and mortgage payment requirements that are specific to Refi Plus. See [B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations](#); or
    - hold the lender accountable for undisclosed liabilities (except when the principal and interest payment increases by more than 20%).

## Subpart 5, Unique Eligibility and Underwriting Considerations

| <b>Announcements and Release Notes</b>  | <b>Issue Date</b>  |
|---|--------------------|
| <a href="#">Chapter 5, Community Seconds, Community Land Trusts, DU Refi Plus and Refi Plus, and Loans with Restrictions, DU Refi Plus and Refi Plus Mortgage Loans</a> | October 24, 2016   |
| <b>Related Announcements</b><br>The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.        |                    |
| <a href="#">Announcement SEL-2015-16</a>  | September 29, 2015 |
| <a href="#">Announcement SEL-2015-06</a>  | May 26, 2015       |
| <a href="#">Announcement SEL-2015-01</a>  | January 27, 2015   |
| <a href="#">Announcement SEL-2014-16</a>  | December 16, 2014  |
| <a href="#">Announcement SEL-2014-11</a>  | August 26, 2014    |
| <a href="#">Announcement SEL-2014-06</a>  | May 27, 2014       |
| <a href="#">Announcement SEL-2013-08</a>  | October 22, 2013   |
| <a href="#">Announcement SEL-2013-07</a>  | September 24, 2013 |
| <a href="#">Announcement SEL-2013-06</a>  | August 20, 2013    |
| <a href="#">Announcement SEL-2013-04</a>  | May 28, 2013       |
| <a href="#">Announcement SEL-2013-03</a>  | April 9, 2013      |
| <a href="#">Announcement SEL-2012-14</a>  | December 18, 2012  |
| <a href="#">Selling Notice</a>  | November 19, 2012  |
| <a href="#">Announcement SEL-2012-13</a>  | November 13, 2012  |
| <a href="#">Announcement SEL-2012-10</a>  | October 2, 2012    |
| <a href="#">Announcement SEL-2012-07</a>  | August 21, 2012    |
| <a href="#">DU Version 9.0</a>  | July 24, 2012      |
| <a href="#">Announcement SEL-2012-04</a>  | May 15, 2012       |
| <a href="#">Announcement SEL-2012-01</a>  | January 31, 2012   |
| <a href="#">DU 8.3 March Update</a>   | January 3, 2012    |
| <a href="#">Announcement SEL-2011-13</a>  | December 20, 2011  |
| <a href="#">Announcement SEL-2011-12</a>  | November 15, 2011  |
| <a href="#">Announcement SEL-2011-03</a>  | March 31, 2011     |
| <a href="#">Announcement SEL-2010-04</a>  | March 29, 2010     |
| <a href="#">Announcement 09-37</a>  | December 30, 2009  |
| <a href="#">Announcement 09-23</a>  | July 1, 2009       |
| <a href="#">Announcement 09-20</a>  | June 25, 2009      |
| <a href="#">DU 7.1 June Update</a>  | June 5, 2009       |
| <a href="#">Announcement 09-13</a>  | May 11, 2009       |
| <a href="#">DU 7.1 May Update</a>   | April 20, 2009     |
| <a href="#">Announcement 09-04</a>  | March 4, 2009      |
| <a href="#">DU 7.1 April Update</a>   | March 4, 2009      |



## **B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations (10/24/2016)**

### **Introduction**

This topic contains information on DU Refi Plus and Refi Plus underwriting considerations, including:

- [Borrower Benefit Requirement](#)
- [Underwriting and Documentation Requirements — DU Refi Plus](#)
- [Underwriting and Documentation Requirements — Refi Plus](#)
- [Converting DU Refi Plus to Refi Plus](#)
- [DU Refi Plus-Eligible — Opting to Underwrite as Standard Limited Cash-Out Refinances](#)
- [Mortgage Insurance Requirements](#)
- [Lender-Purchased Mortgage Insurance](#)
- [Financed Mortgage Insurance](#)
- [Mortgage Insurance Coverage Terms](#)
- [Transfer of the Mortgage Insurance Certificate and Existing Mortgage Insurance Coverage](#)
- [Expiration of Mortgage Insurance Flexibilities](#)

### **Borrower Benefit Requirement**

By selling a DU Refi Plus or Refi Plus mortgage loan to Fannie Mae, the lender represents and warrants that the borrower is receiving a benefit in the form of at least one of the following:

- a reduced monthly mortgage principal and interest payment,
- a more stable mortgage product,
- a reduction in the interest rate, or
- a reduction in the amortization term.

The following table provides scenarios that meet the borrower benefit provision:

| ✓ | <b>The borrower benefit provision is met if...</b>   |
|---|--|
|   | <p>The amortization term is extended (for example, from 15 to 30 years) resulting in a reduction in the principal and interest payment.</p> <p><b>Note:</b> An extension of the amortization term is not considered movement to a more stable product.</p> |

| ✓ | <b>The borrower benefit provision is met if...</b>   |
|---|--|
|   | <p>The mortgage loan type changes from a fixed-rate to an ARM provided there is a reduction in the principal and interest payment.</p> <p><b>Note:</b> Movement from a fixed-rate mortgage to an ARM is not considered a movement to a more stable mortgage product. Lenders are encouraged to provide fixed-rate mortgages to borrowers whenever possible. Fixed-rate mortgages are required if the LTV ratio exceeds 105%.</p> |
|   | <p>The principal and interest payment is staying the same or increasing provided the borrower is moving to a shorter term mortgage or more stable mortgage product.</p>  |

**Note:** DU does not make the determination that the DU Refi Plus transaction will benefit the borrower. The lender must determine this outside of DU.

### Underwriting and Documentation Requirements — DU Refi Plus

The following table provides underwriting and documentation requirements applicable to DU Refi Plus mortgage loans:

| <b>Underwriting and Documentation Requirements — DU Refi Plus</b> |  |
|---|--|
| <b>Type of Underwriting</b>                                       | Mortgage loans originated under DU Refi Plus must be underwritten through DU, and are not eligible for underwriting through any other automated underwriting system. |
|   | When a loan is delivered as a DU Refi Plus loan, the DU Refi Plus message must be issued on the final submission to DU.  |
|   | In addition, the DU Underwriting Findings report will clearly indicate that the recommendation received was for DU Refi Plus.  |
|   | A DU Refi Plus loan may be re-underwritten manually and delivered as a Refi Plus loan. See Converting DU Refi Plus to Refi Plus below.                               |
| <b>Loan Application</b>   | A new executed Form 1003 or Form 1003(S) is required from the borrower(s) with all   |

| <b>Underwriting and Documentation Requirements — DU Refi Plus</b> |  |
|---|--|
|   | information completed including borrower income, employment, and assets.   |
| <b>Accurate Property Addresses</b>                                | An accurate property address is critical to determining if the subject property address on the loan casefile matches a subject property address for an existing Fannie Mae loan. Incomplete or inaccurate property address data may prevent a loan casefile from being underwritten according to the DU Refi Plus underwriting flexibilities.                                    |
|   | If DU is unable to match the subject property address on the loan casefile with an existing eligible Fannie Mae loan, the DU Underwriting Findings report will issue one or more messages, and the loan casefile will be underwritten according to the standard DU eligibility guidelines and documentation requirements. See <i>Converting DU Refi Plus to Refi Plus</i> below. |
| <b>DU Risk Assessment</b>   | DU performs its standard credit risk assessment for DU Refi Plus loans, which includes a comprehensive review of the borrower's credit and mortgage payment history.   |
| <b>Payment History of the Existing Mortgage</b>                   | The borrower must meet DU's mortgage delinquency policy. See <a href="#">B3-5.3-09, DU Credit Report Analysis</a> .  |
| <b>Credit Score and Credit Report Requirements</b>                | A new merged credit report with the borrower's credit score is required.<br><br>No minimum credit score is required to establish eligibility. The representative credit score will be used for pricing purposes.   |
| <b>Higher-Priced Loan Requirements</b>                            | Because DU is unable to determine if a DU Refi Plus loan casefile is either a higher-priced mortgage loan or a higher-priced covered transaction under Regulation Z, the lender must make this determination. If the lender  |

| <b>Underwriting and Documentation Requirements — DU Refi Plus</b> |  |
|---|--|
|   | <p>does determine that the loan casefile is either a higher-priced mortgage loan or a higher-priced covered transaction, the loan casefile must have a representative credit score of 620 or more and a debt-to-income ratio of 45% or less in order to be eligible for delivery to Fannie Mae.</p> <p>Lenders are not relieved of complying with Regulation Z by only adhering to the stricter representative credit score and debt-to-income ratio. The mortgage loan must comply in all respects with Regulation Z requirements for higher-priced mortgage loans and higher-priced covered transactions, including the underwriting and consumer protection requirements.</p> |
| <b>Significant Derogatory Credit Events</b>                       | <p>Lenders are not required to comply with the waiting period and re-establishment of credit requirements for significant derogatory credit events for DU Refi Plus loans. DU will issue a message when a significant derogatory credit event is identified that indicates the loan is eligible for delivery regardless of when the event occurred. DU will not require the payoff or satisfaction of a judgment shown on the credit report.</p> <p>In addition, DU will not require Form 1003 (or 1003 (S)) VIII, Declarations a through f to be reviewed or DU will not consider them in the underwriting evaluation.</p>  |
| <b>Mortgage Modifications</b>                                     | <p>A borrower who has applied for or received a loan modification is eligible to refinance under DU Refi Plus. Note the following:</p> <ul style="list-style-type: none"> <li>• The borrower benefit provision (described above) must be met. The terms of the modified loan (trial or permanent) must be</li> </ul>   |



| <b>Underwriting and Documentation Requirements — DU Refi Plus</b> |  |
|---|--|
|   | <p>used for this comparison. If the borrower was previously in a trial period plan, but denied a permanent modification, the current terms of the loan must be used for this purpose.</p> <ul style="list-style-type: none"> <li>• The borrower must meet DU's mortgage delinquency policy.</li> </ul>   |
| <b>DTI Ratio</b>  | <p>DU Refi Plus loan casefiles are subject to the maximum allowable debt-to-income ratio (DTI) currently applied to DU Refi Plus loan casefiles. DU Refi Plus loan casefiles that exceed the maximum allowable debt-to-income ratio will receive an Ineligible recommendation.</p>   |
| <b>Verification of Income</b>                                     | <p>Income must be verified in accordance with the Income Documentation Requirements table below. Lenders are not required to verify or assess the borrower's history or receipt of income or the anticipated continuity of the income.</p>   |
| <b>Verification of Assets</b>                                     | <p>The amount of assets (which may include reserves) must be verified to the extent that the DU Underwriting Findings report requires such verification.</p> <p>Assets must be verified in accordance with the Asset Documentation Requirements table below. Lenders are not required to investigate large deposits that appear on account statements. Proof of liquidation of assets is not required even if those assets are used by the borrower to pay closing costs. Furthermore, Fannie Mae's standard policy regarding "discounting" of certain assets applies if the assets are required to satisfy DU reserve requirements.</p> |
| <b>Multiple Financed Properties for the Same Borrower</b>         | <p>There are no limits on the number of financed properties the borrower may own. The</p>  |

| <b>Underwriting and Documentation Requirements — DU Refi Plus</b> |  |
|---|--|
|   | additional eligibility requirements for borrowers with multiple financed properties in <a href="#">B2-2-03, Multiple Financed Properties for the Same Borrower</a> , do not apply. Special Feature Code 150 must not be delivered even if the Refi Plus mortgage loan otherwise meets the requirements of SFC 150. |
| <b>Property Listing Requirements</b>                              | The lender does not need to confirm the subject property is not currently listed for sale.   |
| <b>Request for Transcript of Tax Return (IRS Form 4506-T)</b>     | Each borrower must complete and sign a separate IRS Form 4506-T at or before closing.<br><br>See <a href="#">B3-3.1-06, Requirements and Uses of IRS Form 4506-T</a> , for additional information.   |
| <b>Mortgage Note, Security Instrument</b>                         | A new mortgage note, security instrument, and applicable riders and addenda are required.<br><br>Except as otherwise expressly provided under DU Refi Plus described herein, all other loan documentation requirements contained in this <i>Selling Guide</i> applicable to newly-originated mortgages apply.      |

### **Underwriting and Documentation Requirements — Refi Plus**

The following table provides underwriting and documentation requirements applicable to Refi Plus mortgage loans. Note that some of the requirements vary based on whether the borrower's principal and interest payment is changing from the current contractually obligated payment under the note.

- Payment change less than or equal to 20%: The borrower's principal and interest payment is either decreasing, staying the same, or increasing by less than 20%; or
- Payment increase greater than 20%: The borrower's principal and interest payment is increasing by more than 20%.

| <b>Underwriting and Documentation Requirements — Refi Plus</b> |  |
|--|--|
| <b>Type of Underwriting</b>                                    | All new mortgage loans originated under Refi Plus must be manually underwritten.   |
|  | A DU Refi Plus loan casefile may be converted to a manually underwritten Refi Plus mortgage loan. See Converting DU Refi Plus to Refi Plus below.  |
| <b>Loan Application</b>  | A new executed Form 1003 or Form 1003(S) is required from the borrower(s) with all information completed including borrower income, employment, and assets.  |
| <b>Payment History of the Existing Mortgage</b>                | The existing mortgage must be current.   |
|  | The lender must determine that the borrower has not had any 30-day mortgage delinquencies on the existing mortgage in the most recent six-month period, and no more than one 30-day delinquency in months 7–12.  |
|  | The loan file for the new mortgage must contain documented proof from the lender's servicing system (printed after the date of the borrower's new mortgage application and prior to the date of the new mortgage note) that evidences the payment history requirements have been met for the required 12-month period. |
| <b>Credit Score and Credit Report Requirements</b>             | Payment change $\leq$ 20%: no minimum credit score required. Lenders do not need to obtain a new merged credit report, but must obtain the representative credit score for pricing purposes.   |
|  | Payment increase $>$ 20%: minimum representative credit score of 620. A new merged credit report with credit scores is required. The representative credit score will be used for pricing purposes and to determine eligibility.   |

| <b>Underwriting and Documentation Requirements — Refi Plus</b> |   |
|--|---|
| <b>Higher-Priced Loan Requirements</b>                         | <p>If the lender does determine that under Regulation Z the loan is either a higher-priced mortgage loan or a higher-priced covered transaction, the loan must have a representative credit score of 620 or more and a debt-to-income ratio of 45% or less in order to be eligible for delivery to Fannie Mae.</p> <p>Lenders are not relieved of complying with Regulation Z by only adhering to the stricter representative credit score and debt-to-income ratio. The mortgage loan must comply in all respects with Regulation Z requirements for higher-priced mortgage loans and higher-priced covered transactions, including the underwriting and consumer protection requirements.</p> |
| <b>Significant Derogatory Credit Events</b>                    | <p>Lenders are not required to comply with the waiting period and re-establishment of credit requirements for significant derogatory credit events for Refi Plus loans or the payoff or satisfaction of a judgment identified on the credit report.</p> <p>In addition, Form 1003 or (1003(S)) VIII, Declarations a through f are not required to be reviewed or considered in the underwriting evaluation.</p>   |
| <b>Mortgage Modifications</b>                                  | <p>A borrower who has applied for or received a loan modification is eligible to refinance under Refi Plus. Note the following:</p> <ul style="list-style-type: none"> <li>• The borrower benefit provision (described above) must be met. The terms of the modified loan (trial or permanent) must be used for this comparison. If the borrower was previously in a trial period plan, but denied a permanent modification, the</li> </ul>   |

| <b>Underwriting and Documentation Requirements — Refi Plus</b> |   |
|--|---|
|  | <p>current terms of the loan must be used for this purpose.</p> <ul style="list-style-type: none"> <li>The borrower must meet the mortgage payment history requirements for Refi Plus measured by either contractual or modified payments, as applicable.</li> </ul>  |
| <b>DTI Ratio</b>   | <p>Payment change <math>\leq</math> 20%: lenders are not required to calculate a DTI ratio.</p> <p>Payment increase <math>&gt;</math> 20%: maximum DTI ratio of 45%.</p>  |
| <b>Verification of Income or Reserve Alternative</b>           | <p>Payment change <math>\leq</math> 20%: the lender must verify one source of income or use the reserve alternative option.</p> <p>Income source: at least one borrower must have a source of income from an eligible source, per the “Eligible Income Sources” listed in the Income Documentation Requirements table below. Verification of the borrower's employment or self-employment can be completed with a verbal VOE, or an other (non-employment) income source must be documented (at the lender's discretion). Verification of the amount of income, history of receipt, or anticipated continuity of the income are not required.</p> <p>Reserve alternative: Verification of liquid financial reserves equal to 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:</p> <ul style="list-style-type: none"> <li>checking or savings accounts, certificates of deposits, and money market funds;</li> </ul> |

| <b>Underwriting and Documentation Requirements — Refi Plus</b> |  |
|--|--|
|  | <ul style="list-style-type: none"> <li>• investments in stocks, bonds, mutual funds; and</li> <li>• the amount vested in a retirement savings account (that is available to the borrower).</li> </ul> <p>Lenders are not required to investigate large deposits that appear on the statements. However, certain assets must be “discounted” when used for reserves. Refer to the applicable asset type in Chapter B3–4, Asset Assessment, for additional information.</p> <p>Payment increase &gt; 20%: verification of all income sources and amounts in accordance with the Income Documentation Requirements table below. Lenders are not required to verify or assess the borrower's history or receipt of income or the anticipated continuity of the income.</p> |
| <b>Verification of Assets</b>                                  | <p>Payment change <math>\leq</math> 20%: verification of assets required to close is not required. The only assets that must be verified are those required to satisfy the reserve alternative option (described above).</p> <p>Payment increase &gt; 20%: verification of assets to close if the borrower is required to bring funds to closing. The assets must be verified in accordance with the Asset Documentation Requirements table below. Lenders are not required to investigate large deposits that appear on account statements. Proof of liquidation of assets is not required even if those assets are used by the borrower to pay closing costs.</p>  |
| <b>Multiple Financed Properties for the Same Borrower</b>      | <p>There are no limits on the number of financed properties the borrower may own. The additional eligibility requirements for</p>  |

| <b>Underwriting and Documentation Requirements — Refi Plus</b> |  |
|--|--|
|  | borrowers with multiple financed properties in <a href="#">B2-2-03, Multiple Financed Properties for the Same Borrower</a> , do not apply. Special Feature Code 150 must not be delivered even if the Refi Plus mortgage loan otherwise meets the requirements of SFC 150.   |
| <b>Property Listing Requirements</b>                           | The lender does not need to confirm the subject property is not currently listed for sale.   |
| <b>Request for Transcript of Tax Return (IRS Form 4506-T)</b>  | <p>Payment change ≤ 20%: borrowers are not required to complete and sign an IRS Form 4506-T.</p> <p>Payment change &gt; 20%: each borrower (regardless of income source) must complete and sign a separate IRS Form 4506-T at or before closing.</p> <p>See <a href="#">B3-3.1-06, Requirements and Uses of IRS Form 4506-T</a>, for additional information.</p> |
| <b>Mortgage Note, Security Instrument</b>                      | <p>A new mortgage note, security instrument, and applicable riders and addenda are required.</p> <p>Except as otherwise expressly provided under DU Refi Plus described herein, all other loan documentation requirements contained in this <i>Selling Guide</i> applicable to newly-originated mortgages apply.</p>   |

| <b>Income Documentation Requirements</b>  |  |
|---|--|
| <b>All DU Refi Plus Loans, Refi Plus Loans with Payment Increases &gt; 20%, and Refi Plus Higher-Priced Loans</b> |  |
| <b>Income Type/Eligible Income Sources</b>  | <b>Documentation Requirement</b>   |
| <b>All Employment Income</b>  | <p>Verbal verification of employment</p> <p>See <a href="#">B3-3.1-07, Verbal Verification of Employment</a>, for additional requirements.</p> |
| <b>Base Pay (salary or hourly)</b>  | One paystub  |
| <b>Bonus and Overtime Income</b>  |  |

| <b>Income Documentation Requirements</b>  |   |
|---|---|
| <b>All DU Refi Plus Loans, Refi Plus Loans with Payment Increases &gt; 20%, and Refi Plus Higher-Priced Loans</b> |   |
|   | Applies to primary employment, secondary employment (second job and multiple jobs), and seasonal income.  |
| <b>Commission Income</b>  | One paystub or one year personal tax return.<br><br>Applies without regard to the percentage of commission earnings.  |
| <b>Self-Employment</b>  | One year personal tax return<br><br>Applies to primary and secondary self-employment.   |
| <b>Alimony or Child Support</b>   | Copy of divorce decree, separation agreement, court order or equivalent documentation, and one month documentation of receipt.  |
| <b>Employment-Related Assets as Qualifying Income</b>   | Lender must obtain standard documentation for this type of income as described in <a href="#">B3-3.1-09, Other Sources of Income</a> . The maximum LTV, CLTV, HCLTV ratio and minimum credit score requirements are not applicable to DU Refi Plus or Refi Plus transactions. |
| <b>Rental Income</b>  | Lease or one year personal tax return (Form 1007 is not required).<br><br>Applies to rental income from subject property or from other properties owned by the borrower.  |
| <b>Retirement and Pension</b>   | One of the following: award letter, one year personal tax return, W-2 or 1099 form, or one month bank statement reflecting direct deposit.  |
| <b>Social Security</b>  | One of the following: award letter, one year personal tax return, Form SSA-1099, or one month bank statement reflecting direct deposit.   |
| <b>Temporary Leave Income</b>   | Lender must receive:  |



| <b>Income Documentation Requirements</b>  |  |
|---|--|
| <b>All DU Refi Plus Loans, Refi Plus Loans with Payment Increases &gt; 20%, and Refi Plus Higher-Priced Loans</b>   |  |
|   | <ul style="list-style-type: none"> <li>• the borrower’s written confirmation of his or her intent to return to work, and</li> <li>• 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.</li> </ul> <p>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.</p> |
| <p><b>All Other Income Types</b></p> <ul style="list-style-type: none"> <li>• Automobile Allowance</li> <li>• Boarder Income</li> <li>• Capital Gains Income</li> <li>• Disability Income – Long-Term</li> <li>• Foreign Income</li> <li>• Foster-Care Income</li> <li>• Interest and Dividends Income</li> <li>• Mortgage Credit Certificates</li> <li>• Mortgage Differential Payments Income</li> <li>• Notes Receivable Income</li> <li>• Public Assistance Income</li> <li>• Royalty Payment Income</li> <li>• Tip Income</li> </ul> | <p>Lender must determine appropriate documentation.</p> <p>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.</p>   |

| <b>Income Documentation Requirements</b>   |  |
|--|--|
| <b>All DU Refi Plus Loans, Refi Plus Loans with Payment Increases &gt; 20%, and Refi Plus Higher-Priced Loans</b>  |  |
| <ul style="list-style-type: none"> <li>• Trust Income</li> <li>• Unemployment Benefits (seasonal or non-seasonal in nature)</li> <li>• VA Benefits Income</li> </ul> |  |

**Note:** The income types/eligible sources of income shown in the table above also apply to Refi Plus mortgage loans with payment changes less than or equal to 20% where the borrower is documenting a source of income.

| <b>Asset Documentation Requirements</b>  |   |
|--|---|
| <b>DU Refi Plus Loans and Refi Plus Loans with Payment Increases &gt; 20%</b>  |   |
| <b>Asset Type</b>  | <b>Documentation Requirement</b>  |
| <ul style="list-style-type: none"> <li>• Checking Accounts</li> <li>• Savings Accounts</li> <li>• Certificates of Deposit</li> <li>• Money Mark Accounts</li> <li>• Stocks, Bonds, Mutual Funds</li> <li>• Retirement Accounts</li> <li>• Trust Accounts</li> <li>• Secured Borrowed Funds</li> <li>• Donations from Entities (Hardest Hit Fund)</li> <li>• Gifts</li> </ul> | <p>One recent statement (monthly, quarterly, or annual) showing asset balance</p> |

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### Converting DU Refi Plus to Refi Plus

A lender may convert a DU loan casefile to a manually underwritten Refi Plus mortgage loan after submission to DU provided that the mortgage loan meets all Refi Plus requirements, including the requirement that the lender be the current servicer of the existing mortgage loan. Originations by a different servicer or third party are not permitted. In addition, if the existing mortgage loan is subject to full recourse, the lender must comply with the requirements for new recourse applicable to Refi Plus mortgage loans. Lenders must follow all other requirements for Refi Plus as described here and in [B5-5.2-01, DU Refi Plus and Refi Plus Eligibility](#), [B5-5.2-03, DU Refi Plus and Refi Plus Property Valuation and Project Standards](#), and [B5-5.2-04, DU Refi Plus and Refi Plus Closing, Pricing, and Delivery](#). Special Feature Code 288 is required at delivery.

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### DU Refi Plus-Eligible — Opting to Underwrite as Standard Limited Cash-Out Refinances

Lenders may instruct DU to underwrite a DU Refi Plus-eligible loan casefile as a standard limited cash-out refinance by entering the phrase “Standard LCOR” in the Product Description field prior to underwriting.

Loan casefiles with no value entered in the Product Description field, or a value entered other than “Standard LCOR,” will be underwritten as a DU Refi Plus if the loan is matched to an existing eligible Fannie Mae loan and the loan meets the eligibility criteria required for a DU Refi Plus transaction.

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### Mortgage Insurance Requirements

For DU Refi Plus and Refi Plus new refinance transactions with LTV ratios exceeding 80%, mortgage insurance may or may not be required depending on the current mortgage insurance coverage on the existing loan. New refinance transactions with an LTV ratio less than 80% do not require mortgage insurance. The following additional mortgage insurance requirements apply:

| Original LTV of Existing Loan | MI In Force on Existing Loan?                | Refi Plus:<br>MI Required for New Refinance Loan? | DU Refi Plus<br>MI Required for New Refinance Loan?            |
|-------------------------------|--|---|--|
| ≤ 80%                         | No   | No  | No   |
| > 80%                         | No<br>Mortgage Insurance previously canceled | No  | DU will require the lender to determine that the existing loan |

| <b>Original LTV of Existing Loan</b> | <b>MI In Force on Existing Loan?</b>  | <b>Refi Plus:<br/>MI Required for New Refinance Loan?</b>  | <b>DU Refi Plus<br/>MI Required for New Refinance Loan?</b>  |
|--------------------------------------|---|--|--|
|                                      | or terminated per <i>Selling Guide</i> and <i>Servicing Guide</i> requirements. |  | does not have mortgage insurance.<br><br>If the lender determines the existing loan <ul style="list-style-type: none"> <li>• does not have mortgage insurance, no mortgage insurance is required.</li> <li>• has mortgage insurance, the lender may either obtain the existing amount of mortgage insurance coverage in effect on the loan or obtain standard mortgage insurance.</li> </ul> |
| > 80%                                | Yes   | Yes<br><br>Lenders may either obtain the level of mortgage insurance coverage in force on the existing mortgage loan or the standard mortgage insurance coverage required in accordance with the provisions in Mortgage Insurance/Loan Guaranty Overview.<br><br>Lenders are encouraged to use their best efforts to obtain mortgage insurance coverage that provides the lowest cost option available to the borrower. Lenders are required to fully comply with all requirements of the mortgage insurance provider regardless of those established by Fannie Mae. |  |

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For DU Refi Plus, if mortgage insurance is currently in effect on the existing Fannie Mae loan, the lender must confirm the amount of mortgage insurance coverage in effect prior to

- obtaining new mortgage insurance at that specified level of coverage, or
- modifying the existing mortgage insurance certificate.

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### **Lender-Purchased Mortgage Insurance**

New lender-purchased mortgage insurance coverage may be obtained on new DU Refi Plus and Refi Plus mortgage loans, and continuation of existing lender-purchased mortgage insurance coverage on the new loan is also permitted.

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### **Financed Mortgage Insurance**

Existing loans with financed mortgage insurance are eligible for DU Refi Plus and Refi Plus. There should be no difference in how coverage is continued on the refinance of such loans versus existing loans that do not have financed mortgage insurance. The existing coverage can be continued on the new loan regardless of whether the financed premium on the existing loan was paid as a single premium or a split premium. Lenders should check with the mortgage insurer for specific requirements.

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### **Mortgage Insurance Coverage Terms**

For DU Refi Plus and Refi Plus, mortgage insurance coverage must extend for the life of the new loan, or until cancellation or termination of coverage as required by law or Fannie Mae guidelines, whether the mortgage insurance company modifies the existing mortgage insurance certificate or issues a new one. For example, even if a 15-year loan that is 3 years old is refinanced into a 30-year loan, the mortgage insurance coverage should be extended for the full life of the new loan. See [Mortgage Insurance/Loan Guaranty Overview](#).

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### **Transfer of the Mortgage Insurance Certificate and Existing Mortgage Insurance Coverage**

Fannie Mae does not object to a mortgage insurance company charging a reasonable fee to transfer the certificate, and will allow such cost to be rolled into the unpaid balance of the new loan as a closing cost as long as the loan will still comply with Fannie Mae's and the mortgage insurance company's guidelines.

Lenders must work closely with their mortgage insurance providers to either continue existing coverage or obtain new coverage on new DU Refi Plus and Refi Plus mortgage loans and not

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allow erroneous cancellation of coverage when existing loans pay off. The lender that originates the refinance will be held responsible if the mortgage insurance coverage on the existing loan is not successfully continued on the new loan, either by modification of the existing mortgage insurance certificate or by issuance of a new mortgage insurance certificate.

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### **Expiration of Mortgage Insurance Flexibilities**

All of the mortgage insurance flexibilities available for DU Refi Plus and Refi Plus apply only to mortgage loans with application dates on or before September 30, 2017, and whole loans that are purchased by Fannie Mae no later than June 30, 2018, or in an MBS pool with an issue date no later than June 1, 2018.

Part B, Origination Through Closing  
 Subpart 5, Unique Eligibility and Underwriting Considerations  
 Chapter 5, Community Seconds, Community Land Trusts,  
 DU Refi Plus and Refi Plus, and Loans with Resale  
 Restrictions, DU Refi Plus and Refi Plus Mortgage Loans

January 31, 2017

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b>  |
|--|--------------------|
| The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic. |                    |
| <a href="#">Announcement SEL-2016-08</a>   | October 24, 2016   |
| <a href="#">Announcement SEL-2015-10</a>   | September 29, 2015 |
| <a href="#">Announcement SEL-2015-06</a>   | May 26, 2015       |
| <a href="#">Announcement SEL-2015-01</a>   | January 27, 2015   |
| <a href="#">Announcement SEL-2014-06</a>   | May 27, 2014       |
| <a href="#">Announcement SEL-2014-03</a>   | April 15, 2014     |
| <a href="#">Announcement SEL-2013-07</a>   | September 24, 2013 |
| <a href="#">Announcement SEL-2013-06</a>   | August 20, 2013    |
| <a href="#">Announcement SEL-2013-05</a>   | July 30, 2013      |
| <a href="#">Announcement SEL-2012-14</a>   | December 18, 2012  |
| <a href="#">Announcement SEL-2012-10</a>   | October 2, 2012    |
| <a href="#">Announcement SEL-2012-04</a>   | May 15, 2012       |
| <a href="#">Announcement SEL-2011-13</a>   | December 20, 2011  |
| <a href="#">Announcement SEL-2011-12</a>   | November 15, 2011  |
| <a href="#">Announcement SEL-2011-06</a>   | July 26, 2011      |
| <a href="#">Announcement SEL-2011-03</a>   | March 31, 2011     |
| <a href="#">Announcement SEL-2010-16</a>   | December 1, 2010   |
| <a href="#">Announcement SEL-2010-06</a>   | April 30, 2010     |
| <a href="#">Announcement SEL-2010-04</a>   | March 29, 2010     |
| <a href="#">DU Version 8.0 April Update</a>  | February 26, 2010  |
| <a href="#">Announcement 09-37</a>   | December 30, 2009  |
| <a href="#">Announcement 09-32</a>   | October 30, 2009   |
| <a href="#">Announcement 09-26</a>   | July 24, 2009      |
| <a href="#">DU 7.1 September Update</a>  | July 24, 2009      |
| <a href="#">Announcement 09-23</a>   | July 1, 2009       |
| <a href="#">Announcement 09-20</a>   | June 25, 2009      |
| <a href="#">DU 7.1 June Update</a>   | June 5, 2009       |
| <a href="#">Announcement 09-13</a>   | May 11, 2009       |
| <a href="#">DU 7.1 May Update</a>  | April 20, 2009     |
| <a href="#">Announcement 09-04</a>   | March 4, 2009      |
| <a href="#">DU 7.1 April Update</a>  | March 4, 2009      |



## **B5-5.2-03, DU Refi Plus and Refi Plus Property Valuation and Project Standards (12/06/2016)**

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### **Introduction**

This topic contains information on DU Refi Plus and Refi Plus property valuation and project standards requirements, including:

- [DU Refi Plus Property Valuation Requirements](#)
  - [DU Refi Plus Property Fieldwork Waiver](#)
  - [Refi Plus Property Valuation Requirements](#)
  - [DU Refi Plus and Refi Plus: Properties Affected by a Disaster](#)
  - [DU Refi Plus: No New Appraisal Obtained](#)
  - [Single-Family Comparable Rent Schedule \(Form 1007\)](#)
  - [Condo, Co-op, and PUD Project Review Requirements](#)
  - [Project Type Codes](#)
- 

### **DU Refi Plus Property Valuation Requirements**

The lender must comply with the property fieldwork requirements issued by DU. For certain DU Refi Plus loan casefiles, DU offers to waive the requirement for property fieldwork. For loan casefiles that are not eligible for a DU Refi Plus property fieldwork waiver, DU will require an appraisal based on an interior and exterior inspection reported on the appropriate appraisal report form for the type of property being appraised. If the lender exercises a property fieldwork waiver, the lender is not responsible for the standard representations and warranties related to the value, marketability, and condition of the property. See [B5-5.2-01, DU Refi Plus and Refi Plus Eligibility](#), for additional information related to appraisal representations and warranties.

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### **DU Refi Plus Property Fieldwork Waiver**

When a lender exercises the DU Refi Plus property fieldwork waiver, Fannie Mae accepts the property value estimate submitted to DU as the market value for the subject property and as noted above, the lender is not required to make any representation or warranty as to value, marketability, or condition of the subject property. However, the lender continues to be required to represent and warrant that all of the information and data submitted to DU is complete and accurate.

The property value the lender enters in DU may be based on:



- the lender's estimate of value, determined at the discretion of the lender, or
- the borrower's estimate of value.

If DU does not offer a property fieldwork waiver, the lender must obtain an appraisal on the form specified in the DU Underwriting Findings report.

**Note:** DU will issue a message on DU Refi Plus loan casefiles when the subject property address cannot be standardized, or Fannie Mae's databases do not have sufficient information about the property to determine eligibility for the DU Refi Plus property fieldwork waiver. This message will state that based on the address and other information available to DU, the property is not eligible for a DU Refi Plus property fieldwork waiver.

A lender may only exercise the DU Refi Plus property fieldwork waiver if:

- the final submission of the loan casefile to DU resulted in a property fieldwork waiver offer, and
- the property fieldwork waiver offer is not more than four months old on the date of the note and the mortgage.

Fannie Mae specifically does not warrant that the estimated value used in the determination of eligibility for the DU Refi Plus property fieldwork waiver represents the actual value of the subject property.

Laws and regulations regarding the use of appraisals and automated valuation models may vary. The lender is responsible for compliance with all federal, state and local laws, rules and regulations. When the lender is required by law to obtain an appraisal, the lender must comply with such requirements, but may still exercise the DU Refi Plus property fieldwork waiver.

Lenders that elect to exercise the DU Refi Plus property fieldwork waiver must include SFC 807 at delivery.

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### **Refi Plus Property Valuation Requirements**

For Refi Plus transactions, the lender must obtain an appraisal based on an interior and exterior inspection reported on the appropriate appraisal report form for the type of property being appraised.

See [B5-5.2-01, DU Refi Plus and Refi Plus Eligibility](#), for additional information related to appraisal representations and warranties.

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### **DU Refi Plus and Refi Plus: Properties Affected by a Disaster**

Fannie Mae will not require a property secured by a DU Refi Plus or Refi Plus mortgage that was damaged as a result of a disaster to be repaired prior to delivery as long as the loan meets the property insurance requirements described in Chapter B7–3, Property and Flood Insurance. Therefore, an additional inspection and/or new appraisal of the property is not necessary after a disaster.

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### **DU Refi Plus: No New Appraisal Obtained**

When the lender does not obtain a new appraisal

- The lender must advise the borrower not to rely on the lack of an appraisal as assurance about the condition or value of the property.
  - The lender will not represent to the borrower or to any third party to the transaction that Fannie Mae or any third party performed a property review, appraisal, or valuation of any sort.
  - The lender cannot charge the borrower a fee for an appraisal, a collateral review, or any similar service as part of the new mortgage transaction.
  - The lender must comply with all applicable laws and regulations related to the origination and servicing of the new mortgage, including, but not limited to, the Homeowners Protection Act of 1998 (the “Act”). Certain borrower rights and lender obligations are based on the LTV ratio at the time of origination and at later dates. Lenders are advised to consult with their legal counsel with regard to establishing the “original value” as defined by the Act.
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### **Single-Family Comparable Rent Schedule (Form 1007)**

For DU Refi Plus and Refi Plus refinances of an investment property, the lender is not required to obtain a Form 1007 if the borrower is using rental income to qualify. (Lenders may disregard the DU message that requires this form.)

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### **Condo, Co-op, and PUD Project Review Requirements**

The following table provides condo, co-op, and PUD project review requirements for DU Refi Plus or Refi Plus mortgage loans:

| <b>Condo, Co-op, and PUD Project Review Requirements</b> | <b>DU Refi Plus</b>   | <b>Refi Plus</b>   |
|--|---|--|
| <b>Project Review</b>                                    | <ul style="list-style-type: none"> <li>• The lender is not required to perform a review of condo projects, co-op projects, or PUDs.</li> <li>• The lender must represent and warrant that the property is not in a condo or co-op hotel or motel, houseboat project, or a timeshare or segmented ownership project.</li> </ul> <p>For assistance in determining whether the project is a condo or co-op hotel or motel, see <a href="#">B4-2.1-02, Ineligible Projects</a>.</p> | Fannie Mae will rely on the project eligibility determination made by the lender when the original mortgage loan was delivered to Fannie Mae.  |
| <b>Project Insurance</b>                                 | Confirmation of property, flood, and liability insurance coverage is required.  | Not applicable.<br><br>(The lender's original project review would have included confirmation of the required insurance coverage, and there are existing processes required by the <i>Servicing Guide</i> to monitor and ensure such insurance coverage remains in force.) |

### Project Type Codes

For DU Refi Plus and Refi Plus mortgage loans, lenders must use the following project type codes at the time of delivery for loans secured by a property in a condo project, co-op project, or PUD:

| <b>Project Type Code</b> | <b>Property Type</b>          |
|--------------------------|-------------------------------|
| V                        | Properties in a condo project |
| 2                        | Properties in a co-op project |
| E                        | Properties in a PUD           |

### **Related Announcements**

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>          | <b>Issue Date</b>  |
|---|--------------------|
| <a href="#"><u>Announcement SEL-2016-09</u></a> | December 6, 2016   |
| <a href="#"><u>Announcement SEL-2013-07</u></a> | September 24, 2013 |
| <a href="#"><u>Announcement SEL-2012-14</u></a> | December 18, 2012  |
| <a href="#"><u>Announcement SEL-2012-10</u></a> | October 2, 2012    |
| <a href="#"><u>Announcement SEL-2012-07</u></a> | August 21, 2012    |
| <a href="#"><u>DU Version 9.0</u></a>           | July 24, 2012      |
| <a href="#"><u>Announcement SEL-2012-06</u></a> | June 26, 2012      |
| <a href="#"><u>Announcement SEL-2012-04</u></a> | May 15, 2012       |
| <a href="#"><u>DU 8.3 April Update</u></a>      | April 17, 2012     |
| <a href="#"><u>Announcement SEL-2012-01</u></a> | January 31, 2012   |
| <a href="#"><u>DU 8.3 March Update</u></a>      | January 3, 2012    |
| <a href="#"><u>Announcement SEL-2011-13</u></a> | December 20, 2011  |
| <a href="#"><u>Announcement SEL-2011-12</u></a> | November 15, 2011  |
| <a href="#"><u>Announcement SEL-2011-05</u></a> | June 28, 2011      |
| <a href="#"><u>DU 7.1 June Update</u></a>       | June 5, 2009       |
| <a href="#"><u>Announcement 09-13</u></a>       | May 11, 2009       |
| <a href="#"><u>DU 7.1 May Update</u></a>        | April 20, 2009     |
| <a href="#"><u>Announcement 09-04</u></a>       | March 4, 2009      |
| <a href="#"><u>DU 7.1 April Update</u></a>      | March 4, 2009      |



## **B5-5.2-04, DU Refi Plus and Refi Plus Closing, Pricing, and Delivery (10/24/2016)**

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### **Introduction**

This topic contains information on DU Refi Plus and Refi Plus closing, pricing, and delivery requirements, including:

- [Escrow Account Requirements](#)
  - [Resubordination](#)
  - [Cash Back to the Borrower at Closing](#)
  - [Loan-Level Price Adjustments \(LLPAs\)](#)
  - [Delivery Data Elements](#)
  - [Whole Loan Committing of Loans with LTV Ratios Above 105%](#)
  - [Pooling Loans with LTV Ratios Above 105%](#)
  - [Delivery Deadlines](#)
- 

### **Escrow Account Requirements**

Lenders must comply with the provisions of [B2-1.4-04, Escrow Accounts](#), for all DU Refi Plus and Refi Plus mortgage loans.

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### **Resubordination**

Lenders must resubordinate any existing subordinate liens (that are not simultaneously refinanced with a new subordinate lien) in order to preserve the first lien position of the new loan. If Fannie Mae owns the loan secured by the subordinate lien, the servicer of that loan must cooperate fully with the originator of the refinance to effect a resubordination as quickly as possible.

The GSEs, in conjunction with representatives of the American Land Title Association, developed standard form subordination agreements that lenders may use with refinances and modifications to resubordinate subordinate liens. Lenders that elect to use these forms will be responsible for ensuring their enforceability and compliance with applicable state laws and local recording requirements. To access the form, see [Special Purpose Documents](#) on Fannie Mae's website.

### **Cash Back to the Borrower at Closing**

For DU Refi Plus and Refi Plus, the borrower may receive cash back at closing of no more than \$250. Any excess cash representing the difference between the estimated and the actual payoff of the original loan plus closing costs and prepaid fees that is more than \$250 must be applied as a principal curtailment to the new mortgage or a reduction in the actual loan amount.

Lenders may provide borrowers with certain incentives to refinance, however, those incentives are not included in the cash back to the borrower at closing calculation. See [B3-4.1-02, Interested Party Contributions \(IPCs\)](#) (Lender Incentives for Borrowers), for additional information.

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### **Loan-Level Price Adjustments (LLPAs)**

The LLPAs that are applicable to DU Refi Plus and Refi Plus mortgage loans are detailed in the [Refi Plus Mortgages Only—LLPA Matrix](#).

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### **Delivery Data Elements**

For DU Refi Plus and Refi Plus mortgage loans, lenders must provide all applicable loan delivery data elements and SFCs.

Income must be reported to Fannie Mae for all DU Refi Plus and 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 in [B5-5.2-02, DU Refi Plus and Refi Plus Underwriting Considerations](#)) 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).

**Note:** 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 [A3-4-02, Data Quality and Integrity](#), for additional information.

Refer to the [ULDD Quick Guide — Guidelines for Home Affordable Refinance Programs-HARP](#), and [ULDD Quick Guide — Special Feature Codes and New Required Fields](#) for additional information.

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### **Whole Loan Committing of Loans with LTV Ratios Above 105%**

Separate committing is required for DU Refi Plus and Refi Plus loans with LTV ratios above 105% — loans may not be delivered against standard whole loan commitments. Specific “Refi Plus” products are available in Fannie Mae’s whole loan committing application.

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### **Pooling Loans with LTV Ratios Above 105%**

DU Refi Plus and Refi Plus mortgage loans with LTV ratios above 105% may be delivered into existing MBS contracts and use the same base guaranty fees as those used for the lender's standard conforming mortgage loans. However, these loans can not be included in TBA-eligible MBS but must be included in pools specifically created for DU Refi Plus and Refi Plus loans with LTV ratios above 105%.

Furthermore, lenders may deliver DU Refi Plus and Refi Plus loans with LTV ratios above 105% into the respective Fannie Majors pool specifically available for these loans. Due to the separate pool prefixes required for loans with LTV ratios above 105%, these loans may not be delivered into standard TBA-eligible Fannie Majors pools.

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### **Delivery Deadlines**

DU Refi Plus and Refi Plus whole loans must be purchased by Fannie Mae on or before June 30, 2018, or in MBS pools with issue dates on or before June 1, 2018.

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016   |
| <a href="#">Announcement SEL-2015-06</a> | May 26, 2015       |
| <a href="#">Announcement SEL-2013-04</a> | May 28, 2013       |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013      |
| <a href="#">Announcement SEL-2012-14</a> | December 18, 2012  |
| <a href="#">Selling Notice</a>           | November 19, 2012  |
| <a href="#">Announcement SEL-2012-10</a> | October 2, 2012    |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012      |
| <a href="#">Announcement SEL-2012-04</a> | May 15, 2012       |
| <a href="#">Announcement SEL-2011-13</a> | December 20, 2011  |
| <a href="#">Announcement SEL-2011-12</a> | November 15, 2011  |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">Announcement 09-37</a>       | December 30, 2009  |
| <a href="#">Announcement 09-26</a>       | July 24, 2009      |
| <a href="#">Announcement 09-23</a>       | July 1, 2009       |
| <a href="#">DU 7.1 June Update</a>       | June 5, 2009       |
| <a href="#">Announcement 09-13</a>       | May 11, 2009       |
| <a href="#">Announcement 09-04</a>       | March 4, 2009      |



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## Section B5-5.3, Loans with Resale Restrictions



### B5-5.3-01, Loans With Resale Restrictions: General Information (07/28/2015)

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#### Introduction

This topic contains general information on loans with resale restrictions, including:

- [Overview](#)
  - [Background](#)
  - [Compliance with Community Seconds Policy](#)
- 

#### Overview

The high cost of housing has become a challenge for people who want to purchase homes in many markets around the country. To help address this issue, many governmental and nonprofit entities support the development of properties subject to resale restrictions. Those strategies help to create and preserve affordable housing stock in communities over the long-term.

The lender must review the terms and conditions of the affordable housing program, including any documents that describe the resale restrictions.

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#### Background

Resale restrictions are a right in perpetuity or for a certain number of years, stated in the form of a restriction, easement, covenant, or condition in any deed, mortgage, ground lease (other than a community land trust ground lease addressed in this topic), agreement, or other instrument executed by or on behalf of the owner of the land.

Resale restrictions may limit the use of all or part of the land to occupancy by persons or families of low-income or moderate-income or on the basis of age (senior communities must comply with applicable law), or may restrict the resale price of the property to ensure its availability to future low-income and moderate-income borrowers.

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The restricted resale price provides a subsidy to the homeowner, in an amount equal to the difference between the sales price and the market value of the property without resale restrictions.

The resale restrictions are binding on current and subsequent property owners, and remain in effect until they are formally removed or modified, or terminate in accordance with their terms, such as at a foreclosure sale or upon acceptance of a deed-in-lieu of foreclosure.

This topic does not pertain to community land trust ground leases, see [B5-5.1-04, Community Land Trusts](#).

However, if a community land trust uses a restriction, easement, covenant, or condition in any deed, mortgage, agreement, or other instrument executed by or on behalf of the owner of the land instead of a ground lease to create the resale restriction, this section will apply.

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### **Compliance with Community Seconds Policy**

Resale restrictions may be found in the terms and conditions of the second mortgage or deed of trust (referred to as a Community Seconds mortgage), which Fannie Mae does not purchase.

In other cases, the resale restrictions are found in a covenant or provision of an agreement that is recorded against the land, and no Community Seconds mortgage exists.

When the resale restrictions are documented by a second mortgage or deed of trust, the lender must ensure that the second mortgage or deed of trust complies with Fannie Mae's Community Seconds guidelines in [B5-5.1-01, Community Seconds Mortgages](#). The second mortgage or deed of trust must be subordinate to the first mortgage that Fannie Mae purchases.

If the resale restrictions are included in a separate covenant or agreement instead of a second mortgage or deed of trust, the resale restrictions must comply, if applicable, with Fannie Mae's requirements in [B5-5.1-02, Community Seconds Loan Eligibility](#), related to shared appreciation in property value. The right of the subsidy provider to shared appreciation must be clearly subordinate to the lien of the first mortgage that Fannie Mae purchases.

Any provisions addressing balloon payments, the interest rate, and negative amortization must be documented in the Community Seconds mortgage, and not in a covenant or agreement.

## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date    |
|--|---------------|
| <a href="#">Announcement SEL-2015-08</a> | July 28, 2015 |



## B5-5.3-02, Loans with Resale Restrictions: Loan and Borrower Eligibility (02/23/2016)

### Introduction

This topic contains information on loans with resale restrictions: loan and borrower eligibility, including:

- [Loan Eligibility and Occupancy Types](#)
- [Eligible Subsidy Providers for Affordability-Related Deed Restrictions](#)
- [Eligible Borrowers for Affordability-Related Deed Restrictions](#)

### Loan Eligibility and Occupancy Types

The following table describes the eligible transaction types, products, occupancy types, and properties for loans with resale restrictions.

| Eligibility Based on Type of Deed Restriction |  |             |
|---|--|-------------|
|   | Affordable   | Age-Related |
| Transaction Types                             | Purchase and Refinance   |             |
| Products                                      | Loans must be fixed-rate or adjustable-rate mortgages with an initial fixed period of five years or more, and can be any Fannie Mae product described in this Guide.   |             |
| Borrowers                                     | Must meet applicable criteria of the deed restriction.<br><br><b>Note:</b> Age-related deed restrictions generally apply to the unit occupant and frequently require only one occupant to be aged 55 and over. In such a case, the borrower could be younger than 55 provided there is a |             |

| <b>Eligibility Based on Type of Deed Restriction</b> |   |  |
|--|---|--|
|  | unit occupant aged 55 and over. This occupant can be a non-borrower household member or a renter in the case of investment property.<br>(It is permissible for both affordable and age-related requirements to apply to a single loan.) |  |
| Occupancy Types                                      | Principal residence only  | All occupancy types  |
| Properties   | One- and two-unit properties, PUDs, condos, and co-ops<br><br>Mortgages secured by manufactured homes and three- and four-unit properties are not eligible.   | One- and two-unit properties, PUDs, condos, and co-ops (second homes must be one-unit properties)<br><br>Mortgages secured by manufactured homes and three- and four-unit properties are not eligible. |

### **Eligible Subsidy Providers for Affordability-Related Deed Restrictions**

Eligible subsidy providers, or sponsors, of resale restrictions must be

- nonprofit organizations;
- churches;
- employers;
- universities;
- municipalities (including state, county, or local housing agencies); or
- entities that are otherwise administering government sponsored, federal, state, or local subsidy programs.

The subsidy provider must have established procedures for screening and processing applicants.

### **Eligible Borrowers for Affordability-Related Deed Restrictions**

Eligible borrowers must satisfy the specific eligibility criteria and resale restrictions established by the subsidy provider. If the borrower income limits for the resale restrictions differ from the

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income limits for Fannie Mae's HomeReady mortgage loans and the borrower income limits for the HomeReady mortgage loans are more restrictive, the HomeReady income limits apply.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Dates       |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2015-13</a> | December 15, 2015 |
| <a href="#">Announcement SEL-2014-11</a> | August 26, 2014   |

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## **B5-5.3-03, Loans with Resale Restrictions: Underwriting and Collateral Considerations (07/28/2015)**

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### Introduction

This topic provides information on loans with resale restrictions, including:

- [Underwriting Methods](#)
  - [Calculation of LTV Ratios](#)
  - [Allowable Resale Restrictions](#)
  - [Duration of Resale Restrictions](#)
  - [Resale Restriction Appraisal Requirements](#)
- 

### Underwriting Methods

Loans with resale restrictions may be underwritten manually or with DU. DU will issue a message that the lender must ensure that the loan meets all the requirements for properties with resale restrictions, including property type, amortization type, and loan purpose.

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### Calculation of LTV Ratios

When resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or the recordation of a deed-in-lieu of foreclosure, the sales

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price is typically not a reliable indicator of market value for the property. Accordingly, for these types of mortgages, Fannie Mae permits lenders the option to use the appraised value of the property without resale restrictions, rather than the lesser of sales price or appraised value with the restrictions in place, when calculating the LTV and CLTV ratios (and HCLTV ratio if applicable).

Fannie Mae is permitting this calculation based on the market value without resale restrictions because it is indicative of the actual value of the property in the event of a foreclosure or acceptance of a deed-in-lieu of foreclosure (disregarding factors that may affect value after origination and prior to foreclosure).

For loans underwritten with DU, the lender must enter “Affordable LTV” in the Product Description field in the Additional Data section on the online loan application. This will result in DU calculating the LTV, CLTV, and HCLTV ratios based solely on the appraised value for purchase transactions (and not the lesser of the sales price or appraised value).

When resale restrictions survive foreclosure or a deed-in-lieu of foreclosure and the resale restrictions limit the sales price of the property, the lender must use the lesser of the sales price or appraised value of the property with resale restrictions when calculating the LTV, CLTV, and HCLTV ratios, which is the standard method of calculation. Fannie Mae is requiring the standard calculation on the lower value due to the presence of resale restrictions, which would limit the property’s sales price in the event of foreclosure or acceptance of a deed-in-lieu of foreclosure.

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### **Allowable Resale Restrictions**

Fannie Mae will purchase mortgages that are subject to one or more of the following types of resale restrictions (although some restrictions are likely to occur only in combination with others):

- income limits,
- age-related requirements (senior communities must comply with applicable laws),
- purchasers must be employed by the subsidy provider,
- principal residence requirements,
- first-time home buyer requirements as designated by the subsidy provider,
- properties that are group homes or that are principally used to serve disabled residents, and
- resale price limits.

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## **Duration of Resale Restrictions**

Fannie Mae will purchase mortgages secured by properties subject to resale restrictions:

- when the restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period),
- upon the recordation of a deed-in-lieu of foreclosure, or
- when the resale restrictions survive foreclosure.

There are no restrictions on the length of the period in which the resale restrictions may remain in place on the property.

If the resale restrictions survive foreclosure, the lender represents and warrants that the resale restrictions do not impair the servicer's ability to foreclose on the restricted property.

If the resale restrictions terminate at foreclosure, the subsidy provider is not entitled to obtain any proceeds from future sale(s) or transfer(s) of the property after foreclosure or acceptance of a deed-in-lieu of foreclosure.

If the resale restrictions survive foreclosure, the subsidy provider is not entitled to obtain any proceeds from the initial sale or transfer of the property after foreclosure, from the foreclosing mortgage holder who obtained the property at foreclosure or pursuant to a deed-in-lieu of foreclosure.

---

## **Resale Restriction Appraisal Requirements**

In cases where the resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or upon recordation of a deed-in-lieu of foreclosure, the appraisal should reflect the market value of the property without resale restrictions.

The lender must ensure that the borrower and appraiser are aware of the resale restrictions and should advise the appraiser that he or she must include the following statement in the appraisal report:

- “This appraisal is made on the basis of a hypothetical condition that the property rights being appraised are without resale and other restrictions that are terminated automatically upon the latter of foreclosure or the expiration of any applicable redemption period, or upon recordation of a deed-in-lieu of foreclosure.”

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In cases where the resale restrictions survive foreclosure or deed-in-lieu of foreclosure, the appraisal must reflect the impact the restrictions have on value and be supported by comparables with similar restrictions.

The appraisal report must note the existence of the resale restrictions and comment on any impact the resale restrictions have on the property's value and marketability.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date    |
|--|---------------|
| <a href="#">Announcement SEL-2015-08</a> | July 28, 2015 |

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## **B5-5.3-04, Loans with Resale Restrictions: Legal Considerations (04/01/2009)**

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### Introduction

This topic contains information on loans with resale restrictions: legal considerations, including:

- [Resale Restriction Title and Insurance Requirements](#)
  - [Default Remedies](#)
  - [Rights to Insurance Settlements and Condemnation Proceeds](#)
  - [Default or Refinancing of Resale Restriction Loans](#)
- 

### Resale Restriction Title and Insurance Requirements

The source and terms of the resale restrictions must be included in the public land records so that they are readily identifiable in a routine title search.

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### Default Remedies

The presence of resale restrictions must not impair Fannie Mae's legal rights to cure a default under the mortgage terms, to foreclose on the mortgage, or to otherwise protect Fannie Mae's interests under the mortgage.



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The subsidy provider also may have rights to remedy a borrower default.

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### **Rights to Insurance Settlements and Condemnation Proceeds**

Fannie Mae must have first claim to insurance settlements and condemnation proceeds.

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### **Default or Refinancing of Resale Restriction Loans**

The subsidy provider may retain the right of first refusal or option to purchase a resale restricted property when the borrower is in default or the property is in foreclosure.

The terms of the right of first refusal or option to purchase must be specified in the terms of the resale restrictions.

The subsidy provider must exercise its right of first refusal or option to purchase within 90 days of receiving notification of the borrower default or the property foreclosure.

The subsidy provider may permit borrowers to refinance their mortgage and take cash out of the transaction. However, the resale restrictions may limit the cash-out amount in order to protect the subsidy invested in the property. Lenders must document that the subsidy provider has approved the refinance transaction and should ensure that the cash-out amount complies with the provisions of the specific resale restrictions.

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## **B5-5.3-05, Loans with Resale Restrictions: Delivery Considerations (04/01/2009)**

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### **Introduction**

This topic contains information on loans with resale restrictions: delivery considerations.

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### **Notification to Third Parties**

Fannie Mae will purchase mortgages when the resale restrictions require the servicer to notify a third party when the borrower is in default or the property is in foreclosure.

The servicer must ensure that proper notification is provided, as required in the provisions of the resale restrictions.

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If notification requirements exist, the servicer is still responsible for adhering to Fannie Mae's established time frames within which routine foreclosures must be completed.

Third-party notifications required in addition to the required statutory notifications will not be considered an impairment to the servicer's ability to foreclose.

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## **B5-5.3-06, Loans with Resale Restrictions: Pricing, Mortgage Insurance and Special Feature Codes (06/26/2012)**

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### **Introduction**

This topic contains information on loans with resale restrictions: pricing, mortgage insurance and special feature codes, including:

- [Identification and Tracking](#)
  - [Pricing](#)
  - [Mortgage Insurance](#)
  - [Special Feature Codes](#)
- 

### **Identification and Tracking**

The lender selling and servicing mortgages subject to resale restrictions must be able to identify and track those mortgages on its systems and must have staff sufficiently trained to originate and service those mortgages.

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### **Pricing**

There are no specific LLPAs required for loans with resale restrictions. All other price adjustments that are otherwise applicable to the transaction will apply. For the current applicable LLPAs, see [Loan-Level Price Adjustment \(LLPA\) Matrix](#).

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### **Mortgage Insurance**

If a mortgage loan is subject to resale restrictions that survive foreclosure or deed-in-lieu of foreclosure and mortgage insurance is required, the lender must first contact its mortgage insurance provider and obtain confirmation that the mortgage insurer is willing, on a program basis, to insure these mortgages under the lender's master primary policy.

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## Special Feature Codes

Lenders must report SFC 630 when delivering mortgages secured by properties with resale restrictions that terminate automatically upon foreclosure (or the expiration of any applicable redemption period) or the recordation of a deed-in-lieu of foreclosure, and the lender uses the optional calculation to compute the LTV ratio based on the appraised value of the property without resale restrictions.

This LTV ratio, calculated using the appraised value of the property without resale restrictions, must also be reported as part of the delivery data.

No special feature code is required when delivering mortgage loans secured by properties with resale restrictions that terminate automatically upon foreclosure (or the expiration of any applicable redemption period) or the recordation of a deed-in-lieu of foreclosure, if the lender uses the standard calculation to compute the LTV ratio based on the lower of sales price or the current appraised value with resale restrictions.

Lenders must report SFC 631 when delivering mortgages secured by properties with resale restrictions that survive foreclosure or deed-in-lieu of foreclosure.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date    |
|--|---------------|
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012 |



## **B5-5.3-07, Massachusetts Resale Restriction Loan Eligibility Requirements (04/01/2009)**

### Introduction

This topic contains information on Massachusetts resale restriction loan eligibility requirements, including:

- [Lender Eligibility](#)
- [Loan Eligibility Requirements](#)
- [Legal Considerations](#)

---

## **Lender Eligibility**

Lenders may deliver mortgage loans in Massachusetts that are subject to the *Affordable Housing Restriction* document without further approval from Fannie Mae. This includes any federal, state, or local subsidy program for properties located in Massachusetts.

Use of the *Affordable Housing Restriction* document (copies of which can be obtained from the Massachusetts Housing Finance Agency) without modification, alteration or update, other than filling in the blanks or checking boxes contained in the form, eliminates the need for the lender to review the terms and conditions of the particular subsidy program with respect to mortgage loans delivered to Fannie Mae secured by properties in Massachusetts that are subject to resale restriction.

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## **Loan Eligibility Requirements**

The Massachusetts Housing Finance Agency requires the use of an *Affordable Housing Restriction* document in connection with mortgage loans secured by properties in Massachusetts that are subject to resale restrictions that survive foreclosure or deed-in-lieu of foreclosure in which it will serve as lender or project administrator.

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## **Legal Considerations**

The *Affordable Housing Restriction* document provides for third-party notification by the foreclosing servicer and provides for a 120-day time period between notification of foreclosure to the municipality by the foreclosing servicer and the completion of the repurchase of the property by the municipality.

While Fannie Mae's standard guidelines require a 90-day time period for notification, use of this instrument for mortgage loans subject to a resale restriction secured by property in Massachusetts is acceptable without further approval from Fannie Mae.

All other applicable requirements for resale restrictions continue to apply.

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# Chapter B5-6, HomeReady Mortgage



## HomeReady Mortgage

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### Introduction

This chapter describes product policies and requirements for HomeReady mortgage loans.

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### In This Chapter

This chapter contains the following topics:

|  |     |
|--|-----|
| B5-6-01, HomeReady Mortgage (09/29/2015) .....   | 923 |
| B5-6-02, HomeReady Mortgage Loan and Borrower Eligibility (10/24/2016) .....                               | 924 |
| B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements (10/24/2016) . . .                       | 930 |
| B5-6-04, HomeReady Mortgage Loan Pricing, Mortgage Insurance, and Special Feature Codes (10/24/2016) ..... | 936 |

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## B5-6-01, HomeReady Mortgage (09/29/2015)

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### Introduction

This topic contains information on HomeReady mortgages, including:

- [Overview](#)
  - [Lender Approval Requirements](#)
  - [Negotiated Variance and Volume Limitations](#)
- 

### Overview

The HomeReady mortgage is a conventional community lending mortgage that offers underwriting flexibilities to qualified borrowers who meet specific income criteria.

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## Lender Approval Requirements

The HomeReady mortgage is a standard product offering available to all Fannie Mae lenders. No special approvals are required.

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## Negotiated Variance and Volume Limitations

Unless specifically permitted, the HomeReady mortgage may not be used in conjunction with negotiated variances in a lender's *Master Agreement*. In addition, Fannie Mae, at its sole discretion, may impose volume limitations for HomeReady mortgage loans with any lender.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |



## B5-6-02, HomeReady Mortgage Loan and Borrower Eligibility (10/24/2016)

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### Introduction

This topic contains information on HomeReady mortgage loan and borrower eligibility, including:

- [General Loan Eligibility](#)
- [Maximum LTV, CLTV, and HCLTV Ratios](#)
- [Requirements for HomeReady Transactions with LTV, CLTV, or HCLTV Ratios of 95.01 – 97%](#)
- [Subordinate Financing](#)
- [Eligible Loan Types](#)
- [Temporary Buydowns](#)
- [Borrower Income Limits and Calculations](#)
- [Pre-purchase Homeownership Education](#)

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## General Loan Eligibility

A HomeReady mortgage is a first mortgage, purchase money, or limited cash-out refinance transaction for one- to four-unit properties used as the borrower's principal residence.

Eligible properties include:

- one-unit properties, including manufactured housing, and units in condos and PUDs;
- units in co-ops, provided the unit conforms to Fannie Mae's requirements, and the lender has received specific authority to deliver mortgages on co-ops to Fannie Mae;
- existing structures and new construction; and
- two-, three-, and four-unit properties.

Additional restrictions apply to transactions with LTV, CLTV, or HCLTV ratios of 95.01 — 97%. See below for additional requirements for HomeReady mortgage transactions.

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## Maximum LTV, CLTV, and HCLTV Ratios

Refer to the [Eligibility Matrix](#) for maximum allowable LTV, CLTV, and HCLTV ratios for HomeReady mortgage loans. HomeReady loans that are originated in connection with the HomeStyle Renovation product or secured by manufactured housing must follow the more restrictive LTV, CLTV, and HCLTV ratios that apply. For example, the maximum LTV, CLTV, and HCLTV ratio for a one-unit HomeReady manufactured home is 95%.

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## Requirements for HomeReady Transactions with LTV, CLTV, or HCLTV Ratios of 95.01 – 97%

If the LTV, CLTV, or HCLTV ratio exceeds 95% for a HomeReady transaction, the following requirements apply.

| Criteria                         | Requirements   |
|----------------------------------|--|
| <b>LTV, CLTV, or HCLTV Ratio</b> | 95.01 to 97%<br><br><b>Note:</b> The CLTV ratio can be up to 105% if the subordinate lien is a Community Seconds loan. |
| <b>Loan Purpose</b>              | Purchase transactions or limited cash-out refinances only.   |

| Criteria                         | Requirements   |
|----------------------------------|--|
| <b>Existing Loan</b>             | <p><b>For limited cash-out refinances:</b></p> <p>The lender must document that the existing loan being refinanced is owned (or securitized) by Fannie Mae. Documentation may come from</p> <ul style="list-style-type: none"> <li>• the lender’s servicing system,</li> <li>• the current servicer (if the lender is not the servicer),</li> <li>• Fannie Mae’s Loan Lookup tool, or</li> <li>• any other source as confirmed by the lender.</li> </ul> <p>The lender must inform DU that Fannie Mae owns the existing mortgage using the Owner of Existing Mortgage field in the online loan application before submitting the loan to DU.</p> <p><b>Note:</b> This requirement does not apply if the CLTV exceeds 95% only due to a Community Seconds loan.</p> |
| <b>Loan Type</b>                 | <p>Fixed-rate loans with terms up to 30 years.</p> <p><b>Note:</b> High-balance, adjustable-rate, HomeStyle Renovation, and HomeStyle Energy loans are not permitted.</p>  |
| <b>Property and Occupancy</b>    | <p>One-unit principal residence. All borrowers must occupy the property.</p> <p>Manufactured housing is not permitted.</p>   |
| <b>Credit Score Requirements</b> | <p>At least one borrower on the loan must have a credit score.</p>   |
| <b>Underwriting Method</b>       | <p>DU only</p>   |
| <b>Reserves</b>                  | <p>Reserves requirements will be determined by DU.</p>   |
| <b>Other</b>                     | <p>All other standard purchase and limited cash-out refinance and HomeReady requirements apply.</p>  |

### Subordinate Financing

Subordinate financing must comply with:



- the terms for the Community Seconds option, which allow, among other provisions, a maximum combined loan-to-value of 105% (see [B5-5.1-01, Community Seconds Mortgages](#) through [B5-5.1-03, Community Seconds Delivery Considerations](#)); or
- subordinate financing permitted in accordance with [B2-1.1-04, Subordinate Financing](#).

Subordinate financing from a seller-held mortgage is not permitted with HomeReady mortgages.

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### Eligible Loan Types

HomeReady mortgage transactions can be secured by fixed-rate or ARM loans.

The following table identifies the ARM plans that are available for HomeReady mortgage loans by delivery method.

| <b>ARM Plans Eligible for HomeReady Mortgages</b> |                 |                           |
|---|-----------------|---------------------------|
| <b>ARM Plans Eligible for MBS Delivery</b>        |                 |                           |
| 30-year   | Five-Year ARMs  | 659, 660, 661, 2724, 2725 |
|   | Seven-Year ARMs | 750, 751, 2726, 2727      |
|   | Ten-Year ARMs   | 1423, 1437, 2728, 2729    |
| <b>ARM Plans Eligible for Whole Loan Delivery</b> |                 |                           |
| 30-year   | Five-Year ARMs  | 2725                      |
|   | Seven-Year ARMs | 2727                      |
|   | Ten-Year ARMs   | 2729                      |

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### Temporary Buydowns

The following requirements apply to temporary interest rate buydowns on HomeReady mortgages:

- Loans must be purchase transactions.
- Loans must be fixed-rate or seven- or ten-year ARMs.
- All other standard buydown policies apply.

See [B2-1.3-05, Temporary Interest Rate Buydowns](#), for additional information.

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## Borrower Income Limits and Calculations

In determining whether a mortgage is eligible under the borrower income limits, the lender must count the income from all of the borrowers who will sign the mortgage note, to the extent that the income is considered in evaluating creditworthiness for the mortgage loan.

The lender must use the same methodology in determining income eligibility for a HomeReady mortgage as the lender uses in reporting “Monthly Income” in data delivery. Eligibility for a HomeReady mortgage loan compares the borrower’s income to the applicable area median income (AMI) for the property’s location. For determining Fannie Mae loan eligibility, lenders must refer to the AMIs that Fannie Mae uses in Desktop Underwriter or on [Fannie Mae’s website](#), and may not rely on other published versions (such as AMIs posted on huduser.org).

To be eligible as a HomeReady mortgage, the total annual qualifying income may not exceed 100% of the AMI for the property’s location. However, there is no income limit for properties located in low-income census tracts, defined as those census tracts where the median tract income is no greater than 80% AMI.

**Note:** For loan casefiles that are not underwritten as a HomeReady mortgage loan, DU will issue a message indicating that the loan may be eligible as a HomeReady loan if the total qualifying income entered in DU appears to be within the applicable AMI limit or the property is located within a low-income census tract. See [B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements](#), for additional information.

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## Pre-purchase Homeownership Education

Pre-purchase homeownership education is required for all HomeReady purchase mortgage loans. Refer to [B2-2-06, Homeownership Education and Housing Counseling](#), for options for meeting this requirement.

HomeReady loans for which at least one borrower completed pre-purchase housing counseling and homeownership education, evidenced by a signed *Certificate of Completion of Pre-purchase Housing Counseling* ([Form 1017](#)), are eligible for certain flexibilities. See [B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements](#), for additional information.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b>  |
|---|--------------------|
| <a href="#"><u>Announcement SEL-2016-08</u></a> | October 24, 2016   |
| <a href="#"><u>Announcement SEL-2016-07</u></a> | August 30, 2016    |
| <a href="#"><u>Announcement SEL-2016-06</u></a> | July 26, 2016      |
| <a href="#"><u>Announcement SEL-2016-05</u></a> | June 28, 2016      |
| <a href="#"><u>Announcement SEL-2015-12</u></a> | November 3, 2015   |
| <a href="#"><u>Announcement SEL-2015-10</u></a> | September 29, 2015 |
| <a href="#"><u>Announcement SEL-2015-01</u></a> | January 27, 2015   |
| <a href="#"><u>Announcement SEL-2014-07</u></a> | June 24, 2014      |
| <a href="#"><u>Announcement SEL-2013-06</u></a> | August 20, 2013    |
| <a href="#"><u>Announcement SEL-2012-07</u></a> | August 21, 2012    |
| <a href="#"><u>Announcement SEL-2012-06</u></a> | June 26, 2012      |
| <a href="#"><u>Announcement SEL-2011-09</u></a> | August 30, 2011    |
| <a href="#"><u>Announcement SEL-2011-05</u></a> | June 28, 2011      |
| <a href="#"><u>Announcement SEL-2011-03</u></a> | March 31, 2011     |
| <a href="#"><u>Announcement SEL-2010-16</u></a> | December 1, 2010   |
| <a href="#"><u>Announcement SEL-2010-06</u></a> | April 30, 2010     |
| <a href="#"><u>Announcement 09-19</u></a>       | June 8, 2009       |



## **B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements (10/24/2016)**

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### **Introduction**

This topic contains information about HomeReady mortgage loans, including:

- [Underwriting Options](#)
  - [Minimum Borrower Contribution for Purchase Transactions](#)
  - [Non-Occupant Borrowers](#)
  - [Pre-Purchase Housing Counseling and Homeownership Education](#)
  - [Rental Income from the Subject Property](#)
  - [Boarder Income](#)
  - [Non-Borrower Household Income](#)
  - [Cash-on-Hand](#)
  - [Sweat Equity](#)
  - [Minimum Reserve Requirements](#)
  - [Borrowers with Low Credit Scores: Manual Underwriting Only](#)
- 

### **Underwriting Options**

HomeReady mortgage loans can be underwritten with DU or may be manually underwritten. The maximum LTV ratio is lower for manually underwritten transactions versus those underwritten in DU (95% versus 97% for one-unit principal residences). As a reminder, the limited waiver of representations and warranties typically granted for loans underwritten with DU does not apply to manually underwritten loans.

For HomeReady mortgage loans that are underwritten through DU, the lender must enter data in the online loan application, identify the loan as a community lending mortgage, and select the HomeReady product.

If the lender does not select HomeReady as the community lending product, DU will provide a message when the total qualifying income entered in DU appears to be within the applicable AMI limits and/or the property is located within the defined geographic areas indicating that the loan may be eligible as a HomeReady mortgage loan. The lender must then select the HomeReady product and resubmit the loan casefile to help determine if the loan meets all of the HomeReady requirements (assuming the lender wants to sell the loan to Fannie Mae as a HomeReady mortgage).

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### Minimum Borrower Contribution for Purchase Transactions

Fannie Mae does not require a minimum borrower contribution from the borrower's own funds for any mortgage loan if the loan has an LTV, CLTV, or HCLTV ratio of 80% or less.

If the LTV, CLTV, or HCLTV ratio is greater than 80%, the minimum required borrower contribution from the borrower's own funds is dependent on the number of units, as noted in the table below.

| Number of Units  | Minimum Borrower Contribution | Minimum Down Payment Requirement <sup>a</sup> |
|------------------|-------------------------------|---|
| One <sup>b</sup> | None                          | 3% <sup>c</sup>                               |
| Two              | 3%                            | 15%   |
| Three or four    | 3%                            | 25%   |

<sup>a</sup> Refer to the [Eligibility Matrix](#) for additional details.

<sup>b</sup> A minimum 3% borrower contribution and minimum down payment of 5% is required if sweat equity is being used toward the down payment for one-unit HomeReady purchase transactions. See the Sweat Equity section in this topic for additional requirements.

<sup>c</sup> A 3% down payment is permitted for certain purchase transactions. See [B5-6-02, HomeReady Mortgage Loan and Borrower Eligibility](#).

See Chapter B3-4, Asset Assessment, and [B5-5.1-02, Community Seconds Loan Eligibility](#), for information about allowable sources of funds for completing the transaction.

No minimum contribution is required in connection with a limited cash-out refinance transaction.

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### Non-Occupant Borrowers

Non-occupant borrowers are permitted on HomeReady mortgages. See [B2-2-04, Guarantors, Co-Signers, or Non-Occupant Borrowers](#), for the eligibility requirements that apply.

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### Pre-Purchase Housing Counseling and Homeownership Education

The completion of pre-purchase one-on-one housing counseling and homeownership education for HomeReady loan casefiles underwritten through DU may be considered a compensating factor that allows a DTI ratio greater than 45% up to 50%. Lenders must indicate the completion of this one-on-one counseling via the Homebuyer Education Completion Indicator in DU. The counseling and education must meet the requirements of, and be documented in accordance with,

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[B2-2-06, Homeownership Education and Housing Counseling](#), to be eligible for treatment as a compensating factor by DU.

Loans where at least one borrower completed pre-purchase housing counseling are also eligible for an LLPA credit. See [B5-6-04, HomeReady Mortgage Loan Pricing, Mortgage Insurance, and Special Feature Codes](#), for details.

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### **Rental Income from the Subject Property**

Rental income is an acceptable source of qualifying income in the following instances:

- one-unit principal residence with an accessory unit. See [B4-1.3-05, Improvements Section of the Appraisal Report](#), for additional details related to acceptable accessory units;
- two- to four-unit principal residence properties.

See [B3-3.1-08, Rental Income](#), for calculation and documentation of rental income used for qualifying purposes.

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### **Boarder Income**

The rental payments that any borrower receives from one or more individuals who reside with the borrower (but who are not obligated on the mortgage debt and may or may not be related to the borrower) may be considered as acceptable stable income. This applies for a one-unit property in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage if

- The individual(s) has lived with (and paid rent to) the borrower for the last 12 months.
- The boarder can provide appropriate documentation to demonstrate a history of shared residency (such as a copy of a driver's license, bill, or bank statement that shows the boarder's address as being the same as the borrower's address).
- The boarder can demonstrate (such as copies of canceled checks) the payment of rental payments to the borrower for
  - the last 12 months, or
  - at least 9 of the most recent 12 months provided the rental income is averaged over a 12-month period.

Payment of rent by the boarder directly to a third party is not acceptable.

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## Non-Borrower Household Income

The existence of income from a non-borrower household member may be considered as a compensating factor for loans underwritten through DU to allow for a higher DTI ratio. A “household member” is defined as any person who intends to live with the borrower in the subject property for a minimum of 12 months. An individual who is considered a non-borrower household member in accordance with these guidelines may not also be the contributor of rental income (two- to four-unit properties), accessory unit income (one-unit properties), or boarder income on the subject transaction.

The income from the non-borrower household member is not added to the borrower’s income for qualifying purposes; however, the existence of this income is considered a compensating factor that may allow the borrower to have a DTI ratio greater than 45% up to 50%. That income must be entered as Non-Borrower Household Income in the Other Income section of the DU online application. If the non-borrower income is needed as a compensating factor to allow a DTI ratio greater than 45% up to 50%, the following requirements apply:

- The non-borrower household income must be documented in accordance with Fannie Mae’s standard documentation requirements applicable to the type of income reported.
- The amount of the non-borrower household income must be 30% or more of the total qualifying income used to underwrite the loan.
- The lender must obtain a written statement from the non-borrower that he or she intends to reside with the borrower in the subject property for a minimum of 12 months.

Because the non-borrower’s income is not being used for qualifying purposes, it is not considered when determining whether the mortgage loan meets the HomeReady income limit requirements. An optional form, *HomeReady Non-Borrower Household Income Worksheet and Certification* ([Form 1019](#)), may be used to assist lenders in documenting the non-borrower household income requirements and is available on Fannie Mae’s website.

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## Cash-on-Hand

Lenders may deliver purchase money mortgages for one-unit properties with cash-on-hand as an acceptable source of funds for the borrower’s down payment, funds for closing costs, and prepaid items.

**Note:** Cash-on-hand may not be used to fund the borrower’s reserve requirement, if applicable.

The lender must verify and document the following with respect to the cash-on-hand funds:

- The borrower customarily uses cash for expenses, and the amount of funds saved is consistent with the borrower's previous payment practices.
  - The lender must verify that funds for the down payment and closing costs exist in a financial institution account or an acceptable escrow account. Funds must be on deposit at the time of application, or no less than 30 days prior to closing.
  - The lender must obtain a written statement from the borrower that discloses the source of funds and states that the funds have not been borrowed.
  - The borrower's credit report and other verifications should indicate limited or no use of credit and limited or no depository relationship between the borrower and a financial institution.
- 

### **Sweat Equity**

Fannie Mae considers sweat equity an acceptable source of funds for HomeReady mortgage loans provided lenders document that

- The mortgage is originated under a specific lending program.
- The lending program is managed by a strong, experienced nonprofit organization.

These factors enable Fannie Mae to work with lenders that have the proven ability to properly evaluate the contributory value of sweat equity work.

When sweat equity is accepted toward the down payment, the borrower must contribute at least 3% from his or her own funds. For one-unit properties, a minimum down payment of 5% is required – 2% sweat equity and maximum LTV ratio of 95%. For two- to four-unit properties, refer to the [Eligibility Matrix](#) for maximum LTV ratios.

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### **Minimum Reserve Requirements**

For manually underwritten loans, the reserve requirements are documented in the [Eligibility Matrix](#). For DU loan casefiles, DU will determine the reserve requirement.

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### **Borrowers with Low Credit Scores: Manual Underwriting Only**

For HomeReady mortgage loans secured by one-unit properties, when the lender obtains a representative credit score for the borrower, but the score is less than the minimum score



required for a HomeReady mortgage, the borrower may still be eligible if the following requirements are met:

- The credit report indicates that the borrower’s credit score is low due to an insufficient traditional credit history (as documented by reason codes on the credit report that indicate a lack of credit accounts, accounts not opened long enough, lack of usage, etc., as reasons for the low credit score). If the borrower’s credit score is low due to derogatory credit or if none of the reason codes noted above appear on the credit report, then the minimum credit score for the transaction must be met (per the *Eligibility Matrix*).
- The lender must supplement the traditional credit file (referred to as a “thin file”) with the development of an acceptable nontraditional credit profile in accordance with Section B3–5.4, Nontraditional Credit History.
- The lender must deliver the borrower’s credit score (even if below the minimum required) along with SFC 818 at loan delivery to identify HomeReady mortgage loans that have borrowers with thin files.

**Note:** Special Feature Code 818 should only be used to indicate a “thin file” HomeReady mortgage loan.

---

## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016   |
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016    |
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015   |
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015   |
| <a href="#">Announcement SEL-2014-11</a> | August 26, 2014    |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012  |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">DU Version 9.0</a>           | July 24, 2012      |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010   |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">Announcement SEL-2010-07</a> | May 27, 2010       |
| <a href="#">Announcement 09-29</a>       | September 22, 2009 |
| <a href="#">Announcement 09-12</a>       | May 4, 2009        |



## **B5-6-04, HomeReady Mortgage Loan Pricing, Mortgage Insurance, and Special Feature Codes (10/24/2016)**

### Introduction

This topic contains information about HomeReady mortgage loans, including:

- [Loan-Level Price Adjustments](#)
- [Mortgage Insurance Coverage](#)
- [Special Feature Codes](#)

---

## Loan-Level Price Adjustments

LLPAs may apply to HomeReady mortgage loans. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. For the current LLPAs, see the [Loan-Level Price Adjustment \(LLPA\) Matrix](#).

Loans where at least one borrower completed pre-purchase housing counseling from a HUD-approved agency are eligible for an LLPA credit. The counseling and education must meet the requirements of, and be documented in accordance with, [B2-2-06, Homeownership Education and Housing Counseling](#), including completion of Form 1017. The loan must be delivered with SFC 184.

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## Mortgage Insurance Coverage

For mortgage insurance coverage requirements see [B7-1-02, Mortgage Insurance Coverage Requirements](#). Financed borrower-purchased mortgage insurance is allowed for one-unit properties under HomeReady. Refer to [B7-1-04, Financed Borrower-Purchased Mortgage Insurance](#), for additional information about financed mortgage insurance.

---

## Special Feature Codes

Special Feature Code 900 must be delivered for all HomeReady mortgage loans.

In addition, one or more of the following special feature codes may also be required for HomeReady mortgages:

- loans with a Community Seconds —118,
- loans where at least one borrower completed pre-purchase housing counseling and homeownership education —184,
- loans with financed mortgage insurance — 281, and
- loans for borrowers with “thin” traditional credit files — 818.

For additional information about these codes, see [Special Feature Codes](#).

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>          | <b>Issue Date</b>  |
|---|--------------------|
| <a href="#"><u>Announcement SEL-2016-08</u></a> | October 24, 2016   |
| <a href="#"><u>Announcement SEL-2015-10</u></a> | September 29, 2015 |
| <a href="#"><u>Announcement SEL-2013-07</u></a> | September 24, 2013 |
| <a href="#"><u>Announcement SEL-2010-16</u></a> | December 1, 2010   |
| <a href="#"><u>Announcement SEL-2010-13</u></a> | September 20, 2010 |
| <a href="#"><u>Announcement 09-32</u></a>       | October 30, 2009   |
| <a href="#"><u>DU Version 8.0</u></a>           | September 22, 2009 |
| <a href="#"><u>Announcement 09-29</u></a>       | September 22, 2009 |

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# Subpart B6, Government Programs Eligibility and Underwriting Requirements



## Government Programs Eligibility and Underwriting Requirements

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### Introduction

This subpart contains information on government mortgage loans eligible for sale to Fannie Mae.

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### In This Subpart

This subpart contains the following chapter:

[B6-1, Government Insured and Guaranteed Mortgages . . . . .](#) 940

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# Chapter B6-1, Government Insured and Guaranteed Mortgages



## Government Insured and Guaranteed Mortgages

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### Introduction

This chapter describes the requirements for selling a government mortgage loan to Fannie Mae. These include the general requirements related to all government mortgage loans as well as the requirements for specific government mortgage programs.

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### In This Chapter

This chapter contains the following topics:

|  |     |
|--|-----|
| B6-1-01, General Government Mortgage Loan Requirements (09/30/2014) . . . . .  | 941 |
| B6-1-02, Eligible FHA-Insured Mortgage Loans (07/29/2014) . . . . .            | 944 |
| B6-1-03, Eligible VA-Guaranteed Mortgages (08/20/2013) . . . . .               | 946 |
| B6-1-04, Eligible HUD-Guaranteed Section 184 Mortgages (06/26/2012) . . . . .  | 947 |
| B6-1-05, Eligible RD-Guaranteed Mortgages (12/15/2015) . . . . .               | 948 |
| B6-1-06, Government Mortgage Loan Guaranty or Insurance (04/01/2009) . . . . . | 950 |

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## **B6-1-01, General Government Mortgage Loan Requirements (09/30/2014)**

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### **Introduction**

This topic contains general information on government mortgage loan requirements, including:

- [Overview](#)
  - [Lender Eligibility](#)
  - [Mortgage Term](#)
  - [Seasoned Mortgages](#)
  - [Lien Requirements](#)
  - [Rental Property Leases](#)
  - [Mortgages Permitting Open-End Advances](#)
  - [Mortgage Payments](#)
  - [Notice of Transfer](#)
  - [MBS Pool Parameters](#)
  - [Remittance Types](#)
  - [Credit Score](#)
  - [Delivery of Government Mortgage Loans](#)
- 

### **Overview**

All eligible government mortgage loans purchased or securitized by Fannie Mae must comply with the requirements of the respective government agency. Those loans must also comply with Fannie Mae requirements for government mortgage loans as specifically addressed in this *Selling Guide*.

---

### **Lender Eligibility**

Most government mortgage loans can only be delivered to Fannie Mae on a negotiated basis. See [A2-4-01, Master Agreement Overview](#), for additional information.

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### **Mortgage Term**

The term of a government mortgage loan may not extend more than 30 years beyond the date of the first monthly payment.

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## Seasoned Mortgages

All government mortgage loans must have been originated within the 12 months that precede the date it is delivered to Fannie Mae. Lenders must contact their lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)) for delivery terms if the loan is greater than 12 months old.

---

## Lien Requirements

The security instrument for a government mortgage loan must be a first lien on the borrower's real property. The security property may be subject only to liens for taxes and special assessments that are not yet due and payable and to conditions, restrictions, and encumbrances that Fannie Mae does not consider as material. The lender must provide documentation to show that the current installments of taxes and assessments (including those that may have been attached as prior liens, but are not now in arrears) have been paid or that sufficient deposits are being collected to pay them.

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## Rental Property Leases

When the property that secures the mortgage is rented, the rental agreement or lease may not include any provision that could affect significantly Fannie Mae's position as mortgagee. In some jurisdictions, leases that predate the mortgage have a superior claim to the mortgage even if they have not been recorded. Normally, a tenant's rights under a pre-existing lease remain intact on the sale of the leased premises. Accordingly, if the lease is not subordinate to the mortgage, the lender must review each lease to ensure that any tenant's rights to purchase the property—and any other rights that could affect adversely the mortgagee's interest—have been waived formally by the tenant or tenants.

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## Mortgages Permitting Open-End Advances

Fannie Mae will purchase or securitize a government mortgage loan that includes an open-end advance provision only if the provision gives Fannie Mae the option not to make any advances. If funds were advanced prior to delivery, the transaction is considered a modified mortgage that is not eligible for delivery. See [B2-1.4-02, Mortgage Loan Eligibility](#).

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## Mortgage Payments

Because Fannie Mae will not decline delivery submissions for slight differences in payment calculations, the lender may use any widely accepted amortization table or formula. However,



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the monthly payment provided as part of the delivery data and the one that Fannie Mae calculates cannot differ by more than \$1.00.

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### **Notice of Transfer**

When lenders deliver government mortgage loans to Fannie Mae for purchase or securitization, they must report the transfer of the loan in accordance with the applicable agency's requirements, if applicable.

---

### **MBS Pool Parameters**

Government mortgage loans (for example, FHA-insured, VA-guaranteed, HUD-guaranteed, and RD-guaranteed) that are securitized must be pooled in government-prefix MBS pools. Government mortgage loans cannot be commingled in the same pool with conventional mortgage loans.

---

### **Remittance Types**

For all government mortgage loans, the actual/actual remittance type is required for whole loans. The scheduled/scheduled remittance type is required for all government mortgage loans delivered into MBS. (Lenders should refer to Fannie Mae's whole loan committing application for additional information regarding eligible whole loan remittance types.)

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### **Credit Score**

All government mortgage loans are subject to a minimum representative credit score of 620. Manually underwritten government mortgage loans with nontraditional credit are exempt from this policy.

---

### **Delivery of Government Mortgage Loans**

For government mortgage loans, the lender must report all applicable data elements at delivery, including but not limited to, the Section of the Act and certain government loan-specific special feature codes. Refer to the [Fannie Mae Implementation Guide for Loan Delivery Data](#) on Fannie Mae's website for additional information.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2014-12</a> | September 30, 2014 |
| <a href="#">Announcement SEL-2013-01</a> | January 17, 2013   |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012      |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011      |
| <a href="#">Announcement SEL-2010-07</a> | May 27, 2010       |
| <a href="#">Announcement 09-29</a>       | September 22, 2009 |
| <a href="#">Announcement 09-09</a>       | April 3, 2009      |



## **B6-1-02, Eligible FHA-Insured Mortgage Loans (07/29/2014)**

### Introduction

This topic contains information on eligible FHA-insured mortgage loans, including:

- [Overview](#)
- [FHA Higher Balance Mortgage Loans](#)
- [FHA-Insured Adjustable-Rate Mortgages](#)
- [Other Fannie Mae Policies that Pertain to FHA Loans](#)

---

### Overview

Fannie Mae will purchase or securitize single-family mortgage loans that are insured by FHA under the following Sections of Title II of the National Housing Act:

- Section 203(b) Home Mortgages,
- Section 203(h) Home Mortgages for Disaster Victims,
- Section 203(k) Rehabilitation First Mortgages,
- Section 234 Condominium Units (individual mortgages only), and

- 
- Section 251 Adjustable-Rate Mortgages.

Any lender may deliver the above-listed FHA mortgage loans, provided the mortgages comply with all applicable FHA laws and guidelines and the lender obtains the required FHA mortgage insurance.

**Note:** Each Section 203(k) mortgage loan delivered to Fannie Mae must be identified with SFC 089.

---

### **FHA Higher Balance Mortgage Loans**

Lenders may deliver higher balance FHA mortgage loans to Fannie Mae for whole loan or MBS execution. Certain FHA higher balance mortgage loans must be delivered with SFC 798. Refer to [Special Feature Codes](#) on Fannie Mae's website for additional information about the use of this SFC.

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### **FHA-Insured Adjustable-Rate Mortgages**

Fannie Mae will purchase or securitize the following regularly amortizing FHA-insured ARMs that are tied to the appropriate Treasury securities index:

- 1/1 ARM Plan 515, 1/1/5 cap;
- 3/1 ARM Plan 3549, 1/1/5 cap;
- 5/1 ARM Plan 3550, 1/1/5 cap;
- 5/1 ARM Plan 3640, 2/2/6 cap;
- 7/1 ARM Plan 3551, 2/2/6 cap; and
- 10/1 ARM Plan 3552, 2/2/6 cap.

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### **Other Fannie Mae Policies that Pertain to FHA Loans**

Fannie Mae imposes the following additional policies for FHA loans:

- Fixed-rate FHA-insured mortgages that are subject to interest rate buydowns are eligible for delivery to Fannie Mae as long as the borrower is qualified at the note rate.
- FHA-insured loans that were previously included in a Ginnie Mae MBS pool but removed due to delinquency or other reasons are only eligible for sale to Fannie Mae on a negotiated basis.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014    |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011    |
| <a href="#">Announcement 09-09</a>       | April 3, 2009    |
| <a href="#">Announcement 08-27</a>       | October 16, 2008 |



## B6-1-03, Eligible VA-Guaranteed Mortgages (08/20/2013)

### Introduction

This topic contains information on eligible VA-guaranteed mortgages, including:

- [Eligible VA-Guaranteed Mortgages](#)
- [Other Fannie Mae Policies that Pertain to VA Loans](#)

---

### Eligible VA-Guaranteed Mortgages

Fannie Mae will purchase or securitize mortgages secured by one- to four-unit residential properties that are guaranteed by the VA only under Section 3710 of Title 38 for fixed-payment mortgages in the United States Code.

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### Other Fannie Mae Policies that Pertain to VA Loans

Fannie Mae imposes the following additional policies for VA loans:

- Fannie Mae will purchase or securitize fixed-rate VA-guaranteed mortgages that are subject to interest rate buydowns as long as the borrower is qualified at the note rate.
- The dollar amount of the VA guaranty must be at least equal to 25% of the original principal amount of the mortgage loan.
- Fannie Mae limits the maximum loan amount for VA mortgage loans to \$625,500 (for contiguous states, the District of Columbia, and Puerto Rico) and \$938,250 (for Alaska, Hawaii, Guam, and the U.S. Virgin Islands), regardless of the number of units in the property.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013  |
| <a href="#">Announcement 09-09</a>       | April 3, 2009    |
| <a href="#">Announcement 08-27</a>       | October 16, 2008 |



## **B6-1-04, Eligible HUD-Guaranteed Section 184 Mortgages (06/26/2012)**

### Introduction

This topic contains information on HUD-guaranteed Section 184 (Indian Home Loan Guarantee Program) mortgages, including:

- [Overview](#)
- [HUD Section 184 Combination Construction/Permanent Mortgages](#)
- [Delivery of HUD-Guaranteed Section 184 Mortgages](#)

---

### Overview

Any approved Fannie Mae lender may deliver HUD-guaranteed Section 184 mortgages to Fannie Mae provided the lender obtains the required HUD loan guarantee.

Fannie Mae will purchase or securitize HUD-guaranteed Section 184 mortgages under the following conditions:

- The HUD Section 184 mortgage must comply with HUD requirements.
- The loan must be secured by one- to four-unit properties located on individual lots or in a condo, cooperative, or PUD project.
- HUD Section 184 mortgages may be secured by a manufactured home if it meets HUD's requirements.
- The mortgage transaction may be a purchase or a refinance transaction.

- HUD Section 184 mortgages that are subject to an interest rate buydown plan are not permitted.

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### **HUD Section 184 Combination Construction/Permanent Mortgages**

Lenders must adhere to HUD's requirements concerning combination construction/permanent HUD 184 mortgages. These are limited to whole loan deliveries only.

Fannie Mae will not purchase a HUD-guaranteed Section 184 mortgage that includes as part of the collateral, personal property, cash, notes, an interest in securities, royalties, annuities, and any other property that is transferable and for which a present value may be determined.

However, the construction escrow account that is required when these mortgages are closed as combination construction/permanent mortgages—as well as any partially completed improvements—must be part of the collateral.

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### **Delivery of HUD-Guaranteed Section 184 Mortgages**

Lenders must report SFC 202 when delivering HUD Section 184 mortgages to Fannie Mae.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |
| <a href="#">Announcement 09-09</a>       | April 3, 2009     |



## **B6-1-05, Eligible RD-Guaranteed Mortgages (12/15/2015)**

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### **Introduction**

This topic contains information on eligible RD-guaranteed mortgages, including:

- [Overview](#)
- [RD Higher Balance Mortgage Loans](#)
- [Section 502 Leveraged \(Blended\) Loan Program](#)
- [Delivery Requirements](#)

---

## Overview

Fannie Mae will purchase or securitize RD-Guaranteed Section 502 first mortgage loans under the following conditions:

- The loans must be secured by one-unit residential properties.
- Fixed-rate RD-Guaranteed Section 502 first mortgage loans that are subject to interest rate buydowns are eligible for delivery to Fannie Mae as long as the borrower is qualified at the note rate.

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## RD Higher Balance Mortgage Loans

Lenders may deliver higher balance RD-Guaranteed Section 502 first mortgage loans subject to the same Fannie Mae high-cost area loan limits that apply to conventional loans.

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## Section 502 Leveraged (Blended) Loan Program

Fannie Mae will purchase conventional first mortgage loans that are combined with a direct, low interest rate, subordinate RD Section 502 Leveraged (Blended) Loan Program under the Community Seconds program. Lenders are not required to obtain specific approval from Fannie Mae to originate these RD Section 502 Leveraged (Blended) Loan Program mortgage loans. Any Fannie Mae-approved lender that meets RD's lender eligibility criteria may deliver mortgages originated under this program.

Fannie Mae will not purchase the RD-subsidized second mortgage. The first mortgage loan must satisfy the eligibility criteria applied to any standard conventional first mortgage in addition to any RD guidelines.

See [B5-5.1-02, Community Seconds Loan Eligibility](#), for additional information.

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## Delivery Requirements

The following table describes the special feature codes that must be reported for RD Section 502 mortgage loans.

| Loan Type                                  | Required Special Feature Code(s) |
|--|----------------------------------|
| Section 502 Guaranteed first mortgage loan | 087                              |

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| <b>Loan Type</b>   | <b>Required Special Feature Code(s)</b> |
|--|---|
| Section 502 Guaranteed first mortgage loan where the subject property is a manufactured home   | 087 and 235                             |
| First mortgage loan originated under RD Section 502 Leveraged (Blended) Loan Program First Mortgage Loan that is combined with RD Section 502 subordinate lien (Community Seconds) | 118 and 220                             |

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2015-13</a> | December 15, 2015 |
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015     |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |
| <a href="#">Announcement 09-09</a>       | April 3, 2009     |
| <a href="#">Announcement 08-27</a>       | October 16, 2008  |

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## **B6-1-06, Government Mortgage Loan Guaranty or Insurance (04/01/2009)**

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### **Introduction**

This topic contains information on government mortgage loan guaranty or insurance.

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### **Government Mortgage Loan Guaranty or Insurance**

For Government Mortgage Loan Guaranty or Insurance, see [B7-1-05, Government Mortgage Loan Guaranty or Insurance](#).

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# Subpart B7, Insurance



## Insurance

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### Introduction

This subpart describes Fannie Mae's requirements for mortgage, title, property, flood, liability, and fidelity insurance.

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### In This Subpart

This subpart contains the following chapters:

|  |      |
|--|------|
| B7-1, Mortgage Insurance/Loan Guaranty ..... | 952  |
| B7-2, Title Insurance .....                  | 970  |
| B7-3, Property and Flood Insurance .....     | 983  |
| B7-4, Additional Project Insurance .....     | 1010 |

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# Chapter B7-1, Mortgage Insurance/Loan Guaranty



## Mortgage Insurance/Loan Guaranty Overview

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### Introduction

This chapter describes Fannie Mae's policies and requirements for standard conventional mortgage insurance coverage and government mortgage loan guaranty or insurance. The chapter includes requirements related to lender-purchased and borrower-financed conventional mortgage insurance.

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### In This Chapter

This chapter contains the following topics:

|  |     |
|--|-----|
| B7-1-01, Provision of Mortgage Insurance (03/29/2016) .....                | 952 |
| B7-1-02, Mortgage Insurance Coverage Requirements (09/29/2015) .....       | 959 |
| B7-1-03, Lender-Purchased Mortgage Insurance (05/27/2010) .....            | 961 |
| B7-1-04, Financed Borrower-Purchased Mortgage Insurance (11/10/2014) ..... | 963 |
| B7-1-05, Government Mortgage Loan Guaranty or Insurance (02/23/2016) ..... | 966 |

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## B7-1-01, Provision of Mortgage Insurance (03/29/2016)

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### Introduction

This topic contains information on mortgage insurance, including:

- [General Requirements](#)
- [Use of Approved Forms](#)
- [LTV Ratio Determination in New York State](#)
- [Payment of Mortgage Insurance Premiums](#)
- [Mortgage Insurability](#)
- [Authorizing Release of Data to Fannie Mae](#)
- [Prohibition of Certain Mortgage Insurance Agreements](#)

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## General Requirements

Lenders must ensure that any mortgage insurance Fannie Mae requires for a mortgage loan is in place. Lenders must obtain and be able to produce evidence of any required mortgage insurance or loan guaranty.

Unless the lender has provided another charter-compliant form of credit enhancement, the lender must obtain a primary mortgage insurance policy for a conventional first mortgage loan that has an LTV ratio greater than 80% at the time it is purchased for Fannie Mae's portfolio or securitized. (For this purpose, the LTV ratio is calculated based upon the unpaid principal balance of the mortgage loan at the time it is purchased or securitized by Fannie Mae.)

- For a purchase money loan, the value used in determining the LTV ratio is the lower of the sales price or the appraised value of the security property.
- For a refinance loan, the value used in originating the loan can be derived from an appraisal, AVM, or other acceptable method.

Conventional mortgages may be insured by private mortgage insurers or state or local insuring agencies that have been approved under Fannie Mae's Qualified Mortgage Insurer Approval Requirements to insure loans sold to or serviced for Fannie Mae. For a listing of the eligible conventional mortgage insurers and their associated mortgage insurance codes, see [Approved Mortgage Insurers and Related Identifiers](#). The website is the definitive source for approved mortgage insurers.

The form of mortgage insurance policy, including any endorsements, must be acceptable to Fannie Mae.

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## Use of Approved Forms

Lenders are responsible for ensuring that only Fannie Mae-approved mortgage insurance forms and related endorsements and other forms (Forms) are used in connection with individual loans sold to or securitized by Fannie Mae. These Forms provide the terms of mortgage insurance coverage on individual loans. A list of Fannie Mae-approved Forms for each insurance provider is available on Fannie Mae's website – see [Approved Mortgage Insurance Forms](#).

Any mortgage loan sold to or securitized by Fannie Mae that requires primary mortgage insurance (or is delivered with primary mortgage insurance even though not required) and has a loan application date on or after October 1, 2014, must be insured under one of the Fannie Mae-approved Forms. If such loan is insured under any pre-existing forms or agreements between lenders and mortgage insurers, the loan is not eligible for sale to Fannie Mae, and is subject to repurchase if identified after acquisition by Fannie Mae.

Any mortgage loan sold to or securitized by Fannie Mae that requires primary mortgage insurance (or is delivered with primary mortgage insurance even though not required) and has a loan application date prior to October 1, 2014, may be insured under either

- one of the Fannie Mae-approved Forms; or
- any pre-existing forms and agreements between lenders and mortgage insurers, as long as the lender first confirms with the mortgage insurer that such forms and agreements were approved by Fannie Mae for use at the time of the loan application date.

*Exception*

Insured mortgage loans that are refinanced through Refi Plus and DU Refi Plus, and insured balloon loans that are modified or refinanced may continue to be insured pursuant to the forms and agreements under which the existing loan is insured regardless of the loan application date of the new loan. However, the new loan must be insured pursuant to a modification of the existing mortgage insurance certificate, which may or may not involve the assignment of a new certificate number by the mortgage insurer. If the mortgage insurer issues an entirely new mortgage insurance certificate, this exception does not apply.

**LTV Ratio Determination in New York State**

Under a New York statute, a mortgage insurer must issue mortgage insurance based on a determination of the “fair market value” of the property. The term “fair market value” is not defined in the statute, but has been defined by the New York insurance regulator as being the “appraised value.” Per the statute, for co-op properties, the issuance of mortgage insurance must be based on the “purchase price of the ownership interest and the proprietary lease.”

As a result, the determination of value for properties in New York is different from Fannie Mae’s standard definition of value that is used to calculate the LTV ratio. The following table identifies the value calculation that is to be used for mortgage loans secured by properties in New York for policies that are based on the LTV ratio.

| <b>LTV Ratio Calculation</b>                                    | <b>Policy</b>  |
|---|--|
| LTV ratio based on the appraised value for non-co-op properties | <ul style="list-style-type: none"><li>• Lenders must base their determination of when mortgage insurance is required solely on the appraised value of the property. If the appraised value of the property exceeds the sales price, this determination may result in mortgage insurance not being placed on a mortgage loan as would otherwise</li></ul> |

| LTV Ratio Calculation  | Policy   |
|--|--|
|  | <p>be required using Fannie Mae’s standard definition.</p> <ul style="list-style-type: none"> <li>• If this calculation results in mortgage insurance not being placed on the loan where mortgage insurance would otherwise have been required using Fannie Mae’s standard definition, the lender must deliver the loan to Fannie Mae using the MI Absence Reason Type of “No MI Based On Original LTV” (Sort ID 429).</li> </ul>  |
| <p>LTV ratio based on the sales price for co-op properties</p> | <ul style="list-style-type: none"> <li>• For purchase transactions, lenders must base their determination of when mortgage insurance is required solely on the sales price for the co-op property. If the sales price of the property is more than the appraised value, this determination may result in mortgage insurance not being placed on a mortgage loan as would otherwise be required using Fannie Mae’s standard definition.</li> </ul> <p><b>Note:</b> For purchase transactions when the co-op property is subject to resale restrictions that terminate automatically upon foreclosure and the appraised value exceeds the sales price, lenders may use the appraised value of the property without resale restrictions, rather than the sales price when determining when mortgage insurance is required. For additional information on calculating LTV ratios on loans with resale restrictions, see <a href="#">B5-5.3-03, Loans with Resale Restrictions: Underwriting and Collateral Considerations</a>.</p> |

| LTV Ratio Calculation  | Policy  |
|--|---|
|  | <ul style="list-style-type: none"> <li>If this calculation results in mortgage insurance not being placed on the loan where mortgage insurance would otherwise have been required using Fannie Mae’s standard definition, the lender must deliver the loan to Fannie Mae using the MI Absence Reason Type of “No MI Based On Original LTV” (Sort ID 429).</li> </ul>  |
| LTV ratio based on the appraised value for refinances of co-op share loans   | <ul style="list-style-type: none"> <li>Lenders must base their determination of when mortgage insurance is required for a refinance transaction for co-op share loans solely on the appraised value.</li> </ul>   |
| LTV ratio based on the lower of the sales price or appraised value (standard LTV ratio calculation) for all property types | <ul style="list-style-type: none"> <li>Irrespective of the use of appraised value or sales price for determining whether mortgage insurance is required, this standard LTV ratio calculation must be used to determine the <b>level</b> of mortgage insurance coverage that is required on the mortgage loan. See <a href="#">B2-1.1-01, Loan-to-Value (LTV) Ratios</a>, and <a href="#">B7-1-02, Mortgage Insurance Coverage Requirements</a>, for additional information.</li> <li>The standard LTV ratio calculation must also be used             <ul style="list-style-type: none"> <li>to determine whether the loan satisfies any of Fannie Mae’s other eligibility criteria that are based on the LTV ratio of the loan;</li> <li>to determine any loan-level price adjustments derived from Fannie Mae’s pricing matrix that includes LTV ratios or CLTV ratios as a risk attribute in its lookup table; and</li> <li>when the loan is delivered to Fannie Mae (Sort ID 254). (The standard LTV ratio</li> </ul> </li> </ul> |

---

| LTV Ratio Calculation | Policy   |
|-----------------------|--|
|                       | must be delivered even if the appraised value or sales price is used to determine that mortgage insurance coverage is not required.) |

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### **Payment of Mortgage Insurance Premiums**

Premium plans for mortgage insurance may be:

- monthly plans – monthly premiums from accumulated escrow deposits (with no initial payment at closing),
- annual plans – an initial payment at closing to cover the first year's premium and annual renewal premiums thereafter paid from accumulated escrow deposits,
- single-premium plans – lump-sum premium at closing to purchase life-of-the-mortgage coverage, or
- split-premium plans – an initial payment at closing and an ongoing monthly premium from accumulated escrow deposits.

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### **Mortgage Insurability**

Each loan a lender delivers to Fannie Mae must be insurable. A mortgage is insurable if a mortgage insurer would not decline to insure it by reason of any fraud, misrepresentation, negligence, or dishonest, criminal, or knowingly wrongful act in origination or servicing, and would not be entitled to deny a claim by reason of any of the foregoing.

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### **Authorizing Release of Data to Fannie Mae**

To facilitate Fannie Mae's ability to validate mortgage insurance coverage directly with mortgage insurers, lenders must instruct mortgage insurers to release data to Fannie Mae (at Fannie Mae's request) for any mortgage loans that Fannie Mae currently owns or securitizes or is evaluating for possible purchase or securitization in the future. Lenders must instruct, in writing, each mortgage insurer of mortgage loans it currently services or may service in the future for Fannie Mae, to provide Fannie Mae with any and all information Fannie Mae may request concerning the mortgage and the insurance. In addition, lenders must provide any Fannie Mae-approved mortgage insurer with which it may begin doing business in the future with the same written instructions at the outset of the relationship.

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These instructions do not relieve lenders of their obligations under the *Selling Guide* and the *Servicing Guide* to report mortgage insurance coverage terms completely and accurately to Fannie Mae nor do they imply that the mortgage insurer rather than the lender will be the initial source of this data for Fannie Mae.

A [Mortgage Insurance Disclosure Instructions and Release](#) form is posted on Fannie Mae's website. Lenders may use this form or any other form that is acceptable to the mortgage insurer and that results in the release of the requested data to Fannie Mae. The disclosure instructions and release must be returned to each mortgage insurer using the contact information posted on [Fannie Mae's website](#). Language that accomplishes the same objective may also be included in any other written agreement between the lender and mortgage insurer, such as a master primary policy, as long as it covers both loans currently insured by the mortgage insurer as well as those that become insured or may become insured in the future. Under such circumstances, separate instructions need not be returned to each mortgage insurer using the posted contacts.

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### **Prohibition of Certain Mortgage Insurance Agreements**

Fannie Mae prohibits lenders from entering into any agreement that modifies the terms of an approved mortgage insurance master policy on loans delivered to or intended for delivery to Fannie Mae. Prohibited agreements include, but are not limited to, agreements that directly or indirectly:

- modify master policy provisions for settling of claims,
- limit the right of a mortgage insurer to conduct file reviews or investigate claims,
- limit the right of a mortgage insurer to rescind coverage,
- rescind or modify coverage, or
- restrict notice to Fannie Mae of changes in coverage status.

Further, Fannie Mae prohibits loss sharing, indemnification, settlement, or similar agreements of any kind between lenders and mortgage insurance companies that affect Fannie Mae's interest in its mortgage loans or modify the terms of an approved mortgage insurance master policy on loans delivered to or intended for delivery to Fannie Mae. Traditional captive reinsurance arrangements between a mortgage insurance company and a licensed insurer or reinsurer may be permissible so long as they do not:

- affect Fannie Mae's interest in its mortgage loans, or
- modify the terms of an approved mortgage insurance master policy on loans delivered to or intended for delivery to Fannie Mae.



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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-03</a> | March 29, 2016     |
| <a href="#">Announcement SEL-2015-08</a> | July 28, 2015      |
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014      |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013      |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012      |
| <a href="#">Announcement SEL-2011-04</a> | May 24, 2011       |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011     |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">Announcement SEL-2010-09</a> | June 30, 2010      |
| <a href="#">Announcement SEL-2010-07</a> | May 27, 2010       |



## **B7-1-02, Mortgage Insurance Coverage Requirements (09/29/2015)**

### Introduction

This topic contains information on mortgage insurance coverage requirements for first-lien mortgage loans.

### Mortgage Insurance Coverage Requirements

The table below provides the mortgage insurance coverage requirements for first-lien mortgages. For certain transactions, Fannie Mae offers two mortgage insurance coverage level options: standard coverage for the transaction type (noted with ^) and minimum coverage (noted with \*) with corresponding LLPAs. Lenders who choose less than standard coverage (but no lower than minimum coverage) will be assessed an LLPA based on the LTV ratio and representative credit score for the mortgage loan. The minimum mortgage insurance LLPAs can be found in the [Loan-](#)

[Level Price Adjustment \(LLPA\) Matrix](#), and are in addition to any other LLPAs that may apply to the transaction.

| <b>Mortgage Insurance Coverage Requirements</b>   |                       |                     |                     |                     |
|---|-----------------------|---------------------|---------------------|---------------------|
|   | <b>LTV Range</b>      |                     |                     |                     |
| <b>Transaction Type</b>   | <b>80.01 – 85.00%</b> | <b>85.01-90.00%</b> | <b>90.01-95.00%</b> | <b>95.01-97.00%</b> |
| <b>Fixed-rate, term ≤ 20 years</b>  | 6%                    | 12%                 | 16%* + MI LLPA      | 18%* + MI LLPA      |
|   |                       |                     | 25%^                | 35%^                |
| <b>Fixed-rated, term &gt; 20 years; ARMs; and manufactured homes</b>                    | 6%* + MI LLPA         | 12%* + MI LLPA      | 16%* + MI LLPA      | 18%* + MI LLPA      |
|   | 12%^                  | 25%^                | 30%^                | 35%^                |
| <b>HomeReady mortgage, fixed-rate, term ≤ 20 years</b>                                  | 6%                    | 12%                 | 16%* + MI LLPA      | 18%* + MI LLPA      |
|   |                       |                     | 25%^                | 25%^                |
| <b>HomeReady mortgage, fixed-rate, term &gt; 20 years; ARMs; and manufactured homes</b> | 6%* + MI LLPA         | 12%* + MI LLPA      | 16%* + MI LLPA      | 18%* + MI LLPA      |
|   | 12%^                  | 25%^                | 25%^                | 25%^                |

**Note:** The minimum levels (\* with an LLPA) are

- not eligible for DU Refi Plus and Refi Plus loans, unless the existing loan has minimum levels of mortgage insurance coverage. No mortgage insurance LLPA will be assessed on DU Refi Plus and Refi Plus loans. See [B5-5.2-01, DU Refi Plus and Refi Plus Eligibility](#).
- eligible for HomeReady mortgages as indicated; however, the mortgage insurance LLPA will be assessed in all cases regardless of any LLPA limits.

See [B7-1-04, Financed Borrower-Purchased Mortgage Insurance](#), for additional information about mortgage insurance coverage for financed mortgage insurance transactions.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2015-10</a> | September 29, 2015 |
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015   |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013    |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012      |
| <a href="#">Announcement SEL-2010-07</a> | May 27, 2010       |
| <a href="#">Announcement SEL-2010-06</a> | April 30, 2010     |
| <a href="#">Announcement 09-29</a>       | September 22, 2009 |



## **B7-1-03, Lender-Purchased Mortgage Insurance (05/27/2010)**

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### Introduction

This topic contains information on lender-purchased mortgage insurance, including:

- [Overview](#)
- [Lender Requirements](#)

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### Overview

Fannie Mae accepts lender-purchased mortgage insurance coverage for all loan types except adjustable-rate mortgages that permit negative amortization, or those that can be converted to fixed-rate mortgages.

Fannie Mae will consider accepting lender-purchased mortgage insurance for convertible adjustable-rate mortgages that are in MBS pools if the lender uses the “market rate” post-conversion disposition option and assumes all interest rate risk.

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## Lender Requirements

When providing lender-purchased mortgage insurance, the lender must:

- make any and all disclosures to the borrower that are either required by law, including the Homeowners Protection Act of 1998, or are otherwise appropriate for lender-purchased mortgage insurance coverage;
- pay for the mortgage insurance coverage as a corporate obligation with an initial premium and renewal premiums for each subsequent period of coverage, which may be a month or a year. Lump-sum premium plans that provide coverage for the life-of-the-mortgage loan also are acceptable;
- increase the servicing compensation it would otherwise be required to retain for the mortgage loan (whether the mortgage loan is submitted as a whole loan or MBS pool delivery) by at least the amount of the mortgage insurance renewal premium. (This is not required for lump-sum premium plans that provide life-of-the-mortgage coverage.);
- keep the mortgage insurance coverage in effect until the mortgage is paid in full;
- deliver the loan with SFC 019; and
- when servicing is transferred, the lender must provide the new servicer with a list of all mortgage loans with this type of insurance that are included in the portfolio that is being transferred (identifying the applicable premium rates), explaining the premium payment obligations and procedures applicable to these mortgage loans, and transferring the accruals on deposit for the payment of future renewal premiums to the new servicer (or making an appropriate adjustment to the servicing transfer settlement).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2010-07</a> | May 27, 2010      |

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## **B7-1-04, Financed Borrower-Purchased Mortgage Insurance (11/10/2014)**

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### **Introduction**

This topic contains information on financed borrower-purchased mortgage insurance, including:

- [Financed Mortgage Insurance Requirements](#)
  - [Ineligible Transactions](#)
  - [Delivery Requirements](#)
  - [Prepaid Mortgage Insurance Transactions](#)
- 

### **Financed Mortgage Insurance Requirements**

Financed mortgage insurance transactions are defined by all of the following characteristics:

- All or a portion of the borrower-purchased mortgage insurance premium (split and single-premium plans) is included in the loan amount.
- The loan amount including the financed mortgage insurance premium can not exceed the applicable maximum Fannie Mae loan limit. See [B2-1.4-01, Mortgage Loan Limits](#).
- The loan purpose is purchase, construction, or limited cash-out refinance.
- The mortgage loan is secured by a one-unit property that is the borrower's principal residence or second home.
- The mortgage insurance coverage amount can be standard coverage (which does not require an LLPA) or minimum coverage (with a corresponding LLPA).
- The mortgage insurance coverage amount is determined based on the base LTV ratio – the LTV ratio calculated without the financed premium.
- The gross LTV ratio – the LTV ratio calculated with the financed premium – is used to determine the maximum LTV ratio permitted for the transaction. The LTV ratio may never exceed the LTV ratio allowed per the [Eligibility Matrix](#).
- If the loan is subject to any LLPAs, including LLPAs associated with minimum mortgage insurance coverage, the LLPAs are based on the gross LTV ratio.

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**Note:** Refer to the [Loan-Level Price Adjustment \(LLPA\) Matrix](#) for certain exceptions to LLPAs for mortgage loans with financed mortgage insurance.

- The lender must ensure that language related to any financed mortgage insurance premium is included either directly in the applicable mortgage insurance master primary policy or in an endorsement to that policy, which language provides that the insurance benefit paid pursuant to the “percentage option” in satisfaction of a claim be calculated as:
  - [the claim amount minus the unamortized portion of the financed mortgage insurance premium] multiplied by the applicable coverage percentage, **PLUS**
  - the unamortized portion of the financed mortgage insurance premium.
- Certain delivery requirements for financed mortgage insurance transactions must be met. See Delivery Requirements below.

**Note:** Fannie Mae provides two options for limited cash-out refinance transactions that include mortgage insurance in the loan amount. A “financed mortgage insurance transaction” requires the lender to identify the upfront financed mortgage insurance amount separately and provide the required special feature code at delivery such that the base LTV can be determined. All of the above requirements must be met for the transaction to be defined as a financed mortgage insurance transaction. A “prepaid mortgage insurance transaction” permits the lender to include the amount of the upfront mortgage insurance premium and other allowable closing costs and prepaid items in the loan amount, and not separately identify the prepaid mortgage insurance at delivery. See Prepaid Mortgage Insurance Transactions below for additional information.

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### Ineligible Transactions

The following mortgage loans are not eligible for delivery to Fannie Mae if they include financed borrower-purchased mortgage insurance:

- mortgage loans secured by two- to-four-unit properties,
- mortgage loans secured by investment properties, and
- cash-out refinance loans.

**Note:** Lender-paid mortgage insurance premiums cannot be financed into the loan amount and are therefore not considered financed mortgage insurance transactions.

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## Delivery Requirements

The following delivery requirements apply to financed mortgage insurance transactions:

- The Financed MI Amount and MI Financed Indicator must be delivered.
- The delivery file must also contain the purchase price (for purchase transactions) and appraised value (for purchase and refinance transactions) to allow for accurate calculation of the base LTV ratio.
- The loan must be delivered with SFC 281.
- All other mortgage insurance-related data elements must be provided (MI Company Name, Percent of MI Coverage, Certificate Number, and MI Source).

For additional information, see [Uniform Loan Delivery Dataset \(ULDD\)](#) on Fannie Mae's website.

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## Prepaid Mortgage Insurance Transactions

Fannie Mae's refinance guidelines permit borrowers to finance the payment of closing costs, prepaid items, and points in the loan amount. When the borrower includes any portion of the borrower-paid mortgage insurance premium or monthly escrows into the loan amount (with other closing costs or prepaid items), it is considered a "prepaid mortgage insurance transaction" and not a financed mortgage insurance transaction. For a loan to be eligible for delivery to Fannie Mae with prepaid mortgage insurance, the loan must meet all the standard requirements of this *Selling Guide*, and the following requirements applicable to this type of loan:

- The mortgage insurance coverage amount is determined based on the LTV ratio that is calculated after the inclusion of all the closing costs, prepaid items, and points. (The concept of "gross LTV ratio" and "base LTV ratio" are not applicable to prepaid mortgage insurance transactions because the financed mortgage insurance amount is not identified at loan delivery.)
- The loan is not to be delivered as a financed mortgage insurance transaction – lenders should not deliver SFC 281 or the other financed mortgage insurance data elements.
- The Financed MI Premium Endorsement to the mortgage insurance policy should not be obtained.

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014  |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012      |
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011   |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010   |
| <a href="#">Announcement SEL-2010-13</a> | September 20, 2010 |
| <a href="#">DU Version 8.2</a>           | September 20, 2010 |
| <a href="#">Announcement SEL-2010-07</a> | May 27, 2010       |
| <a href="#">Announcement 09-32</a>       | October 30, 2009   |
| <a href="#">Announcement 09-29</a>       | September 22, 2009 |
| <a href="#">Announcement 09-08R</a>      | June 8, 2009       |



## **B7-1-05, Government Mortgage Loan Guaranty or Insurance (02/23/2016)**

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### Introduction

This topic contains information on government mortgage loan guaranty or insurance, including:

- [Evidence of Government Guaranty or Insurance](#)
- [Inability to Obtain Guaranty or Insurance Prior to Delivery](#)
- [Lapse of Governmental Authority](#)
- [Special Feature Code for Lapse of Government Authority](#)

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### Evidence of Government Guaranty or Insurance

Lenders must obtain the required government guaranty or government insurance. The following table lists the acceptable forms of evidence of government guaranty or insurance:



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| <b>Mortgage Type</b> | <b>Evidence</b>  |
|----------------------|--|
| FHA                  | <i>FHA Mortgage Insurance Certificate</i> (HUD Form 59100) |
| VA                   | <i>VA Loan Guaranty Certificate</i> (VA Form 26-1899)      |
| RD                   | <i>RD Loan Note Guarantee</i> (Form RD 1980-17)            |
| HUD Section 184      | <i>Indian Loan Guaranty Certificate</i> (HUD Form 53039)   |

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### **Inability to Obtain Guaranty or Insurance Prior to Delivery**

Evidence of the guaranty or insurance should be obtained before loan delivery, if possible. If this is not possible, the lender represents and warrants, by delivery of the loan, all of the following:

- A complete and satisfactory mortgage guaranty or insurance application was submitted to the government agency within the required time frame, either based on an agency's prior approval of the loan application and issuance of a commitment to insure or guarantee, or subject to an agency's delegated or automatic loan approval processing, as applicable.
- The mortgage insurance premiums, funding fee, or guarantee fees were paid to the government agency within the government agency's required time frame.
- The government agency has the legal authority to issue the guaranty or insurance and will have such authority for long enough to issue the guaranty or insurance within a time period that is consistent with its past practice.

After delivery of a mortgage loan, if a lender fails to obtain the guaranty or insurance in a timely manner, as determined by Fannie Mae, the lender must repurchase the mortgage and make Fannie Mae whole for any losses incurred by Fannie Mae. In addition, Fannie Mae may suspend or terminate the lender's authority to deliver the following:

- mortgages for which it has not already received the government mortgage guaranty or insurance,
- any government mortgage or any particular category of government mortgage, or
- any mortgage.

The lender must notify its lead Fannie Mae regional office if the government agency declines to issue the mortgage guaranty or insurance for any reason for any loan delivered to Fannie Mae.

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Fannie Mae may require the lender to provide periodic reports on the guaranty or insurance status for all government mortgages sold to Fannie Mae. Such reports must be provided within the requested time frame.

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### **Lapse of Governmental Authority**

Occasionally, a government agency's guaranty or insurance authority may lapse. This occurrence is in contrast to ordinary circumstances in which there may be a delay in obtaining the government guaranty or insurance, but there is no reason to expect the government agency not to provide the guaranty or insurance within a time period that is consistent with its past practice.

Mortgages that are not yet guaranteed or insured due to a lapse of governmental authority must be delivered with the government loan identifier in accordance with Fannie Mae's usual procedures. However, for credit enhancement purposes, Fannie Mae treats such mortgages as conventional mortgages, rather than as government mortgages.

Fannie Mae will accept delivery of such mortgages only if:

- The government agency is continuing to accept applications and permit lenders to create direct endorsements or conditional commitments during the period of the lapse.
- The delivery is for portfolio purchase rather than issuance of MBS.
- The lender agrees to the repurchase requirements described below.

The lender must repurchase the mortgage and make Fannie Mae whole for any losses incurred by Fannie Mae in the following situations:

- for whole loans in Fannie Mae's portfolio, if the mortgage becomes delinquent before the insurance or guaranty is issued;
- the lender fails to notify Fannie Mae of its receipt of the guaranty or insurance within 60 days of when the government agency resumes issuance of the guaranty or insurance;
- the lender delivers a mortgage that the government agency cannot insure or guarantee.

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### **Special Feature Code for Lapse of Government Authority**

When a lender delivers mortgages during a lapse in government authority, it must include the government loan identifier in accordance with Fannie Mae's usual procedures and report SFC 001 at delivery, to indicate the existence of the lender's repurchase obligation in lieu of the government guaranty or insurance.

Upon receipt of the guaranty or insurance, the lender must contact its lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)) to request removal of SFC 001. Once it is removed, Fannie Mae's record will reflect that the mortgage is government guaranteed or insured.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |
| <a href="#">Announcement 09-09</a>       | April 3, 2009     |

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# Chapter B7-2, Title Insurance



## Title Insurance

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### Introduction

This chapter contains information on title insurance, including required title insurance coverage, title insurer eligibility standards, special title insurance coverage considerations, and acceptable and unacceptable title exceptions.

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### In This Chapter

This chapter contains the following topics:

|   |     |
|---|-----|
| B7-2-01, Provision of Title Insurance (04/01/2009) .....                    | 970 |
| B7-2-02, Title Insurer Requirements (09/24/2013) .....                      | 971 |
| B7-2-03, General Title Insurance Coverage (03/31/2015) .....                | 973 |
| B7-2-04, Special Title Insurance Coverage Considerations (08/20/2013) ..... | 975 |
| B7-2-05, Title Exceptions and Impediments (02/23/2016) .....                | 979 |

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## B7-2-01, Provision of Title Insurance (04/01/2009)

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### Introduction

This topic contains information on provision of title insurance.

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### Provision of Title Insurance

Before purchase or securitization, each first mortgage loan delivered to Fannie Mae must have a title insurance policy in place that satisfies Fannie Mae's requirements.

By delivering a mortgage loan to Fannie Mae, the lender represents and warrants that the loan is covered by the required title policy issued by an acceptable insurer, including any required endorsements.



## B7-2-02, Title Insurer Requirements (09/24/2013)

### Introduction

This topic contains information on title insurer requirements, including:

- [Rating Requirements](#)
- [Insurer No Longer Eligible](#)
- [New Insurer Not Yet Rated](#)
- [Ineligible Insurer Covered by Reinsurance](#)

### Rating Requirements

A title insurer is acceptable if it has a rating from at least one independent rating agency that meets the following standards.

| Rating Agency                       | Rating Requirements   |
|-------------------------------------|---|
| Demotech, Inc.                      | Financial Stability Rating of “S” (Substantial) or better or a Statutory Accounting Rating of “C” (Average) or better |
| Duff & Phelps Credit Rating Company | “BBB” or better   |
| Fitch, Inc.                         | “BBB” or better   |
| Kroll Bond Rating Agency, Inc.      | “C” or better   |
| Moody’s Investors Service           | “Baa2” or better  |
| Standard and Poor’s, Inc.           | “BBB” or better   |

If Fannie Mae determines that a particular title agency is unacceptable even if it meets these ratings, it will notify lenders by posting the name of the insurer on Fannie Mae's website.

### Insurer No Longer Eligible

If a title insurer that satisfied Fannie Mae’s rating requirement when a mortgage was closed no longer satisfies it at the time the mortgage is delivered to Fannie Mae, the lender must contact its lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)) to determine where or under what conditions the loan is eligible for delivery to Fannie Mae.

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### **New Insurer Not Yet Rated**

If a new title insurer has not yet been rated by at least one of Fannie Mae’s designated rating agencies, the lender may request a waiver of Fannie Mae’s requirement by sending its lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)) sufficient financial information about the title insurer to enable Fannie Mae to make a proper evaluation of the insurer’s financial condition and any risks that it might present to Fannie Mae.

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### **Ineligible Insurer Covered by Reinsurance**

If an insurer is fully covered by reinsurance with a company that satisfies Fannie Mae’s rating requirement, the insurer is acceptable provided that the primary insurer and the reinsuring company are both licensed to issue title insurance within the state where the property is located and are in good standing with that state’s insurance regulator.

Both insurance carriers must execute an *Assumption of Liability Endorsement* ([Form 858](#)) or an equivalent endorsement that provides for 100% reinsurance of the primary insurer’s policy and a 90-day written notice of termination of the reinsurance agreement. The alternative endorsement must be attached to the title insurance policy for each individual mortgage.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013      |
| <a href="#">Announcement SEL-2012-10</a> | October 2, 2012    |



## **B7-2-03, General Title Insurance Coverage (03/31/2015)**

### **Introduction**

This topic contains information on general title insurance coverage.

- [Terms of Coverage](#)
- [Effective Date of Coverage](#)
- [Amount of Coverage](#)
- [Other Requirements](#)

### **Terms of Coverage**

The title insurance policy must ensure that the title is generally acceptable and that the mortgage constitutes a lien of the required priority on a fee simple or leasehold estate in the property.

The title policy also must list all other liens and state that they are subordinate to Fannie Mae's mortgage lien.

| <b>Loan Origination Date</b> | <b>Title Policy Requirements</b>  |
|------------------------------|---|
| On or after January 1, 2008  | <p>The title policy must be written on one of the following forms:</p> <ul style="list-style-type: none"><li>• the 2006 American Land Title Association (ALTA) standard form;</li><li>• an ALTA short form if it provides coverage equivalent to the 2006 ALTA standard form and does not materially impair protection to Fannie Mae;</li><li>• in states in which standard ALTA forms of coverage are, by law or regulation, not used, the state-promulgated standard or short form which provides same coverage as the equivalent ALTA form, provided that those forms do not materially impair protection to Fannie Mae.</li></ul> |
| Prior to January 1, 2008     | <p>The title policy must either use the appropriate 2006 ALTA form noted below, or ensure that title coverage meets the requirements in place at the time of mortgage loan origination.</p>   |

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### **Effective Date of Coverage**

The effective date of the title insurance coverage written on forms that do not provide the gap coverage included in the 2006 ALTA policies may be no earlier than the later of the date of the final disbursement of loan proceeds or the date the mortgage was recorded.

Because the 2006 ALTA forms provide protection for the time between loan closing and recordation of the mortgage, policies written on those forms may be effective as of loan closing.

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### **Amount of Coverage**

The amount of title insurance coverage must at least equal the original principal amount of the mortgage.

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### **Other Requirements**

If a mortgage is registered with MERS and is originated naming MERS as original mortgagee of record, solely as nominee for the lender named in the security instrument and the note, and the lender's successors and assigns, then the "insured mortgage" covered by the title insurance policy must be identified in the title insurance policy as the security instrument given to MERS, solely as nominee for the lender and lender's successors and assigns. However, under no circumstances may MERS be named as the insured of a title policy.

The title insurance coverage must include an environmental protection lien endorsement (ALTA Endorsement 8.1-06 or equivalent state form provides the required coverage).

References are to the ALTA 2006 form of endorsement, but state forms may be used in states in which standard ALTA forms of coverage are, by law or regulation, not used, provided that those endorsements do not materially impair protection to Fannie Mae. As an alternative to endorsements, the requisite protections may be incorporated into the policy. For loans originated prior to January 1, 2008, endorsement forms that meet Fannie Mae's requirements at the time of origination are acceptable.

Title policies may not include the creditors' rights exclusion language that ALTA adopted in 1990.



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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2015-03</a> | March 31, 2015     |
| <a href="#">Announcement SEL-2015-01</a> | January 27, 2015   |
| <a href="#">Announcement SEL-2014-12</a> | September 30, 2014 |
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013    |
| <a href="#">Announcement SEL-2011-04</a> | May 24, 2011       |



## **B7-2-04, Special Title Insurance Coverage Considerations (08/20/2013)**

### Introduction

This topic provides specific requirements for title insurance coverage related to certain types of mortgage products or types of security properties, including:

- [Condo and PUD Unit Mortgages](#)
- [Co-op Share Loans](#)
- [Mortgages Subject to Leasehold Estates](#)
- [Other Mortgages](#)

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### Condo and PUD Unit Mortgages

The title insurance policy for a condo or PUD unit mortgage must describe all components of the unit estate.

For condo unit mortgages, an ALTA 4-06 or 4.1-06 endorsement or its equivalent is required. For PUD unit mortgages, an ALTA 5-06 or 5.1-06 endorsement or its equivalent is required. These endorsements must be attached to each policy or incorporated in the text of the policy.

If the unit owners own the common areas of the project as tenants in common, the policy for each unit mortgage must reflect that ownership.

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If the homeowners' association owns the common elements, areas, or facilities of the project separately (or holds them in a leasehold estate), the title insurance on those areas must insure that ownership.

This title policy must show that title to the common elements, areas, or facilities is free and clear of any objectionable liens and encumbrances, including any statutory or mechanics' liens for labor or materials related to improvements on the common areas that began before the title policy was issued.

The title policy must protect Fannie Mae by insuring the following:

- that the mortgage is superior to any lien for unpaid common expense assessments. (In jurisdictions that give these assessments a limited priority over a first or second mortgage lien, the policy must provide assurance that those assessments have been paid through the effective date of the policy.)
- against any impairment or loss of title of Fannie Mae's first or second lien caused by any past, present, or future violations of any covenants, conditions, or restrictions of the master deed for the project. (It must specifically insure against any loss that results from a violation that existed as of the date of the policy.)
- that the unit does not encroach on another unit or on any of the common elements, areas, or facilities. (The policy also must insure that there is no encroachment on the unit by another unit or by any of the common elements, areas, or facilities.)
- that the mortgage loan is secured by a unit in a condo project that has been created in compliance with the applicable enabling statutes;
- that real estate taxes are assessable and lienable only against the individual condo unit and its undivided interest in the common elements, rather than against the project as a whole; and
- that the owner of a PUD unit is a member of the homeowners' association and that the membership is transferable if the unit is sold.

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### **Co-op Share Loans**

When co-op shares are recognized as real property, a title policy is required. Title evidence for a co-op share loan must ensure that:

- the title is generally acceptable,
- the borrower has good and marketable title to the shares, and
- the co-op corporation has good and marketable title to the project.

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When co-op shares are considered personal property and therefore cannot be insured under standard title policies, the title must be generally acceptable, the borrower must have title to the shares, and the co-op corporation must have good and marketable title to the project.

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### **Mortgages Subject to Leasehold Estates**

A mortgage that is subject to a leasehold estate must have an ALTA Endorsement 13.1-06. When a mortgage loan is secured by a property held by a community land trust, the lender's title insurance policy (or an endorsement to the policy) must expressly confirm the following:

- the recording of the complete community land trust ground lease or ground lease memorandum;
  - the recording of the *Community Land Trust Ground Lease Rider* ([Form 2100](#));
  - that the community land trust mortgage is a first lien on the leasehold estate and the improvements;
  - that there are no existing mortgage loans or other liens on the fee estate, except as may be permitted under Form 2100;
  - that the ground lessor's reversionary interest is subordinate to the community land trust mortgage; and
  - that there are no related community land trust ground lease occupancy and resale restrictions, covenants, or agreements that "run with the land," and have been recorded apart from the ground lease, except as may be permitted under Form 2100.
- 

### **Other Mortgages**

The table below provides the title insurance coverage requirements or endorsements for other types of mortgage loans.

| <b>Transaction Type</b>   | <b>Title Insurance Requirements</b>   |
|---|---|
| Conventional HomeStyle mortgage or FHA Section 203(k) home improvement mortgage | The policy must cover the full amount of the recorded mortgage, must be dated concurrently with the recordation of the mortgage, and must be updated to the date on which renovation work is completed. |
| Adjustable-rate mortgage  | The policy must include ALTA Endorsement 6-06.  |
| Manufactured home mortgage  | The policy must include ALTA Endorsement 7, 7.1, or 7.2.  |

| Transaction Type  | Title Insurance Requirements   |
|---|--|
| Redelivered balloon mortgage after conditional right to refinance | <p>The policy must ensure that any refinance balloon mortgage that is originated at the end of the balloon term constitutes a lien of the first priority on the property.</p> <p>Fannie Mae recommends, but does not require, an endorsement to the title policy that is available in most jurisdictions.</p> <p>This endorsement reflects the refinancing and extension of the maturity date, and adds the modification to Schedule A as part of the insured mortgage. This endorsement is issued at the time the new note is executed and the original mortgage document is modified to reflect the refinancing, and is not necessary when the refinance mortgage is documented by both a new note and a new mortgage.</p> |
| Native American Housing Initiative mortgage                       | <p>For a HUD-guaranteed Section 184 mortgage, when title to the security property is held as a fee simple estate, Fannie Mae requires a title insurance policy that satisfies its general requirements.</p> <p>For all other HUD-guaranteed Section 184 mortgages, Fannie Mae relies on the title status report issued by the Land Titles and Records Office of the Bureau of Indian Affairs.</p>  |
| Texas Section 50(a)(6) mortgage                                   | <p>Fannie Mae requires a Mortgagee Policy of Title Insurance (Form T-2), supplemented by an Equity Loan Mortgage Endorsement (Form T-42) including the optional coverage provided by Paragraph 2(f) and a Supplemental Coverage Equity Loan Mortgage Endorsement (Form T-42.1). Refer to <a href="#">B5-4.1-05, Texas Section 50(a)(6) Mortgage Legal Considerations</a> for more information.</p>   |
| Conventional construction-to-permanent mortgage                   | <p>When closed as a single transaction for both the construction loan and the permanent financing, the policy must be dated concurrently with the date of the mortgage and must include (1) a “pending disbursements” clause and (2) a final endorsement to</p>  |

| Transaction Type | Title Insurance Requirements   |
|------------------|--|
|                  | <p>the title policy that extends the effective date of the coverage to the later of the final construction advance date or the endorsement date.</p> <p>When closed as two separate transactions (one for the construction phase and one for the permanent financing), the policy must satisfy Fannie Mae’s standard title insurance requirements for permanent mortgages.</p> |

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013  |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013    |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012    |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011    |
| <a href="#">Announcement SEL-2011-01</a> | January 27, 2011 |
| <a href="#">Announcement SEL-2010-07</a> | May 27, 2010     |
| <a href="#">Announcement SEL-2010-06</a> | April 30, 2010   |
| <a href="#">Announcement SEL-2010-04</a> | March 29, 2010   |



## **B7-2-05, Title Exceptions and Impediments (02/23/2016)**

### Introduction

This topic contains information on title exceptions, including:

- [Title Exceptions](#)
- [Minor Impediments to Title for Conventional Mortgages](#)
- [Title Impediment – Mortgage Loans Secured by Properties with Unexpired Redemption Periods](#)

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## Title Exceptions

Fannie Mae will not purchase or securitize a mortgage secured by property that has an unacceptable title impediment, particularly unpaid real estate taxes and survey exceptions.

If surveys are not commonly required in particular jurisdictions, the lender must provide an ALTA 9 Endorsement. If it is not customary in a particular area to supply either the survey or an endorsement, the title policy must not have a survey exception. However, if the lender substantiates that a first mortgage title policy was issued without a survey exception, Fannie Mae will purchase or securitize a second mortgage secured by the same property even though it has a survey exception.

Minor title impediments must not materially affect the marketability of the property. The lender must indemnify Fannie Mae (as described in [A2-1-03, Indemnification for Losses](#)) for any Fannie Mae losses that can be directly attributed to the impediment(s).

Requests for waivers of exceptions to title should be submitted in writing to the lender's lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)) and should provide appropriate justification for the waiver.

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## Minor Impediments to Title for Conventional Mortgages

Title for a property that secures a conventional mortgage is acceptable even though it may be subject to the following conditions, which Fannie Mae considers minor impediments:

- customary public utility subsurface easements that were in place and completely covered when the mortgage was originated, as long as they do not extend under any buildings or other improvements;
- above-surface public utility easements that extend along one or more of the property lines for distribution purposes or along the rear property line for drainage purposes, as long as they do not extend more than 12 feet from the property lines and do not interfere with any of the buildings or improvements or with the use of the property itself;
- mutual easement agreements that establish joint driveways or party walls constructed on the security property and on an adjoining property, as long as all future owners have unlimited and unrestricted use of them;
- restrictive covenants and conditions, and cost, minimum dwelling size, or set back restrictions, as long as their violation will not result in a forfeiture or reversion of title or a lien of any kind for damages, or have an adverse effect on the fair market value of the property;

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- encroachments of one foot or less on adjoining property by eaves or other overhanging projections or by driveways, as long as there is at least a ten-foot clearance between the buildings on the security property and the property line affected by the encroachment;
  - encroachments on adjoining properties, as long as those encroachments consist only of hedges or removable fences;
  - outstanding oil, water, or mineral rights that are customarily waived by other lenders, as long as they do not materially alter the contour of the property or impair its value or usefulness for its intended purposes;
  - variations between the appraisal report and the records of possession regarding the length of the property lines, as long as the variations do not interfere with the current use of the improvements and are within an acceptable range. (For front property lines, a 2% variation is acceptable; for all other property lines, 5% is acceptable.);
  - rights of lawful parties in possession, as long as such rights do not include the right of first refusal to purchase the property. (No rights of parties in possession, including the term of a tenant’s lease, may have a duration of more than two years.);
  - minor discrepancies in the description of the area, as long as the lender provides a survey and affirmative title insurance against all loss or damage resulting from the discrepancies;
  - exceptions to Indian claims, as long as the lender is insured against all loss and damage from such claims.
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### **Title Impediment – Mortgage Loans Secured by Properties with Unexpired Redemption Periods**

Certain state laws provide a “redemption period” after a foreclosure or tax sale has occurred, during which time the property may be reclaimed by the prior mortgagor or other party upon payment of all amounts owed. The length of the redemption period varies by state and does not expire automatically upon sale of the property to a new owner. Although an unexpired redemption period will generally be deemed to be an unacceptable title impediment, Fannie Mae will consider it to be acceptable provided the following requirements are met:

| ✓ | <b>Requirements for Mortgage Loans<br/>Subject to Unexpired Redemption Periods</b>  |
|---|---|
|   | The property must be located in a state where it is common and customary to sell single-family residential property during the redemption period. |

| ✓ | <b>Requirements for Mortgage Loans<br/>Subject to Unexpired Redemption Periods</b>   |
|---|--|
|   | <b>Note:</b> Loans representing the purchase of Fannie Mae-owned properties which have been sold during the redemption period may be subject to separate negotiations. Lenders should contact their lead Fannie Mae regional office for additional information.  |
|   | The mortgagee policy of title insurance must take specific exception to the unexpired right of redemption but also affirmatively insure the mortgagee against all loss arising out of the exercise of any outstanding right of redemption, without qualification.  |
|   | If any party exercises a right to redeem the mortgaged property, the mortgage must be paid off directly out of the redemption proceeds with no requirement for any further action or claim for repayment.  |
|   | The lender must indemnify Fannie Mae (as described in <a href="#">A2-1-03, Indemnification for Losses</a> ) for any losses incurred by Fannie Mae that can be directly attributed to the exercise by any party of a right to redeem the mortgaged property, including without limitation, a loss related to borrower default due to a dispute with the redeeming party over the terms of the redemption. |

**Note:** Fannie Mae strongly encourages lenders to provide written disclosure to borrowers of properties that are subject to unexpired redemption periods if not otherwise required by law (or disclosed by the title company).

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |
| <a href="#">Announcement SEL-2010-10</a> | August 12, 2010   |
| <a href="#">Announcement SEL-2010-07</a> | May 27, 2010      |



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# Chapter B7-3, Property and Flood Insurance



## Property and Flood Insurance

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### Introduction

This chapter describes Fannie Mae’s requirements for property and flood insurance, including those related to coverage types, amounts, and evidence. Note that the term “hazard” insurance has been replaced with the more commonly-used industry term “property” insurance.

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### In This Chapter

This chapter contains the following topics:

|   |      |
|---|------|
| B7-3-01, Property Insurance Requirements for Insurers (11/03/2015) .....                      | 983  |
| B7-3-02, General Property Insurance Coverage (12/16/2014) .....                               | 986  |
| B7-3-03, Determining the Amount of Required Property Insurance Coverage (07/29/2014)<br>..... | 988  |
| B7-3-04, Property Insurance Coverage for Units in Project Developments (06/28/2016)....       | 990  |
| B7-3-05, Additional Insurance Coverage (07/29/2014) .....                                     | 995  |
| B7-3-06, Evidence of Property Insurance (07/29/2014) .....                                    | 998  |
| B7-3-07, Flood Insurance Coverage Requirements (03/29/2016) .....                             | 1001 |
| B7-3-08, Mortgage Clause for Property and Flood Insurance (06/28/2016) .....                  | 1007 |

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## B7-3-01, Property Insurance Requirements for Insurers (11/03/2015)

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### Introduction

This topic contains information on property insurance requirements for insurers (also referred to as carriers below), including:

- [Provision of Property Insurance](#)
- [Rating Requirements](#)
- [Other Acceptable Insurance Underwriters](#)
- [Exceptions to the Rating Requirements](#)

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## Provision of Property Insurance

Each borrower has the right to select his or her own insurance carrier to provide property insurance for the security property, provided that the insurance policy and coverage meet Fannie Mae's requirements. The lender must ensure that the insurance carrier, policy, and coverage meet Fannie Mae's requirements. In some cases, Fannie Mae may require additional coverage or consider coverage that differs from these requirements.

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## Rating Requirements

Unless Fannie Mae has approved alternative arrangements in advance, the property insurance policy for a property securing any first mortgage—including blanket policies for condo, co-op, and PUD projects—must be written by a carrier that meets the following rating requirements. The carrier needs to meet only one of the following rating categories, even if it is rated by more than one agency:

- Carriers rated by the A.M. Best Company, Inc. must have either:
  - a “B” or better Financial Strength Rating in *Best’s Insurance Reports* or
  - an “A” or better Financial Strength Rating and a Financial Size Category of “VIII” or greater in *Best’s Insurance Reports Non-US Edition*.

Carriers providing coverage for co-op projects must have a general policyholder’s rating of “A” and a Financial Size Category of “V” in *Best’s Insurance Reports*.

- Carriers rated by Demotech, Inc. must have an “A” or better rating in *Demotech’s Hazard Insurance Financial Stability Ratings*.
- Carriers rated by Standard and Poor’s must have a “BBB” or better Insurer Financial Strength Rating in *Standard and Poor’s Ratings Direct Insurance Service*.

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## Other Acceptable Insurance Underwriters

Fannie Mae also accepts the following property insurance policies:

- policies underwritten by a state’s Fair Access to Insurance Requirements (FAIR) plan, if it is the only coverage that can be obtained;
- policies obtained through state insurance plans—such as the Hawaii Property Insurance Association (HPIA), Florida’s Citizens Property Insurance Corporation, or other state-

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mandated windstorm and beach erosion insurance pools—if that is the only coverage that is available; and

- a separate hurricane insurance policy issued by the Hawaiian Hurricane Relief Fund (for properties in Hawaii), as long as the companion noncatastrophic fire and extended coverage (or homeowner’s) policy is obtained from a property insurer that satisfies Fannie Mae’s rating criteria.

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### Exceptions to the Rating Requirements

The following are exceptions to Fannie Mae’s rating requirements:

- **Second mortgages** — The property insurance policy for a property that secures a second mortgage does not have to be written by an insurance carrier that meets Fannie Mae’s criteria, unless Fannie Mae has an interest in the first mortgage.
- **Mortgage impairment (or mortgagee interest) insurance** — If the servicer is covered by mortgage impairment (or mortgagee interest) insurance, Fannie Mae does not require confirmation that the borrower’s property insurance coverage is with a firm that meets its rating requirements (although the lender should advise the borrower of Fannie Mae’s requirements when it originates the mortgage).

If Fannie Mae will rely on the servicer’s impairment policy that covers the loan or the property as a type of reinsurance arrangement, the issuer of the mortgage impairment (or mortgagee interest) policy must meet either one of the A.M. Best general policyholder’s ratings or one of the Standard and Poor’s claims-paying ability ratings listed previously.

- **Reinsurance arrangements** — The policies of an insurer that does not meet Fannie Mae’s rating requirement will be accepted if the insurer is covered by reinsurance with a company that does meet either one of the A.M. Best general policyholder’s ratings or one of the Standard and Poor’s claims-paying ability ratings listed previously.

The primary insurer and the reinsuring company must be authorized (or licensed, if that is required) to transact business within the state where the property is located. The reinsurance agreement must have a “cut-through” endorsement that provides for the reinsurer to become immediately liable for 100% of any loss payable by the primary insurer in the event that the primary insurer becomes insolvent.

Both the primary insurer and the reinsuring company must execute an *Assumption of Liability Endorsement* ([Fannie Mae Form 858](#)) or any equivalent endorsement that provides for 100% reinsurance of the primary insurer’s policy and 90-day written notice of termination of the reinsurance arrangement. Form 858 (or the equivalent endorsement) must be attached to each

insurance policy that is covered by the reinsurance agreement unless the servicer is covered by a mortgage impairment (or mortgagee interest) insurance policy.

A reinsurer can limit its coverage exposure by specifying a dollar limitation in the reinsurance endorsement. However, Fannie Mae will not accept a contract that allows contributions or assessments either to be made against Fannie Mae or to become a lien on the property that is superior to Fannie Mae's lien. If the reinsurance endorsement includes a dollar limitation, the insurance written under the policy cannot exceed that amount.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015  |
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014     |
| <a href="#">Announcement SEL-2013-08</a> | October 22, 2013  |
| <a href="#">Announcement SEL-2011-13</a> | December 20, 2011 |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011     |



## **B7-3-02, General Property Insurance Coverage (12/16/2014)**

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### Introduction

This topic contains information on general property insurance coverage, including:

- [Coverage Requirements](#)
- [First Mortgages](#)
- [Second Lien Mortgages](#)
- [Construction-to-Permanent Mortgages](#)
- [Deductible Amount](#)

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### Coverage Requirements

Property insurance for properties securing loans delivered to Fannie Mae must protect against loss or damage from fire and other hazards covered by the standard extended coverage

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endorsement. The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, or explosion.

Fannie Mae does not accept property insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement.

Lenders should advise borrowers that they may not obtain property insurance policies that include such limitations or exclusions, unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions.

Additional requirements apply to properties with solar panels that are leased from or owned by a third party under a power purchase agreement or other similar arrangement. See [B2-3-04, Special Property Eligibility Considerations](#), for additional requirements.

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## First Mortgages

For a first mortgage secured by a property on which an individually held insurance policy is maintained, Fannie Mae requires coverage equal to the lesser of the following:

- 100% of the insurable value of the improvements, as established by the property insurer; or
- the unpaid principal balance of the mortgage, as long as it at least equals the minimum amount—80% of the insurable value of the improvements—required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained.

[B7-3-03, Determining the Amount of Required Property Insurance Coverage](#) provides a formula for determining the amount of property insurance coverage generally required for a first mortgage.

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## Second Lien Mortgages

When the existing coverage for a property that secures a second lien mortgage does not provide coverage equal to the lesser of 100% of the insurable value of the property improvements or the combined unpaid principal balance of the first and second mortgages (as long as that equals at least 80% of the insurable value of the improvements), the lender must require the borrower to obtain appropriate endorsements to bring the coverage in line with Fannie Mae's requirements. A copy of any endorsements should be sent to the first mortgage servicer.

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## Construction-to-Permanent Mortgages

Property insurance coverage is not required for some construction-to-permanent mortgages that are covered by builder's risk insurance during the construction period, although Fannie Mae's standard property insurance requirements apply for construction-to-permanent mortgages as soon as the borrower occupies the property or the construction is completed.

Although the property insurance requirement for most home renovation or construction mortgage loans initially is based on the "as is" value of the property, the amount of coverage must be increased, if necessary, following the completion of the renovation or construction work to ensure that Fannie Mae's standard coverage requirement is satisfied.

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## Deductible Amount

The maximum allowable deductible for insurance covering a property (including common elements in a PUD, condo, or co-op project) securing a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2014-16</a> | December 16, 2014 |
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014     |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011     |



## **B7-3-03, Determining the Amount of Required Property Insurance Coverage (07/29/2014)**

### Introduction

This topic contains information on determining the amount of required property insurance coverage for a property on which an individually held insurance policy is maintained.

### Determining the Amount of Required Property Insurance

The following table describes how to calculate the amount of required property insurance coverage:

| Step | Description   |
|------|---|
| 1    | Compare the insurable value of the improvements as established by the property insurer to the unpaid principal balance of the mortgage loan.                              |
| 1A   | If the insurable value of the improvements is less than the unpaid principal balance, the insurable value is the amount of coverage required.                             |
| 1B   | If the unpaid principal balance of the mortgage loan is less than the insurable value of the improvements, go to Step 2.  |
| 2    | Calculate 80% of the insurable value of the improvements.   |
| 2A   | If the result of this calculation is equal to or less than the unpaid principal balance of the mortgage, the unpaid principal balance is the amount of coverage required. |
| 2B   | If the result of this calculation is greater than the unpaid principal balance of the mortgage, this calculated figure is the amount of coverage required.                |

Examples:

| Category                 | Property A | Property B | Property C |
|--------------------------|------------|------------|------------|
| Insurable Value          | \$90,000   | \$100,000  | \$100,000  |
| Unpaid Principal Balance | \$95,000   | \$ 90,000  | \$ 75,000  |
| 80% Insurable Value      | —          | \$ 80,000  | \$ 80,000  |
| Required Coverage        | \$90,000   | \$ 90,000  | \$ 80,000  |
| Calculation Method       | Step 1A    | Step 2A    | Step 2B    |

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date    |
|--|---------------|
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014 |



## **B7-3-04, Property Insurance Coverage for Units in Project Developments (06/28/2016)**

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### **Introduction**

This topic contains information on property insurance coverage for units in project developments, including:

- [Coverage for Units in Project Developments](#)
  - [Required Coverage for Condo, Co-op, or PUD Projects](#)
  - [Amount of Coverage](#)
  - [Maximum Deductible Amounts](#)
  - [Special Endorsements](#)
  - [Special Requirements for Condo Projects](#)
  - [Named Insured](#)
  - [Notices of Changes or Cancellation](#)
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### **Coverage for Units in Project Developments**

Fannie Mae generally does not require individual insurance policies for a condo unit that secures a first mortgage or for a co-op share loan. However, if the legal documents for the project allow for unit insurance policies for each first mortgage that Fannie Mae purchases or securitizes in a condo or co-op project, Fannie Mae will accept the individual unit insurance policies that meet the requirements in [B7-3-06, Evidence of Property Insurance](#), and Chapter B7–3, Property and Flood Insurance.

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### **Required Coverage for Condo, Co-op, or PUD Projects**

This section covers property insurance requirements for insurance policies covering the common elements of condo, co-op, and PUD projects—the project’s blanket or master policy.

Acceptable policies must provide coverage for either an individual project or multiple affiliated projects. The insurance policy must at a minimum protect against fire and all other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily covered for similar types of projects, including those covered by the standard “all risk” or “special form” endorsement. If the policy does not include an “all risk” or “special form” endorsement, Fannie Mae will accept a policy that includes the “broad form” covered causes of loss. The applicable requirements are:



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- **PUD Requirements** — The HOA must maintain a property insurance policy, with premiums being paid as a common expense. The policy must cover all of the common elements except for those that are normally excluded from coverage, such as land, foundation, and excavations. Fixtures and building service equipment that are considered part of the common elements, as well as common personal property and supplies, should be covered.

Individual insurance policies are also required for each unit mortgage that Fannie Mae purchases in a PUD project. If the project’s legal documents allow for blanket insurance policies to cover both the individual units and the common elements, Fannie Mae will accept the blanket policies in satisfaction of its insurance requirements for the units.

- **Condo Requirements** — The lender must review the entire condo project insurance policy to ensure the HOA maintains a master or blanket type of insurance policy, with premiums being paid as a common expense. The insurance requirements vary based on the type of HOA master or blanket insurance policy as follows:
  - “Single Entity” policy: The policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the HOA. The policy also must cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed. The amount of coverage must be sufficient to restore the condo unit to its condition prior to a loss claim event. If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.
  - “All-In” (sometimes known as an “all-inclusive”) policy: The policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the HOA. The policy also must cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed. If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.
  - “Bare Walls” policy: This policy typically provides no coverage for the unit interior, which includes fixtures, equipment, and replacement of interior improvements and betterments. As a result, the borrower must obtain an individual HO-6 policy that provides coverage sufficient to repair the condo unit to its condition prior to a loss claim event, as determined by the insurer.

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- **Co-op Requirements** — The co-op corporation must maintain a property insurance policy, with premiums being paid as a common expense. The policy must cover the entire project, including the individual units.
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### **Amount of Coverage**

Insurance must cover 100% of the insurable replacement cost of the project improvements, including the individual units in the project. An insurance policy that includes any of the following coverage, either in the policy language or in a specific endorsement to the policy, is acceptable:

- **Guaranteed Replacement Cost**—the insurer agrees to replace the insurable property regardless of the cost,
- **Extended Replacement Cost**—the insurer agrees to pay more than the property’s insurable replacement cost, or
- **Replacement Cost**—the insurer agrees to pay up to 100% of the property’s insurable replacement cost.

### **Policies with Coinsurance**

Policies with coinsurance provisions can create additional risk for an HOA in the event of a loss if the amount of insurance coverage is less than the full insurable value. Master property policies that provide coverage at 100% of the insurable replacement cost of the project improvements, including the individual units, alleviate the risk of a coinsurance penalty being applied in the event of a loss.

If the policy has a coinsurance clause, inclusion of an Agreed Amount Endorsement or selection of the Agreed Value Option (which waives the requirement for coinsurance) is considered acceptable evidence that the 100% insurable replacement cost requirement has been met. If an Agreed Amount/Agreed Value provision is used, the Agreed Amount must be no less than the estimated replacement cost.

If the policy includes a coinsurance clause, but the coinsurance provision is not waived, the policy is still eligible if evidence acceptable to the lender confirms that the amount of coverage is at least equal to 100% of the insurable replacement cost of the project improvements. This evidence (documentation) must be maintained by the lender.

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## Maximum Deductible Amounts

For policies covering the common elements in a PUD project and for policies covering condo or co-op projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy.

For losses related to individual units in a co-op project or for individual PUD units that are covered by the blanket policy for the project, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit. If, however, the policy provides for a wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit.

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## Special Endorsements

The requirements for endorsements for condo, co-op, and PUD projects are as follows:

- Inflation Guard Endorsement, when it can be obtained;
- Building Ordinance or Law Endorsement, if the enforcement of any building, zoning, or land-use law would result in loss or damage, increased cost of repairs or reconstruction, or additional demolition and removal costs to rebuild after a covered loss event occurs. The endorsement must provide for contingent liability from the operation of building laws, demolition costs, and increased costs of reconstruction. The endorsement is not required if it is not applicable or the coverage is not obtainable in the insurance market available to the association; and
- Boiler and Machinery/Equipment Breakdown Endorsement, if the project has central heating or cooling. This endorsement should provide for the insurer's minimum liability per accident to at least equal the lesser of \$2 million or the insurable value of the building(s) housing the boiler or machinery. In lieu of obtaining this as an endorsement to the commercial package policy, the project may purchase separate standalone boiler and machinery coverage.

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## Special Requirements for Condo Projects

Additional insurance policy requirements for condo projects are as follows:

- Any Insurance Trust Agreement is recognized.
- The right of subrogation against unit owners is waived.
- The insurance is not prejudiced by any acts or omissions of individual unit owners that are not under the control of HOA.
- The policy must be primary, even if a unit owner has other insurance that covers the same loss.

### Named Insured

The table below provides the requirements regarding the name of the insured entity.

| Coverage Type    | Requirement for Named Insured  |
|------------------|--|
| Condo projects   | The policy must show the HOA as the named insured. If the condo’s legal documents permit it, the policy can specify an authorized representative of the HOA, including its insurance trustee, as the named insured. The “loss payable” clause should show the HOA or the insurance trustee as a trustee for each unit owner and the holder of each unit’s mortgage loan. |
| PUD common areas | The policy must show the HOA as the named insured.   |
| Co-op projects   | The policy must show the co-op corporation as the named insured.   |

See [B7-3-08, Mortgagee Clause for Property and Flood Insurance](#), for additional requirements that pertain to the mortgagee clause requirements.

### Notices of Changes or Cancellation

The table below provides the notification requirements for notices of policy changes or cancellations.

| Project Type | Requirement   |
|--------------|---|
| Condo        | The policy must require the insurer to notify in writing the HOA (or insurance trustee) at least 10 days before it cancels or substantially changes a condo project’s coverage. |
| Co-op        | The policy must require the insurer to notify in writing the HOA (or insurance trustee) at least 30 days before it cancels or substantially changes a co-op project’s coverage. |

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-05</a> | June 28, 2016     |
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014     |
| <a href="#">Announcement SEL-2013-08</a> | October 22, 2013  |
| <a href="#">Announcement SEL-2012-01</a> | January 31, 2012  |
| <a href="#">Announcement SEL-2011-13</a> | December 20, 2011 |
| <a href="#">Announcement 08-34</a>       | December 16, 2008 |



## **B7-3-05, Additional Insurance Coverage (07/29/2014)**

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### Introduction

This topic contains information on additional property insurance coverage, including:

- [Additional Property Insurance Coverage](#)
- [Earthquake and Typhoon Insurance](#)
- [Builder's Risk Insurance](#)
- [Optional Coverage](#)
- [Mortgage Defaults](#)
- [Unacceptable Types of Optional Coverage](#)

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### Additional Property Insurance Coverage

If a lender believes that a security property is exposed to hazards that fire and extended coverage do not protect against—such as toxic waste—it should contact Fannie Mae to determine whether additional coverage is necessary.

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### Earthquake and Typhoon Insurance

Earthquake insurance is required for all buildings in Puerto Rico.

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In Guam, Fannie Mae requires earthquake insurance for buildings of masonry construction only. A typhoon endorsement is also required. The amount of required coverage and the deductible limitations are the same as those for fire and special coverage.

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### **Builder's Risk Insurance**

When Fannie Mae purchases—under terms permitting—a mortgage that combines construction and permanent financing into a single transaction before the construction of the property improvements is completed, the property (and any partially completed improvements) must be covered by builder's risk insurance. (This type of insurance was previously referred to as construction site insurance.)

Builder's risk insurance covers any losses during the construction period that result from theft, vandalism, and acts of nature (including fire, flood, and wind damage).

The amount of the builder's risk insurance coverage must be equal to the original mortgage loan amount.

The builder's risk insurance may be canceled after the borrower obtains property (and, if applicable, flood) insurance that meets Fannie Mae's standard requirements after the improvements are completed or the borrower occupies the property (whichever comes first).

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### **Optional Coverage**

Fannie Mae allows property insurance policies that include optional coverage such as those outlined below. However, Fannie Mae does not pay costs arising from disputes with insurance carriers in settling claims that relate only to this optional coverage.

Permissible coverage includes:

- single-premium credit insurance policies and debt cancellation agreements that are free in all respects to the borrower,
- single-premium mortgage insurance policies with a credit insurance feature where such credit insurance feature is free in all respects to the borrower, and
- credit insurance policies that require borrowers to pay a separately identified premium on a monthly or annual basis or debt cancellation agreements that require borrowers to pay a separately identified fee on a monthly basis.

These credit insurance policies or debt cancellation agreements must be disclosed to the borrower in clear and simple terms in advance of purchase of the applicable policy or agreement.

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Notwithstanding the lender's compliance with the foregoing requirements, Fannie Mae purchases loans with debt cancellation agreements only upon Fannie Mae's express written approval of the overall debt cancellation feature, including the debt cancellation agreement, and execution by the lender and Fannie Mae of a separately negotiated agreement.

The lender may act as a broker or agent in the sale of this type of credit insurance to the borrower.

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### **Mortgage Defaults**

The lender must reimburse Fannie Mae for attorney's fees or any costs that it incurs if Fannie Mae brings an action on a defaulted mortgage and the borrower defends against Fannie Mae's foreclosure or acts to enjoin Fannie Mae from liquidating the mortgage and one of the defenses or actions for injunction is based on:

- an obligation of the lender (including as the broker or agent that obtained the credit insurance for the borrower and/or as a party that has agreed to collect premiums and remit them to the credit insurer on the borrower's behalf),
- an obligation of the credit insurance carrier, or
- the obligation of the mortgage insurer to maintain credit insurance and apply benefits thereof to the borrower's mortgage.

For example, acting as broker, a lender sells a borrower an insurance policy that makes mortgage payments if the borrower becomes disabled. Eventually, the borrower is disabled, but mortgage payments are not made because the lender allowed the insurance policy to lapse. When Fannie Mae attempts to foreclose on the mortgaged property, the borrower defends on the ground that the lender is responsible for the default. In these circumstances, Fannie Mae does not pay for any extra attorney's fees or costs that result from the defense just described; these costs are the responsibility of the lender.

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### **Unacceptable Types of Optional Coverage**

Although certain property insurance policies that include optional coverage are allowed, Fannie Mae does not purchase or securitize mortgages in the following situations:

- The premium/fee for single-premium credit insurance policies or debt cancellation agreements is paid directly by the borrower or paid indirectly by financing the premium/fee into the mortgage loan amount.

- The premium/fee for single-premium mortgage insurance policies with a credit insurance feature is paid directly by the borrower or paid indirectly by rolling the credit insurance single premium into the cost of the mortgage insurance (whether or not it is identified as including a credit insurance premium).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date    |
|--|---------------|
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014 |



## **B7-3-06, Evidence of Property Insurance (07/29/2014)**

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### Introduction

This topic contains information on evidence of property insurance, including:

- [Overview](#)
- [Short-Form Certificates of Insurance](#)
- [Master or Blanket Policies](#)
- [Data Files in Lieu of Policies](#)

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### Overview

Lenders must follow the requirements below relative to documenting and retaining evidence of property insurance policies:

- The servicer should hold individual insurance policies for first mortgages, unless the servicer is covered by a mortgage impairment or mortgagee interest insurance policy or uses other evidence of insurance that Fannie Mae considers acceptable.
- The servicer must be given a copy of any insurance policy covering the common areas of the PUD project when the mortgage covers an individual unit in a PUD and coverage for the unit is provided under an individual policy.



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- The servicer of a second mortgage does not need to keep the original policy in its possession if it is not responsible for paying the renewal premiums; however, it should retain in its files a copy of the insurance policy, any endorsements to it, and evidence of premium payments.
  - When the borrower obtains property insurance, the lender must verify the actual existence of a valid policy that meets Fannie Mae's requirements. Information related to the policy should be passed on to the servicer.

The servicer may store any of the forms used as evidence of insurance in an electronic medium. However, the servicer must be able to provide a legible copy of any particular policy if Fannie Mae requests one.

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### **Short-Form Certificates of Insurance**

Instead of providing a full insurance policy for each property, some insurers issue a short-form certificate of insurance. A lender may accept a short-form certificate of insurance in lieu of an original policy if the certificate shows all of the necessary information and is signed by the insurer. In this case, a complete text of the full policy must be retained in the servicer's office.

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### **Master or Blanket Policies**

Many units in condo or co-op projects are covered by master or blanket policies instead of by individual policies. This also is true for some PUD units. In these cases, the servicer should be given a copy of the current master or blanket policy and a certificate of insurance showing that the individual unit that secures the mortgage loan or co-op share loan is covered under the policy. As an alternative, the lender may obtain from an authorized representative of the insurer individual evidence of insurance for each unit. This evidence must:

- provide for at least 10 days' written notice—30 days' for co-ops—to the servicer if the policy is canceled or not renewed, or if any other change that adversely affects Fannie Mae's interests is made;
- include the types and amounts of coverage provided; and
- describe any endorsements that are part of the master policy.

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### **Data Files in Lieu of Policies**

Some insurance carriers no longer issue original property insurance policies. Instead, they provide a data file that includes essential information about the insurance policies they have

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issued for properties securing mortgages serviced by the lender. Because that data file is the source that the insurance carrier uses to issue actual policy documents, these data files are acceptable in lieu of original policies as long as the following controls exist to ensure that Fannie Mae's interests are protected:

- The data file must include sufficient information about the insurance policy, the property, and the borrower to ensure that the servicer is able to comply with Fannie Mae's requirements for maintaining and monitoring property insurance (such as reviewing the policy terms, amount of coverage, and deductible limits; confirming that premiums have been paid; and processing loss drafts).
- The lender's errors and omissions insurance policy must acknowledge electronic data transfers and fully protect the lender and Fannie Mae against losses incurred as the result of erroneous data files or transfers.
- The insurance carrier must provide the lender with written assurance that the data file is equivalent to a printed policy, typically through a detailed agreement between the two parties.
- The servicer must have in place appropriate procedures to mitigate risks associated with not possessing an original hardcopy policy, which may include obtaining certifications from the insurance carrier as to the accuracy of certain information that the servicer is required to verify.
- The servicer must be able to provide legible hard copies of the actual insurance policies and proof of premium payments if Fannie Mae ever requests them.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014     |
| <a href="#">Announcement SEL-2013-08</a> | October 22, 2013  |
| <a href="#">Announcement SEL-2011-13</a> | December 20, 2011 |



## **B7-3-07, Flood Insurance Coverage Requirements (03/29/2016)**

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### **Introduction**

This topic contains information on Fannie Mae's flood insurance coverage requirements, including:

- [General Requirements](#)
  - [Acceptable Flood Insurance Policies](#)
  - [Coverage for First Mortgages](#)
  - [Coverage for Second Mortgages](#)
  - [Requirements for Project Developments](#)
  - [Properties Located in the Coastal Barrier Resources System or in an Otherwise Protected Area](#)
  - [Maximum Allowable Deductibles](#)
  - [Delivery Requirements](#)
- 

### **General Requirements**

The lender must ensure that any flood insurance required for the security property is in place. Fannie Mae requires flood insurance for any property that has a residential building, dwelling, structure, or improvement situated in a Special Flood Hazard Area (SFHA) that

- has federally mandated flood insurance purchase requirements, or
- is located in the Coastal Barrier Resources System or Otherwise Protected Area. (See [Properties Located in the Coastal Barrier Resources System or in an Otherwise Protected Area](#) below for further detail.)

Flood insurance coverage is required for all residential buildings on the mortgaged premises if any part of the structure is located within an SFHA. If two or more residential structures are located on a security property (for example, a principal structure and a guest house), all structures with any part in an SFHA must be covered by adequate flood insurance. (For the purpose of Fannie Mae's flood insurance requirements, the "principal structure" is the primary residential structure on the security property.)

The following table describes when flood insurance is required.

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| <b>If...</b>  | <b>Then flood insurance...</b>                             |
|---|--|
| any part of the principal structure on a property securing the mortgage loan is located in an SFHA,                                 | is required on the principal structure.                    |
| a non-residential detached structure attached to the land on a property securing the mortgage loan has any part located in an SFHA, | is not required on the non-residential detached structure. |
| a residential detached structure on a property securing the mortgage loan has any part located in an SFHA,                          | is required on the residential detached structure.         |

The lender must determine whether or not the structures on the security property are located in an SFHA by using the Standard Flood Hazard Determination form endorsed by FEMA as mandated by federal flood insurance purchase requirements. SFHAs are shaded on a Flood Hazard Boundary Map and designated on a Flood Insurance Rate Map (FIRM). All flood zones beginning with the letter “A” or “V” are considered SFHAs.

If the lender determines that a principal and/or residential detached structure is located in an SFHA but the community does not participate in the National Flood Insurance Program (NFIP), the mortgage is not eligible for purchase by Fannie Mae.

For communities that participate in the Emergency Program of the NFIP, mortgage loans secured by properties in those communities are eligible for purchase by Fannie Mae provided that the flood insurance coverage meets the higher NFIP Regular Program limits (available on FEMA’s website). Because the NFIP Emergency Program provides only limited coverage, the borrower must obtain private insurance or a supplemental private policy in conjunction with an NFIP Emergency Program policy that fully meets Fannie Mae’s flood insurance coverage requirements (described below).

Fannie Mae will not require flood insurance on a principal or residential detached structure if the borrower obtains a letter from FEMA stating that its maps have been amended so that the structure is no longer in an SFHA.

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### **Acceptable Flood Insurance Policies**

Flood insurance should be in the form of the standard policy issued under the NFIP or by a private insurer. The terms and conditions of the flood insurance coverage must be at least equivalent to the terms and conditions of coverage provided under the standard policy of the NFIP for the appropriate property type. The Policy Declaration page of a policy is acceptable evidence of coverage.

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The amount of flood insurance provided by the NFIP or by a private insurer must meet Fannie Mae's minimum coverage requirements for the appropriate property type. In addition, private carriers must meet Fannie Mae's minimum rating requirements for insurance underwriters described in [B7-3-01, Property Insurance Requirements for Insurers](#).

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### **Coverage for First Mortgages**

The minimum amount of flood insurance required for most first mortgages secured by one- to four-unit properties, individual PUD units, and certain individual condo units (such as those in detached condos, townhouses, or rowhouses) is the lowest of:

- 100% of the replacement cost of the insurable value of the improvements;
- the maximum insurance available from the NFIP, which is currently \$250,000 per dwelling; or
- the unpaid principal balance of the mortgage.

Additional requirements for units in attached condo projects, co-op projects, and PUDs are detailed in Requirements for Project Developments below.

For a HomeStyle Renovation mortgage, the flood insurance coverage should be in an amount equal to the “as is” value of the property. This coverage must be increased, if necessary, following completion of the renovation work to ensure that the coverage meets Fannie Mae's standard coverage requirements.

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### **Coverage for Second Mortgages**

When originating a second lien mortgage for delivery to Fannie Mae, the lender must include all property liens when determining the appropriate flood insurance coverage for the subject loan. All other requirements applicable to first mortgages must also be met.

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### **Requirements for Project Developments**

If a first mortgage is secured by a unit in an attached condo or co-op project and any part of the improvements are in an SFHA, the lender must verify that the HOA or co-op corporation maintains a master or blanket policy of flood insurance and provides for premiums to be paid as a common expense.

| <b>Project Type</b> | <b>Coverage Requirements</b> |
|---------------------|------------------------------|
| Condo               | Individual condo units:      |

| <b>Project Type</b> | <b>Coverage Requirements</b>  |
|---------------------|---|
|                     | <p>Stand-alone flood insurance dwelling policies for an attached individual condo unit are not acceptable. A master condo flood insurance policy must be maintained by the HOA, subject to the coverage requirements below. (For detached units, refer to the requirements described in Coverage for First Mortgages above.)</p> <p>Condo projects:</p> <p>The lender must verify that the HOA maintains a Residential Condominium Building Association Policy or equivalent private flood insurance coverage for the subject unit’s building if it is located in an SFHA. The policy must cover all of the common elements and property (including machinery and equipment that are part of the building), as well as each of the individual units in the building.</p> <p>The master flood insurance policy must be at least equal to the lower of</p> <ul style="list-style-type: none"> <li>• 80% of the replacement cost, or</li> <li>• the maximum insurance available from NFIP per unit (which is currently \$250,000).</li> </ul> <p>If the condo project master policy meets the minimum coverage requirements above but does not meet the one- to four-unit coverage requirements (described in Coverage for First Mortgages), a supplemental policy may be maintained by the unit owner for the difference.</p> <p>The contents coverage for the building should equal 100% of the insurable value of all contents owned in common by association members.</p> <p>If the condo project has no master flood insurance policy or if the master flood insurance policy does not meet the requirements above, mortgages securing units in that project are not eligible for delivery to Fannie Mae.</p> |

| Project Type | Coverage Requirements  |
|--------------|--|
|              | <p><b>Note:</b> DU Refi Plus and Refi Plus loans secured by units in a condo project are not required to meet the flood insurance requirements for master flood insurance policies stated in this section. Rather, if no master policy is in place, a stand-alone dwelling policy may be maintained by the unit owner to meet the full one- to four-unit requirements. If the master policy is deficient (by any amount), a supplemental policy may be maintained by the unit owner for the difference between the master policy and the one- to four-unit requirements.</p> |
| Co-op        | <p>Individual co-op units:</p> <p>Fannie Mae does not require flood insurance for individual co-op units.</p> <p>Co-op projects:</p> <p>The co-op corporation must have flood insurance coverage for each building that is located in an SFHA. The policy must cover the building and any common elements and property (including machinery and equipment) that are owned in common by the shareholders of the co-op corporation. The lower of 100% replacement cost or the maximum coverage available under the applicable NFIP must be maintained.</p>                     |
| PUD          | <p>PUD units (attached and detached):</p> <p>Fannie Mae requires the same flood insurance for individual PUD units that is required for other one- to four-unit properties (described in Coverage for First Mortgages above). A stand-alone dwelling policy may be maintained to meet these requirements.</p>  |

**Properties Located in the Coastal Barrier Resources System or in an Otherwise Protected Area**

When the lender (or a flood zone determination company) determines that a property is located in the Coastal Barrier Resources System (CBRS) or in an Otherwise Protected Area (OPA), flood insurance is required and the lender must verify that the flood insurance policy meets Fannie

Mae's requirements. A mortgage in a non-participating CBRS or OPA community is eligible only if the unit is not located in an SFHA and will require flood insurance to be eligible for delivery to Fannie Mae.

Fannie Mae will accept flood insurance policies from either private insurance carriers or from the NFIP. The amount of flood insurance required must meet Fannie Mae's minimum coverage requirements for the appropriate property type. The carrier must meet Fannie Mae's minimum rating requirements for insurance underwriters.

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### Maximum Allowable Deductibles

Deductibles for master project and individual dwelling flood insurance policies must meet NFIP requirements for the type of improvements insured unless state law requires a higher maximum deductible amount. This requirement applies to both NFIP and private policies.

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### Delivery Requirements

The following table describes the special feature code requirements applicable to flood insurance.

| Structure Location and Status of Flood Insurance Coverage  | Required Special Feature Code                             |
|--|---|
| <ul style="list-style-type: none"> <li>• Some part of a principal and/or residential detached structure on the property securing the mortgage loan is located in an SFHA, and</li> <li>• Flood insurance coverage is in place on the principal and/or residential detached structure.</li> </ul> | SFC 170 Flood Insurance — Special Flood Hazard Area       |
| <ul style="list-style-type: none"> <li>• No part of a principal or residential detached structure on the property securing the mortgage loan is located in an SFHA, but</li> <li>• Flood insurance coverage is in place on the principal and/or residential detached structure.</li> </ul>       | SFC 175 Flood Insurance — Not a Special Flood Hazard Area |
| <ul style="list-style-type: none"> <li>• No part of a principal or residential detached structure on the property securing the mortgage loan is located in an SFHA, and</li> </ul>   | SFC 180 No Flood Insurance                                |



| Structure Location and Status of Flood Insurance Coverage   | Required Special Feature Code |
|---|-------------------------------|
| <ul style="list-style-type: none"> <li>No flood insurance coverage is in place on the principal or residential detached structure.</li> </ul> <p><b>Note:</b> In addition to these criteria, this special feature code also applies if there is a non-residential detached structure attached to the land for which any part is in an SFHA.</p> |                               |

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-03</a> | March 29, 2016     |
| <a href="#">Announcement SEL-2014-16</a> | December 16, 2014  |
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014      |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013      |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012    |
| <a href="#">Announcement 09-28</a>       | August 21, 2009    |



## B7-3-08, Mortgagee Clause for Property and Flood Insurance (06/28/2016)

### Introduction

This topic contains information on mortgagee clause for property and flood insurance.

## Mortgagee Clause

It is not required that Fannie Mae be named in the mortgagee clause, unless the coverage would be impaired by Fannie Mae not being named. If Fannie Mae is named, the clause should read: “Fannie Mae, in care of (insert servicer’s name and address here).” This ensures that all matters related to the policy are referred directly to the servicer and not to Fannie Mae.

When Fannie Mae is not named in the mortgagee clause, the lender’s name, followed by the phrase “its successors and assigns,” should be shown as the mortgagee. If the lender is not the servicer, the servicer’s name should be specified. In all cases, the insurer should be instructed to send all correspondence, policies, and bills to the servicer (or to both the first and second mortgage servicers). If the mortgage is registered with MERS and is originated naming MERS as the original mortgagee of record, MERS must not be named as loss payee on any property insurance policy.

The table below provides additional requirements for mortgagee clauses.

| Type of Mortgage  | Mortgagee Clause Requirements   |
|---|---|
| First mortgage on an individual single-family property                    | The policy must include (or have attached) a “standard” or “union” mortgagee clause (without contribution) in the form customarily used in the area in which the property is located. A mortgagee clause that amounts to a mere loss payable clause is not acceptable.  |
| Second mortgage   | The mortgagee clause in the property insurance policy for the first mortgage must be amended to recognize the existence of the second mortgage and to clearly set out Fannie Mae’s interest in the policy coverage.<br><br>The lender should inform the insurer about which mortgage servicer is responsible for payment of the insurance premium.                |
| First mortgage secured by a unit in a condo project or a co-op share loan | If a unit owner or shareholder maintains an individual policy (as indicated by the project’s legal documents) or if an HO-6 policy is maintained for interior coverage, it must include the standard mortgagee clause as defined above.<br><br>A mortgagee clause naming Fannie Mae or the lender is not required for a master project property insurance policy. |

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b> |
|---|-------------------|
| <a href="#"><u>Announcement SEL-2016-05</u></a> | June 28, 2016     |
| <a href="#"><u>Announcement SEL-2014-10</u></a> | July 29, 2014     |
| <a href="#"><u>Announcement SEL-2011-04</u></a> | May 24, 2011      |
| <a href="#"><u>Announcement SEL-2010-02</u></a> | March 2, 2010     |

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# Chapter B7-4, Additional Project Insurance



## Additional Project Insurance

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### Introduction

This chapter describes additional types of insurance (liability and fidelity) that Fannie Mae requires for certain PUD, condo, and co-op projects.

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### In This Chapter

This chapter contains the following topics:

|  |      |
|--|------|
| <a href="#">B7-4-01, Liability Insurance (08/30/2016)</a> .....      | 1010 |
| <a href="#">B7-4-02, Fidelity/Crime Insurance (03/29/2016)</a> ..... | 1012 |

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## B7-4-01, Liability Insurance (08/30/2016)

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### Introduction

This topic contains information on liability insurance, including:

- [Projects Requiring Liability Insurance](#)
  - [Liability Insurance Requirements](#)
  - [Amount of Coverage](#)
  - [Cancellation/Modification Requirements](#)
- 

### Projects Requiring Liability Insurance

Liability insurance is required for all condo and co-op projects, with the following exceptions:

- condo projects reviewed under the Limited Review method, or

- 
- two- to four-unit condo projects that do not maintain commercial general liability insurance, but meet the following criteria:
    - the project is horizontal in nature (no vertical or stacked units);
    - there is documentable evidence acceptable to the lender that the project does not contain any common elements that would require liability coverage (for example, units are only separated by lot lines and a party wall); and
    - the association’s legal documents do not require the maintenance of a general liability policy in the name of the HOA.
- 

### **Liability Insurance Requirements**

The HOA or co-op corporation must maintain a commercial general liability insurance policy for the entire project, including all common areas and elements, public ways, and any other areas that are under its supervision. The insurance must also cover commercial spaces that are owned by the HOA or co-op corporation, even if they are leased to others. The liability insurance policy must provide coverage for bodily injury and property damage that results from the operation, maintenance, or use of the project’s common areas and elements.

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### **Amount of Coverage**

The amount of coverage must be at least \$1 million for bodily injury and property damage for any single occurrence.

If the policy does not include severability of interest or separation of insureds in its terms, Fannie Mae requires a specific endorsement to preclude the insurer’s denial of a unit owner’s claim because of negligent acts of the HOA or co-op corporation or of other unit owners.

---

### **Cancellation/Modification Requirements**

The liability insurance policy for a condo or co-op project must include a provision that calls for at least ten days’ written notice to the HOA or insurance trustee before the policy can be canceled or substantially modified for any reason.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Dates       |
|--|-------------------|
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016   |
| <a href="#">Announcement SEL-2016-03</a> | March 29, 2016    |
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014 |
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014     |



## B7-4-02, Fidelity/Crime Insurance (03/29/2016)

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### Introduction

This topic contains information on fidelity/crime insurance, including:

- [Projects Requiring Fidelity/Crime Insurance](#)
- [Requirements for Who Must Be Covered](#)
- [Amount of Coverage](#)
- [Cancellation/Modification Requirements](#)

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### Projects Requiring Fidelity/Crime Insurance

Fidelity/crime insurance is required for all condo and co-op projects, with the following exceptions that do not require fidelity/crime insurance:

- condo projects reviewed under the Limited Review method,
- condo or co-op projects consisting of 20 units or less, or
- condo or co-op projects that would need fidelity/crime insurance coverage of \$5,000 or less (based on the calculations described in the Amount of Coverage below).

**Note:** In states that have statutory fidelity/crime insurance requirements, Fannie Mae accepts those requirements in place of its own.

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### **Requirements for Who Must Be Covered**

The HOA or co-op corporation must have blanket fidelity/crime insurance coverage for anyone who either handles or is responsible for funds that it holds or administers, whether or not that individual receives compensation for services, including coverage for a management agent. The insurance policy must name the HOA or co-op corporation as the insured and the premiums should be paid as a common expense by the association or corporation.

A management agent that handles funds for the HOA or co-op corporation should additionally be covered by its own fidelity/crime insurance policy.

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### **Amount of Coverage**

The HOA or co-op corporation policy must cover the maximum funds that are in the custody of the HOA or co-op corporation or its management agent at any time while the policy is in force. Fidelity/crime insurance is not required if the maximum estimated funds are less than or equal to \$5,000.

A lesser amount of coverage is acceptable if the project's legal documents require, or another source acceptable to the lender verifies, that the HOA or co-op corporation and any management company adheres to one or more of the following financial controls:

- Separate bank accounts are maintained for the working account and the reserve account, each with appropriate access controls, and the bank in which funds are deposited sends copies of the monthly bank statements directly to the HOA or co-op corporation.
- The management company maintains separate records and bank accounts for each HOA or co-op corporation that uses its services, and the management company does not have the authority to draw checks on, or transfer funds from, the reserve account of the HOA or co-op corporation.
- Two members of the Board of Directors must sign any checks written on the reserve account.

Even then, the fidelity/crime insurance coverage must equal at least the sum of three months of assessments on all units in the project, unless this calculated amount is less than or equal to \$5,000, in which case fidelity/crime insurance is not required.

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### **Cancellation/Modification Requirements**

The fidelity/crime insurance policy for a condo or co-op project must include a provision that calls for at least ten days' written notice to the HOA, co-op corporation, or insurance trustee before the policy can be canceled or substantially modified for any reason.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b> |
|---|-------------------|
| <a href="#"><u>Announcement SEL-2016-03</u></a> | March 29, 2016    |
| <a href="#"><u>Announcement SEL-2014-13</u></a> | November 10, 2014 |
| <a href="#"><u>Announcement SEL-2014-10</u></a> | July 29, 2014     |
| <a href="#"><u>Announcement 08-34</u></a>       | December 16, 2008 |

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# Subpart B8, Closing: Legal Documents



## Closing: Legal Documents

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### Introduction

This subpart describes legal document requirements in connection with mortgage loans sold to Fannie Mae.

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### In This Subpart

This subpart contains the following chapters:

|  |      |
|--|------|
| B8-1, General Information on Legal Documents .....         | 1016 |
| B8-2, Security Instruments .....                           | 1019 |
| B8-3, Notes .....  | 1027 |
| B8-4, Riders and Addenda .....                             | 1035 |
| B8-5, Special-Purpose Legal Documents .....                | 1038 |
| B8-6, Mortgage Assignments .....                           | 1050 |
| B8-7, Mortgage Electronic Registration System (MERS) ..... | 1056 |

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# Chapter B8-1, General Information on Legal Documents



## General Information on Legal Documents

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### Introduction

This chapter provides general information on Fannie Mae's requirements for legal documents.

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### In This Chapter

This chapter contains the following sections:

[B8-1-01, Publication of Legal Documents \(06/28/2011\)](#) ..... 1016

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## B8-1-01, Publication of Legal Documents (06/28/2011)

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### Introduction

This topic contains information on settlement evidence, including:

- [Publication of Legal Documents](#)
  - [Legal Documents for Government Mortgages](#)
- 

### Publication of Legal Documents

Fannie Mae publishes legal documents on its [website](#). These legal documents include security instruments, notes, riders and addenda, and special-purpose documents that should be used in connection with regularly amortizing, conventional, residential mortgage loans sold to Fannie Mae. Many of these forms are published jointly by Fannie Mae and Freddie Mac and are referred to as Uniform Instruments.

Each legal document published on Fannie Mae's website is accompanied by a Summary or Instructions document, which provides:

- 
- the latest revision date for the document,
  - the document’s purpose and type of mortgage transactions for which it is used,
  - instructions on how to print the electronic version of the document,
  - specific changes that must be made to the document,
  - additional changes that may be made to the document, and
  - other pertinent information about special circumstances that may affect the user or completion of the document.
- 

### **Legal Documents for Government Mortgages**

A lender should use legal documents for regularly amortizing FHA-insured mortgages, VA-guaranteed mortgages, RD-guaranteed mortgages, and HUD-guaranteed mortgages that are acceptable to the government agency and are appropriate for the state in which the security property is located.

Although Fannie Mae does not publish documents for government mortgages, in some cases Fannie Mae allows (or requires) its legal documents to be used. If a lender chooses to use Fannie Mae’s legal documents for conventional mortgages, and if those documents must be modified or amended to comply with applicable government agency requirements, the following requirements must be met:

- The documents must be enforceable under their terms.
  - The documents must comply with all applicable state and local requirements for a recordable and enforceable document.
  - The lender must make nonstandard document warranties that are similar to those Fannie Mae requires for other mortgages closed on documents other than Fannie Mae’s standard documents. See [A2-2.1-03, Document Warranties](#).
- 

### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011     |



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# Chapter B8-2, Security Instruments



## Security Instruments

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### Introduction

This chapter provides information on security instruments.

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### In This Chapter

This chapter contains the following topics:

|   |      |
|---|------|
| B8-2-01, Security Instruments for Conventional Mortgages (04/30/2010) ..... | 1019 |
| B8-2-02, Special-Purpose Security Instruments (05/26/2015) .....            | 1021 |
| B8-2-03, Signature Requirements for Security Instruments (10/22/2013) ..... | 1025 |

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## B8-2-01, Security Instruments for Conventional Mortgages (04/30/2010)

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### Introduction

This topic contains general information on conventional first mortgage security instruments, including:

- [Use of Security Instruments](#)
  - [Standard First-Lien Mortgage Security Instruments](#)
  - [Master Form and Short Form Documents](#)
  - [Security Instruments for Conventional Second Mortgages](#)
- 

### Use of Security Instruments

Lenders must use security instruments for conventional mortgages that are correct for the applicable jurisdiction, mortgage type, lien type, property type, and transaction type. Security instruments for regularly amortizing mortgages include the Fannie Mae/Freddie Mac Uniform Mortgages, Deeds of Trust, and Security Deeds.

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In some cases, the uniform security instruments may have to be adapted to meet the lender's needs or local jurisdictional requirements. If, however, a security instrument is modified in any way, Fannie Mae will consider it to be a nonstandard document, which means the lender's delivery of the loan is subject to Fannie Mae's requirements for nonstandard documents. For more information on the warranties a lender makes when it sells Fannie Mae mortgages closed on nonstandard documents, see [A2-2.1-03, Document Warranties](#).

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### **Standard First-Lien Mortgage Security Instruments**

The current versions of the Fannie Mae standard first mortgage security instruments are posted on [Security Instruments](#). The website also contains instructions for use of these documents, including any required changes and some changes that may be made at lender's option, called "authorized changes." Lenders must make sure that any changes they make, including changes authorized by Fannie Mae, comply with all applicable laws.

The standard uniform security instruments are used for almost all types of regularly amortizing mortgages. In some instances, the standard security instruments must be modified by a rider. For example, a rider is needed for an adjustable-rate mortgage as well as for a security property that is a one-unit dwelling that is used as a second home or an investment property, or that is a two- to four-unit property or a unit in a PUD or condo project. For more information about these riders, see [B8-4-01, Riders and Addenda](#).

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### **Master Form and Short Form Documents**

Lenders may elect to deliver first-lien mortgage loans to Fannie Mae using a master form mortgage or deed of trust ("Master Form") and short form mortgage or deed of trust ("Short Form") in states with statutes that allow for the use of these forms. The uniform Master Form and Short Form documents may be used in lieu of the current version of the Fannie Mae/Freddie Mac uniform first mortgage security instruments.

Under applicable state law, lenders may record a Master Form in a given recording jurisdiction, and then may subsequently record a Short Form for any mortgage loan originated in that jurisdiction.

The Master Form consists of a title page, which contains the state-specific requirements for a master security instrument, and the current long form uniform security instrument for that state. The Short Form contains the loan-specific information (for example, borrower name, lender name, loan amount, description of property, etc.) and identifies the provisions of the Master Form that are being incorporated into the Short Form. Any applicable riders to the security instrument must be attached to the Short Form. The borrower must execute the Short Form

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document and any applicable riders. The lender must provide the borrower with a copy of the recorded Master Form as well as the signed Short Form and any applicable riders.

The documents are available for 27 states and are posted on [Legal Documents](#).

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### Security Instruments for Conventional Second Mortgages

Fannie Mae does not provide second mortgage security instruments; therefore, lenders must use second mortgage security instruments that their attorneys have developed or otherwise approved.

Fannie Mae expects the second mortgage security instruments to be similar to first mortgage security instruments with respect to fairness to the borrower and the lender. For example, arbitration is not acceptable under Fannie Mae's standard terms for first mortgages and the same is true for second mortgages. The lender must make the same or comparable nonstandard document warranties required for first mortgages that are not closed on Fannie Mae documents (see [A2-2.1-03, Document Warranties](#)).

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2010-06</a> | April 30, 2010     |
| <a href="#">Announcement 09-29</a>       | September 22, 2009 |

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## **B8-2-02, Special-Purpose Security Instruments (05/26/2015)**

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### Introduction

This topic contains general information on special-purpose security instruments, including:

- [General Information](#)
- [Balloon Loan Refinancing Instruments](#)
- [Consolidated New York Mortgages](#)
- [Puerto Rico Direct Mortgage Instruments](#)
- [Security Instruments for Manufactured Home Mortgages](#)

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## General Information

Fannie Mae sometimes allows special-purpose alternative documents to be used in lieu of (or in addition to) the typical security instruments. These documents can be found on [Special Purpose Documents](#). Authorized changes that must or may be made to those documents are set out in the instructions that accompany each document. These instruments must be supported by the appropriate mortgage riders, rider addenda, mortgage assignments, and, if applicable, other product-specific documentation (see Chapter B8–4, Riders and Addenda, and Chapter B8–6, Mortgage Assignments).

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## Balloon Loan Refinancing Instruments

Fannie Mae offers several methods for lenders to document the refinancing of a regularly amortizing balloon mortgage that has a conditional refinance option:

- the execution and recordation of a new security instrument and the execution of a new fixed-rate note;
- the execution of a new fixed-rate note and the execution and recordation of a modification agreement that modifies the existing balloon security instrument to secure the new note (if that is permitted under state law), but does not modify both the balloon note and the security instrument; or
- the execution and recordation of a Balloon Loan Refinancing Instrument, which combines into a single document the terms of a new fixed-rate note and a modification of the existing balloon mortgage (or deed of trust).

If a lender selects an alternative that requires the execution of a new mortgage and note, it must use Fannie Mae’s standard documents.

If the mortgage is secured by a New York property, Fannie Mae’s standard *Consolidation, Extension and Modification Agreement* ([Form 3172](#))—which is commonly used to document refinance transactions in New York—may be used, provided the lender ensures that the use of this document for the refinancing of a balloon mortgage is enforceable and consistent with customary practice in that state.

A lender may not under any circumstances use Fannie Mae’s *Loan Modification Agreement* ([Form 3179](#)) to document the conditional refinancing of a balloon mortgage. There are 27 states—Arizona, Arkansas, California, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Missouri, Montana, Nevada, North Carolina, North Dakota, Ohio, Oklahoma, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Wisconsin, and Wyoming



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—that permit the refinancing of a balloon mortgage with a conditional refinance option to be documented by a single document that combines the terms of a new fixed-rate note and a modification of the existing balloon mortgage security instrument. In these jurisdictions, a lender may use one of the state-specific versions of Fannie Mae’s *Balloon Loan Refinancing Instrument (Form 3269)*. A lender that develops a Balloon Loan Refinancing Instrument for use in any other state must obtain approval from its lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)) before using the document for a mortgage that is delivered to Fannie Mae.

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### **Consolidated New York Mortgages**

The statutory provisions of New York permit refinance mortgages (and sometimes purchase money mortgages) to be documented by a consolidation, extension, and modification agreement (CEMA) that consolidates into one document the terms of prior notes and mortgages related to the security property and, if new funds are advanced, the terms of a new note and mortgage. In such instances (including those that may involve the refinancing of balloon mortgages that have a conditional refinance option), the consolidation must be documented on Fannie Mae’s standard *Consolidation, Extension and Modification Agreement (Form 3172)*, along with any accompanying exhibits Fannie Mae may specify. If new funds are advanced, Fannie Mae’s standard security instrument must be used to document the new mortgage that is being consolidated with the prior mortgages.

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### **Puerto Rico Direct Mortgage Instruments**

The statutory provisions of Puerto Rico permit a mortgage transaction to be documented by a single instrument that combines the terms of a note and mortgage. This is referred to as a “direct” mortgage. Fannie Mae does not publish standard legal documents for direct mortgages; therefore, lenders must develop (or acquire) appropriate documentation for these mortgages consistent with the applicable Puerto Rico statutes. By delivering a direct mortgage to Fannie Mae, the lender must make the nonstandard document warranties. (See [A2-2.1-02, Delivery Information and Delivery-Option Specific Representations and Warranties](#).)

---

### **Security Instruments for Manufactured Home Mortgages**

Fannie Mae prefers lenders to use the standard Fannie Mae uniform instruments for manufactured home loans sold to it.

Loan documents are not acceptable if they:

- state that the home is personal property or contain other words to that effect;

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- state that the parties do not intend to attach the home to a permanent foundation system on the land, or contain statements inconsistent with that intention;
  - unless required by law, provide that rights of holders in due course are waived, or with other words provide that an assignee note holder may be held liable for claims the borrower may have against other parties; or
  - include consumer finance paper (which combines the note and security instrument in a single document) or a retail installment sales contract.

The following list provides the requirements for the security instrument used for a manufactured home loan.

- The property description section of the security instrument must include a comprehensive description of the manufactured home and the land. The description must include the serial or VIN number (or the serial number or VIN for each unit if the home is multi-width), make, model, size, and any other information that may be required by applicable law to definitively identify the home. The serial number is located on the HUD Data Plate located on the interior of the home, usually near the electrical box. In addition, the serial number is generally cold stamped on the frame front cross member of each transportable section.

Some jurisdictions may not allow any information in the property description section of the security instrument other than what is customary for other real property transactions. If this is the case, then an addendum may be used, which must be attached to the security instrument and included in the loan file.

- The security instrument must state that the manufactured home is an improvement to the land and an immovable fixture, or must include similar language as may be required by applicable law to assure, to the greatest extent possible, that the manufactured home is treated as real property under applicable state law. If applicable law provides specific obligatory wording, such wording must be used.
- The borrower(s) and any lender with a personal property security interest in the manufactured home must sign an Affidavit of Affixture that acknowledges their intent for the manufactured home to be permanently part of the real property that secures the mortgage free of any personal property security interest. It must also contain any specific language that may be required by applicable law.

The Affidavit must be signed by both the lender and the borrower(s), preferably recorded, and must be retained in the loan file.

Failure to include the Affidavit of Affixture in the loan file may result in the loan being ineligible for delivery to Fannie Mae.

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- If state law requires a Uniform Commercial Code (UCC) filing in order to perfect a security interest in a manufactured home, the lender must make such filing in any and all appropriate locations.
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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date     |
|--|----------------|
| <a href="#">Announcement SEL-2015-06</a> | May 26, 2015   |
| <a href="#">Announcement SEL-2010-06</a> | April 30, 2010 |

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## **B8-2-03, Signature Requirements for Security Instruments (10/22/2013)**

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### Introduction

This topic contains information on:

- [Borrowers' Signatures on Security Instruments](#)
  - [Signature Requirements: Powers of Attorney and Guardianship](#)
- 

### Borrowers' Signatures on Security Instruments

The following person(s) must sign the security instrument:

- 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.
  - The spouse or domestic partner of any person who has an interest in the property, if his or her signature is necessary under applicable state law to waive any property right he or she has by virtue of being the owner's spouse or domestic partner.
- 

### Signature Requirements: Powers of Attorney and Guardianship

The following persons may sign security instruments on a borrower's behalf:

- 
- An attorney-in-fact may sign the security instrument, as long as the lender obtains a copy of the applicable power of attorney. In jurisdictions where a power of attorney used for a signature on a security instrument must be recorded with the security instrument, the lender must ensure that recordation has been effected. See [B8-5-06, Requirements for Use of a Power of Attorney](#), for further requirements governing the use of a power of attorney.
  - A court-appointed guardian may sign the security instrument if the borrower is not legally competent, provided that he or she has unlimited power over the ward's affairs, including the power to hold, convey, and give a lien against real property owned by the ward, to make payments from the ward's assets, and to permit inquiries concerning the ward's credit. The lender should obtain a copy of the documents making the appointment. If the guardian in some other capacity is a party to the loan or sale transaction—for example, the seller of the property—the lender should ascertain that there are no material conflicts of interest.
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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2013-08</a> | October 22, 2013  |

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# Chapter B8-3, Notes

## Notes

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### Introduction

This chapter describes requirements for conventional first and second mortgages notes, special note provisions, and signature and endorsement requirements.

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### In This Chapter

This chapter contains the following sections:

|   |      |
|---|------|
| B8-3-01, Notes for Conventional Mortgages (08/20/2013) .....                  | 1027 |
| B8-3-02, Special Note Provisions and Language Requirements (08/20/2013) ..... | 1029 |
| B8-3-03, Signature Requirements for Notes (10/22/2013) .....                  | 1030 |
| B8-3-04, Note Endorsement (02/23/2016) .....                                  | 1032 |

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## B8-3-01, Notes for Conventional Mortgages (08/20/2013)

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### Introduction

This topic contains information on notes for conventional mortgages, including:

- [Use of Conventional First Mortgage Notes](#)
  - [Adjustable-Rate Mortgage Notes \(First Mortgage Loans\)](#)
  - [Second Mortgage Notes](#)
- 

### Use of Conventional First Mortgage Notes

Lenders should use the note that is correct for the applicable mortgage type, lien type, property type, and product type for regularly amortizing conventional mortgages that are closed on the Fannie Mae/Freddie Mac uniform security instruments.

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Fannie Mae publishes state-specific fixed-rate notes for ten jurisdictions (although they are not available for all products). The multistate note can be used in most jurisdictions unless the security property is located in a jurisdiction for which Fannie Mae publishes a state-specific mortgage note.

A lender that uses a state-specific version of the Balloon Loan Refinancing Instrument to document the refinancing of a balloon mortgage that has a conditional refinance option does not need to use Fannie Mae's note forms because that document incorporates the terms of the note.

The various notes that are used for fixed-rate mortgages may be found on [Fannie Mae's website](#). Authorized changes that must or may be made to these documents are set out in the instructions that accompany each document.

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### **Adjustable-Rate Mortgage Notes (First Mortgage Loans)**

Generally, notes for adjustable-rate mortgages apply to specific ARM plans. Fannie Mae does not publish state-specific notes for all ARM plans. If Fannie Mae does not publish state-specific documents for a particular ARM plan, the lender must use the multistate note for that particular ARM plan and amend it as necessary to satisfy the requirements of the jurisdiction in which the security property is located. Required amendments may be incorporated by reprinting the amended documents, adding addenda to the documents, or making the changes on the documents themselves. The various notes that are used for ARMs may be found on [Fannie Mae's website](#). Authorized changes that must or may be made to these documents are set out in the instructions that accompany each document.

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### **Second Mortgage Notes**

Fannie Mae does not publish standard notes for second mortgages; therefore, lenders must use a note developed or otherwise approved by their attorneys that is correct for the applicable transaction type, lien type, property type, and product type.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013   |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |



## **B8-3-02, Special Note Provisions and Language Requirements (08/20/2013)**

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### **Introduction**

This topic contains information on special note provisions and language requirements, including:

- [Late Charges for Conventional Mortgages](#)
  - [Requirement for Unit Number](#)
  - [Mandatory Arbitration](#)
- 

### **Late Charges for Conventional Mortgages**

The note for a conventional first mortgage must provide for the borrower to pay a 5% late charge on any installment that is not received by the 15th day after it is due. The late charge should be computed on the principal and interest (P&I) installment only, not on the full monthly payment of principal, interest, taxes, insurance, and other assessments (PITIA).

If state law does not allow a late charge as high as 5%, the maximum amount that is allowed should be used. A note that provides for a late charge of more than 5% is acceptable as long as the amount assessed during the time Fannie Mae holds the mortgage does not exceed 5%. The late charge should be computed on the principal and interest portion of the monthly payment, not on the full PITIA amount.

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### **Requirement for Unit Number**

If the subject property is a condo or other property type that is identified by a unit number, the unit number must be included in the property address on the note.

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### **Mandatory Arbitration**

Mandatory arbitration is a loan provision or an agreement accompanying the loan that requires the borrower to submit to arbitration any disputes arising out of or relating in any way to the mortgage transaction. Mortgages that are subject to mandatory arbitration are ineligible for sale to, or securitization by, Fannie Mae unless the mandatory arbitration provision provides that, in the event of a transfer or sale of the mortgage or an interest in the mortgage to Fannie Mae, the

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mandatory arbitration clause immediately and automatically becomes null and void and cannot be reinstated.

The lender must provide the borrower with written notice of the waiver provision within 60 days of the transfer or sale of the mortgage to Fannie Mae. That notice must contain substantially the following language:

Pursuant to your mortgage documents, Fannie Mae is hereby notifying you that an interest in your loan has been transferred or sold to Fannie Mae and therefore the mandatory arbitration clause of your loan, requiring that you submit to arbitration to resolve any dispute arising out of or relating in any way to your mortgage, is immediately null and void.

The lender and servicer shall maintain a copy of such notice in the mortgage file.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2013-06</a> | August 20, 2013  |
| <a href="#">Announcement SEL-2010-01</a> | March 2, 2010    |
| <a href="#">Announcement 09-02</a>       | February 6, 2009 |



## **B8-3-03, Signature Requirements for Notes (10/22/2013)**

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### Introduction

This topic contains information on borrowers' signatures on notes, including:

- [Borrowers' Signatures on Notes](#)
- [Signature Requirements: Powers of Attorney and Guardianship](#)

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### Borrowers' Signatures on Notes

In most instances, all borrowers who are named in the security instrument must sign the note. Special situations are listed below:



- 
- A person whose income is not used in qualifying for the mortgage but who does have an ownership interest in the property must be named in and sign the security instrument, but is not required to sign the note.
  - A person who is a co-signer or guarantor and who has an ownership interest in the property must sign both the note and the security instrument.
  - A person who is a co-signer or guarantor and who does not have an ownership interest in the property must sign the note, but is not named in (or required to sign) the security instrument.

A borrower's signature should not contradict the name typed below the signature line on the note. Slight variations are acceptable—a missing initial, the omission of a “Jr” or “Sr,” or an over- or under-signing (such as a borrower signing as William Thomas Smith when the typed name is William T. Smith, or vice versa). Significant variations—such as William Smith signing as “Skip” Smith, signing with an “X,” or signing under an “also known as” name—are not acceptable unless the lender obtains a name affidavit from the borrower stating that he or she commonly uses the alternative signature.

When an *inter vivos* revocable trust is the borrower, the trustees must execute the note. See [B8-5-02, Inter Vivos Revocable Trust Mortgage Documentation and Signature Requirements](#), for more information about the documentation requirements for mortgages made to *inter vivos* revocable trust borrowers, including appropriate forms of signature for the note.

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### **Signature Requirements: Powers of Attorney and Guardianship**

The following persons also may be eligible to sign the note on a borrower's behalf in accordance with the guidelines below.

- An attorney-in-fact may sign the note. See [B8-5-06, Requirements for Use of a Power of Attorney](#), for further requirements governing the use of a power of attorney.
- A court-appointed guardian may sign the note if the borrower is not legally competent, provided that he or she has unlimited power over the ward's affairs, including the power to hold, convey, and give a lien against real property owned by the ward, to make payments from the ward's assets, and to permit inquiries concerning the ward's credit. The lender should obtain a copy of the documents making the appointment. If the guardian in some other capacity is a party to the loan or sale transaction—for example, the seller of the property—the lender should ascertain that there are no material conflicts of interest.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2013-08</a> | October 22, 2013 |
| <a href="#">Announcement SEL-2013-01</a> | January 17, 2013 |



## B8-3-04, Note Endorsement (02/23/2016)

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### Introduction

This topic contains information on note endorsement, including:

- [Note Endorsement](#)
- [Using an Allonge for the Endorsement](#)
- [Signature Requirements for Endorsements](#)

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### Note Endorsement

The originating lender must be the original payee on the note, even when MERS is named as nominee for the beneficiary in the security instrument. The note must be endorsed to each subsequent owner of the mortgage unless one or more of the owners endorsed the note in blank. The last endorsement on the note should be that of the mortgage seller. The mortgage seller must endorse the note in blank and without recourse.

For example:

PAY TO THE ORDER OF  
WITHOUT RECOURSE  
LENDER'S NAME  
(Authorized Signature)  
NAME OF AUTHORIZED SIGNER  
TITLE OF AUTHORIZED SIGNER

---

### Using an Allonge for the Endorsement

The endorsement must appear on the note. An allonge may be used for the endorsement as long as the following requirements are met:

- 
- The form and content of the allonge used must comply with all applicable state, local, or federal law governing the use of allonges and result in an enforceable and proper endorsement to the note.
  - The allonge must be permanently affixed to the related note and must clearly identify the note by referencing at least the name of the borrower(s), the date of the note, the amount of the note, and the address of the security property.
  - The note must clearly reference the attached allonge.
  - Fannie Mae's status as a "holder in due course" must not be impaired.

Any subsequent endorsements should be, but are not required to be, placed on the allonge.

The lender must indemnify Fannie Mae (as described in [A2-1-03, Indemnification for Losses](#)) for any losses incurred by Fannie Mae as a result of the use of an allonge for the note endorsement(s).

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### **Signature Requirements for Endorsements**

The endorsement should be signed only by those persons specifically authorized to execute documents in the lender's behalf. Signatures must be original, except that Fannie Mae accepts a lender's facsimile endorsement of notes for those jurisdictions in which the lender has determined that such endorsements are valid and enforceable.

A lender that chooses to use facsimile signatures to endorse notes must warrant that the endorsement is valid and enforceable in the jurisdiction(s) in which the security properties are located and must retain in its corporate records the following specific documentation authorizing the use of facsimile signatures:

- legal opinions related to the legality and enforceability of facsimile signatures for each jurisdiction in which the lender uses them;
- a resolution from the lender's board of directors authorizing specific officers to use facsimile signatures, stating that facsimile signatures are a valid and binding act on the lender's part, and authorizing the lender's corporate secretary to certify the validity of the resolution, the names of the officers authorized to execute documents by using facsimile signatures, and the authenticity of specimen forms of facsimile signatures;
- the corporate secretary's certification of the authenticity and validity of the board of director's resolution;

- 
- a notarized certification of facsimile signature, which includes both the facsimile and the original signatures of the signing officer(s) and each officer's certification that the facsimile is a true and correct copy of his or her original signature.

The mortgage seller may not delegate to an attorney-in-fact its authority to execute an endorsement. The endorsement may not be executed by a party using a power of attorney.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2011-13</a> | December 20, 2011 |

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# Chapter B8-4, Riders and Addenda



## Riders and Addenda

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### Introduction

This chapter provides information on riders and addenda.

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### In This Chapter

This chapter contains the following topic:

[B8-4-01, Riders and Addenda \(05/27/2010\)](#) ..... 1035

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## B8-4-01, Riders and Addenda (05/27/2010)

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### Introduction

This topic contains information on riders and addenda, including:

- [General Information](#)
  - [Uniform Riders and Fannie Mae-Specific Riders to Security Instruments](#)
- 

### General Information

There are special conditions that require modification of a security instrument (usually by a rider) or a note (usually by an addendum). These conditions may relate to the type of borrower (*inter vivos* revocable trusts), the type of security property (units in project developments, multiple-dwelling units, and leasehold estates), the occupancy status of the property (second homes or investment properties), the amortization method used for the mortgage (adjustable-rate mortgages), or the type of mortgage product (HUD Section 184 mortgages that are combination construction/permanent mortgages, or HomeStyle Renovation mortgages).

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### Uniform Riders and Fannie Mae-Specific Riders to Security Instruments

There are uniform Fannie Mae/Freddie Mac riders to security instruments, as well as some Fannie Mae-specific riders. There are also some situations in which Fannie Mae requires a rider

to security instruments, but Fannie Mae has not developed a specific form. In some cases, Fannie Mae may offer language that a lender may include in the rider, even though Fannie Mae did not develop a specific document.

The various riders that are used for regularly amortizing first mortgages may be found on [Riders & Addenda](#). Authorized changes that must or may be made to these documents are set out in the Summary Page that accompanies each document.

Security instruments must be amended by one or more uniform riders or Fannie Mae-specific riders, as applicable, including:

| Uniform or Fannie Mae-Specific Rider   | Purpose   |
|--|---|
| The <i>Multistate PUD Rider</i> ( <a href="#">Form 3150</a> ) or the <i>Multistate Condominium Rider</i> ( <a href="#">Form 3140</a> ) | Required for a mortgage that is secured by a unit in a PUD or condo project. Fannie Mae also has developed special riders for Texas Section 50(a)(6) mortgages that are secured by units in condo or PUD projects.<br><br>In some states, co-op share loan documents must incorporate a co-op rider. Fannie Mae has not developed a standard multistate form for that rider, so the lender should contact its lead Fannie Mae regional office (see <a href="#">E-1-03, List of Contacts</a> ) to determine Fannie Mae’s documentation requirements for co-op share loan riders. |
| The <i>Multistate 1–4 Family Rider</i> ( <a href="#">Form 3170</a> )   | Required for a mortgage secured by a one- to four-unit investment property or a two- to four-unit principal residence.  |
| The <i>Multistate Second Home Rider</i> ( <a href="#">Form 3890</a> )  | Required for a mortgage secured by a second home.   |
| The applicable Multistate Adjustable Rate Rider (and, if applicable, an addendum to the rider)   | Required for all adjustable-rate mortgages. There are a number of different versions of this rider, based on the applicable ARM plan or index. Fannie Mae also requires a special ARM rider for Texas Section 50(a)(6) adjustable-rate mortgages.   |
| The model <i>Multistate Construction Loan Rider to Security Instrument</i> ( <a href="#">Form</a> )                                    | Must be appropriately modified and used for HomeStyle Renovation mortgages. For other special-purpose documents for these   |

| <b>Uniform or Fannie Mae-Specific Rider</b>  | <b>Purpose</b>   |
|--|--|
| <a href="#">3737</a> ) and the <i>Multistate Investor Rider to Security Instrument (Form 3738)</i> | HomeStyle products, see <a href="#">B8-5-04, HomeStyle Renovation Mortgage Documentation Requirements</a> .  |
| Revocable Trust Rider  | May be used to amend security instruments for mortgages with <i>inter vivos</i> trust borrowers. Fannie Mae has developed a sample rider for mortgages that are made to <i>inter vivos</i> trust borrowers and are secured by California properties. See <a href="#">B8-5-02, Inter Vivos Revocable Trust Mortgage Documentation and Signature Requirements</a> , for more information about the use of this rider and similar riders. |
| A rider that includes a cross-default provision  | Must be used to amend security instruments for mortgages secured by leasehold estates so that a default on the lease is a default on the mortgage. Fannie Mae does not publish a standard rider that includes this provision.  |
| A construction loan rider  | Must be used to amend security instruments for HUD Section 184 mortgages that are combination construction/permanent mortgages. Fannie Mae does not publish a standard construction loan rider for government mortgages.   |

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2010-07</a> | May 27, 2010       |
| <a href="#">Announcement SEL-2010-06</a> | April 30, 2010     |
| <a href="#">Announcement 09-29</a>       | September 22, 2009 |
| <a href="#">Announcement 09-28</a>       | August 21, 2009    |

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# Chapter B8-5, Special-Purpose Legal Documents



## Special-Purpose Legal Documents and Related Requirements

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### Introduction

This chapter provides information on special-purpose legal documents and related requirements.

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### In This Chapter

This chapter contains the following sections:

|   |      |
|---|------|
| B8-5-01, General Information on Special-Purpose Legal Documents (04/01/2009) . . . . .                        | 1038 |
| B8-5-02, Inter Vivos Revocable Trust Mortgage Documentation and Signature Requirements (02/23/2016) . . . . . | 1039 |
| B8-5-03, Texas Section 50(a)(6) Mortgage Documentation (03/29/2010) . . . . .                                 | 1042 |
| B8-5-04, HomeStyle Renovation Mortgage Documentation Requirements (12/30/2009) . . . . .                      | 1044 |
| B8-5-05, Sample Legal Documents (01/27/2011) . . . . .  | 1045 |
| B8-5-06, Requirements for Use of a Power of Attorney (03/29/2016) . . . . .                                   | 1047 |

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## B8-5-01, General Information on Special-Purpose Legal Documents (04/01/2009)

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### Introduction

This topic contains information on special-purpose legal documents.

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### General Information

Fannie Mae has specialized mortgage documentation that a borrower must execute in order to ensure that any required additional responsibilities, obligations, or rights of the borrower, the



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lender, or a third party are set out in legal documents that are separate and apart from the security instruments, notes, and riders that are typically used for mortgages delivered to Fannie Mae. These specialized legal documents are required for:

- mortgages to *inter vivos* revocable trusts,
- co-op share loans,
- Texas Section 50(a)(6) mortgages,
- HomeStyle Renovation or Construction-to-Permanent mortgages,
- second mortgages that are part of a Community Seconds transaction
- Community Land Trust

Information about the requirements for each of these specialized mortgage documents is included in this chapter. Those documents may be found at [Legal Documents](#).

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## **B8-5-02, Inter Vivos Revocable Trust Mortgage Documentation and Signature Requirements (02/23/2016)**

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### **Introduction**

This topic contains information on the mortgage documentation and signature requirements for *inter vivos* revocable trusts, including:

- [Execution and Signature Requirements](#)
  - [Trustee Exclusion from Personal Liability](#)
  - [Defining the Responsible Borrower in an Inter Vivos Revocable Trust](#)
  - [Requirements for Revocable Trust Riders](#)
  - [Requirements for Amended Security Instrument](#)
  - [Requirements for Standard Security Instrument and No Rider](#)
  - [Indemnification](#)
- 

### **Execution and Signature Requirements**

Each trustee and each individual establishing an *inter vivos* revocable trust whose income and assets are used to qualify for the mortgage must separately execute the note and any necessary addendum. The trustee(s) of the *inter vivos* revocable trust also must execute the security instrument and any applicable rider.

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Each individual establishing the trust whose income and assets are used to qualify for the mortgage must acknowledge all of the terms and covenants in the security instrument and any necessary rider, and must agree to be bound thereby, by placing his or her signature after a statement of acknowledgment on such documents.

Any other party that Fannie Mae requires to sign either the promissory note or the security instrument also must execute the applicable document(s).

Exhibit [E-2-05, Signature Requirements for Mortgages to Inter Vivos Revocable Trusts](#), includes the form of signature for the trustee(s) and the statement of acknowledgment for each individual establishing the trust whose income or assets are used to qualify for the mortgage.

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### **Trustee Exclusion from Personal Liability**

Certain trustees may request exclusion from personal liability under the mortgage instruments. Lenders may agree to such requests, subject to the following conditions:

- Institutional trustees and individual trustees (other than individuals serving as trustees who both established the trust and whose income and assets are used to qualify for the mortgage) may be excluded from personal liability under the security instrument.
- Institutional trustees and individual trustees (other than individuals serving as trustees whose income and assets are used to qualify for the mortgage, including individuals who established the trust) may be excluded from personal liability under the mortgage note.

Lenders that agree to modify the mortgage instruments to include an exclusion from personal liability are responsible for ensuring that the modifying language:

- pertains only to the relevant trustee,
  - does not impair the note holder's power to foreclose, and
  - does not in any way release from liability any individual trustee who is not identified above as being permitted to be released from liability.
- 

### **Defining the Responsible Borrower in an Inter Vivos Revocable Trust**

Exhibit [E-2-04, Revocable Trust Rider \(Sample Language\)](#), includes sample language for a revocable trust rider. This rider (or a similar one appropriately modified to reflect the requirements of specific states) avoids ambiguities for mortgages made to *inter vivos* revocable trusts by clarifying who is considered to be “the borrower” with respect to any given covenant in the security instrument.

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Instead of using a revocable trust rider, the lender may either:

- amend the security instrument to include appropriate definitions and language similar in substance to Fannie Mae’s sample rider, or
- use the standard security instrument without such an amendment or the rider.

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### **Requirements for Revocable Trust Riders**

If the lender chooses to require a revocable trust rider as additional mortgage documentation, the rider must be:

- executed by the trustee(s) of the *inter vivos* revocable trust and by any other party that Fannie Mae requires to sign the security instrument, and
- acknowledged by each individual establishing the trust whose income and assets are used to qualify for the mortgage.

If the mortgage is secured by a California property, the lender should use Fannie Mae’s sample rider. If the mortgage is secured by property located in another state, the lender should use a rider that has been appropriately modified to reflect the requirements of that state (unless the lender determines that use of Fannie Mae’s sample Revocable Trust Rider is appropriate for the specific state).

Should foreclosure proceedings have to be initiated for a mortgage secured by a property located in a state other than California, the lender must indemnify and hold Fannie Mae harmless against any losses incurred by Fannie Mae that relate either

- to the modifications the lender made to the Fannie Mae sample rider (or to the inappropriate use of the Fannie Mae sample rider), or
- to any ambiguity in the application of the covenants in the security instrument.

Alternatively, Fannie Mae may require the lender to repurchase the mortgage or the acquired property.

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### **Requirements for Amended Security Instrument**

If the lender chooses to amend the security instrument instead of using a revocable trust rider, it should follow Fannie Mae’s instructions regarding parties who must sign the security instrument, including having only the individuals establishing the trust whose income and assets are used to qualify for the mortgage sign a statement of acknowledgment of the security instrument.

The lender must indemnify and hold Fannie Mae harmless against any losses incurred by Fannie Mae that relate either to the lender's amendment or to any ambiguity in the application of the covenants in the security instrument should foreclosure proceedings later have to be initiated to acquire the property. Alternatively, Fannie Mae may require the lender to repurchase the mortgage or the acquired property.

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### Requirements for Standard Security Instrument and No Rider

If the lender chooses not to amend the security instrument and not to use the revocable trust rider, it must agree to indemnify and hold Fannie Mae harmless against any losses incurred by Fannie Mae that relate to any ambiguity in the application of the covenants in the security instrument should foreclosure proceedings later have to be initiated to acquire the property. Alternatively, Fannie Mae may require the lender to repurchase the mortgage or the acquired property.

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### Indemnification

The lender's obligation to indemnify Fannie Mae as noted above is further described in [A2-1-03, Indemnification for Losses](#).

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |
| <a href="#">Announcement SEL-2013-01</a> | January 17, 2013  |



## **B8-5-03, Texas Section 50(a)(6) Mortgage Documentation (03/29/2010)**

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### Introduction

This topic contains information on Texas Section 50(a)(6) mortgage documentation.

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## Texas Section 50(a)(6) Mortgage Documentation

Section 50(a)(6) of Article XVI of the Texas Constitution permits a home equity loan to be secured by the borrower's homestead property under certain conditions. Mortgages originated under this provision are referred to as Section 50(a)(6) mortgages. This provision includes numerous consumer safeguards and significant lender penalties for noncompliance. To facilitate compliance with the provisions of Section 50(a)(6), Fannie Mae has developed a special security instrument that must be used in connection with mortgages originated under these provisions and special notes and riders that must be used with this special security instrument, as well as a special affidavit that must be prepared and recorded in connection with each Section 50(a)(6) transaction.

Because of the complexities involved in closing Section 50(a)(6) mortgages and the possibility that a valid lien may not be created, it is important that a lender provide the title company with a detailed closing instruction letter and require an acknowledgment of its receipt.

The closing instructions must require the title company to conduct its closings properly to ensure compliance with Section 50(a)(6). To assist in this endeavor, the *Texas Home Equity Affidavit and Agreement First Lien* ([Form 3185](#)) must be prepared and recorded in connection with each Section 50(a)(6) mortgage transaction. This document sets out many of the consumer safeguards to which the borrower is entitled:

- the receipt of copies of all closing documents;
- a statement of all fees imposed or collected by the title company;
- a caution against signing documents with unfilled blanks;
- the receipt of a required notice concerning the extension of credit;
- the receipt of a final itemized disclosure of the actual fees, points, interest, costs, and charges that would be charged at closing;
- a cooling-off period before closing;
- no disbursement of funds until after the applicable rescission period; and
- a written acknowledgment of the fair market value of the property (with a copy of the property appraisal).

By signing this document, the borrower acknowledges the actions that were taken to ensure that he or she received all of the required notices and safeguards required under the revised Texas

Constitution. Fannie Mae suggests that a lender also require each borrower to sign a closing receipt that itemizes the documents that he or she received at closing.

For additional Texas Section 50(a)(6) mortgage documentation (also called “Texas Home Equity” documentation) refer to [Negotiated Texas Home Equity Notes](#) (under Negotiated Instruments) and [Texas Home Equity Security Instrument](#) (also under Negotiated Instruments).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date     |
|--|----------------|
| <a href="#">Announcement SEL-2010-04</a> | March 29, 2010 |



## **B8-5-04, HomeStyle Renovation Mortgage Documentation Requirements (12/30/2009)**

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### Introduction

This topic contains information on HomeStyle mortgage documentation requirements.

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### HomeStyle Mortgage Documentation Requirements

This section describes Fannie Mae’s requirements for security instruments, notes, riders, and addenda for HomeStyle Renovation mortgages. In addition, Fannie Mae has developed other model documents for use in connection with HomeStyle mortgages. Because these documents are model documents, they may need to be amended for certain types of lenders or particular types of transactions.

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### HomeStyle Mortgage

The mortgage or an appropriate rider to the security instrument (“construction loan rider to security instrument” or “security instrument rider”) must

- grant the lender a security interest in any personal property (including building materials) located in, or on, or used, or intended to be used, in connection with the work, and

- provide that a borrower default under the construction loan agreement must constitute a default under the security instrument and the note, and
- grant the lender an assignment of rents as additional security for the loan and the right to appointment of a receiver of rents if the property is held for rental purposes.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                      | Issue Date      |
|------------------------------------|-----------------|
| <a href="#">Announcement 09-28</a> | August 21, 2009 |



## **B8-5-05, Sample Legal Documents (01/27/2011)**

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### Introduction

This topic provides documentation requirements for the following:

- [Subsidized Second Mortgages in Community Seconds Transactions](#)
- [Mortgages Secured by Property Located on Community Land Trusts](#)

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### Subsidized Second Mortgages in Community Seconds Transactions

Fannie Mae has not developed legal documents for the second mortgage component of a Community Seconds transaction; rather, the subsidized second mortgage should be closed on documents developed or acquired by the subsidy provider. Second mortgage loans delivered to Fannie Mae must meet Fannie Mae requirements or have received prior approval on a negotiated basis.

A lender's review of the legal documents should concentrate on determining that the security instrument for the subsidized second mortgage—and any other covenants or restrictions on the borrower's ability to sell the property or to use the land that the subsidy provider has recorded, or may later record against the property—are clearly subordinate to the first mortgage lien.

The legal documents also must set forth any and all conditions that constitute a default under the terms of the subsidized second mortgage.

Conditions that Fannie Mae considers acceptable include the borrower's:

- 
- failure to make scheduled payments due on the mortgage;
  - failure to occupy the property as a principal residence;
  - misrepresentation of any condition required for obtaining the mortgage (such as whether the borrower satisfies any applicable income limitations);
  - payoff of the first mortgage;
  - refinancing of the first mortgage to cash out his or her equity in the property;
  - selling or transferring the property to a party that is ineligible to receive the subsidy (although property transfers that are exempt from enforcement of due-on-sale provisions under federal law must be allowed even if the party acquiring the property is not eligible for the subsidy, subject to the party's assumption of the borrower's obligations); and
  - voluntary termination of his or her employment (for any reason other than disability), if his or her employer is the subsidy provider.

If other default provisions are included in the legal documents for the first or second mortgage, the borrower and the subsidy provider must execute a rider to nullify or amend those provisions.

See Section B5–5.1, Community Seconds and Community Land Trusts, for more information.

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### **Mortgages Secured by Property Located on Community Land Trusts**

Mortgages secured by properties located on a community land trust are subject to a ground lease, which may include provisions that require the continued use of the property for low- and moderate-income families, and may limit the maximum sales price of the property.

Fannie Mae has developed a standard ground lease rider for community land trusts when the ground lease developed by the lessor is based on the model developed by the NCLTN or the ICE. In these instances, the lessor and the borrower must execute a *Community Land Trust Ground Lease Rider* ([Form 2100](#)) that was developed for use with the NCLTN 2011 CLT Network Model Ground Lease (or the ICE Model Ground Lease).

The purpose of the rider is to ensure that the ground lease conforms to Fannie Mae's guidelines for community land trust mortgage loans without the delay that would result from the lender's obtaining Fannie Mae's approval of each ground lease. Fannie Mae's approval is required, however, if the rider is modified or is not executed. In addition, if the lender determines that the ground lease does not conform to the NCLTN 2011 CLT Network Model Ground Lease or to the ICE Model Ground Lease, Fannie Mae's approval of the ground lease is required prior to delivery of the mortgage loan(s). See [B5-5.1-04, Community Land Trusts](#), for more information.



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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2011-01</a> | January 27, 2011  |
| <a href="#">Announcement 08-35</a>       | December 18, 2008 |



## **B8-5-06, Requirements for Use of a Power of Attorney (03/29/2016)**

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### Introduction

This topic contains information on requirements for use of a power of attorney, including:

- [Overview](#)
- [Allowable Attorneys-in-Fact or Agents Under a Power of Attorney](#)
- [Restrictions on the Use of a Power of Attorney](#)
- [Additional Requirements](#)

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### Overview

Except as provided below, an attorney-in-fact or agent under a power of attorney may sign the security instrument and/or note, as long as the lender obtains a copy of the applicable power of attorney. In jurisdictions where a power of attorney used for a signature on a security instrument must be recorded with the security instrument, the lender must ensure that recordation has been effected. The name(s) on the power of attorney must match the name(s) of the person on the affected loan document, and the power of attorney must be dated such that it was valid at the time the affected loan document was executed. The power of attorney must be notarized and, unless otherwise required by applicable law, must reference the address of the subject property. If applicable law requires an original power of attorney for enforcement or foreclosure purposes, an original (rather than a copy) must be forwarded to the document custodian.

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### Allowable Attorneys-in-Fact or Agents Under a Power of Attorney

Except as otherwise required by applicable law, or unless they are the borrower's relative, none of the following persons connected to the transaction shall sign the security instrument or note as the attorney-in-fact or agent under a power of attorney:

- 
- the lender;
  - any affiliate of the lender;
  - any employee of the lender or any other affiliate of the lender;
  - the loan originator;
  - the employer of the loan originator;
  - any employee of the employer of the loan originator;
  - the title insurance company providing the title insurance policy or any affiliate of such title insurance company (including, but not limited to, the title agency closing the loan), or any employee of either such title insurance company or any such affiliate; or
  - any real estate agent with a financial interest in the transaction or any person affiliated with such real estate agent.

As used herein, the borrower's relative includes any person defined as a relative in this Guide, or a person who is a fiancé, fiancée, or domestic partner of the borrower.

For refinance transactions, an individual who would otherwise be prohibited from serving as an attorney-in-fact or agent under the restrictions above may execute the required loan documents on behalf of the borrower(s), provided all of the following conditions are met:

- The attorney-in-fact or agent is not an employee of the lender.
- The power of attorney expressly states an intention to secure a loan not to exceed a stated amount from a named lender on a specific property.
- The power of attorney expressly authorizes the attorney-in-fact or agent to execute the required loan documents on behalf of a borrower only if the borrower has, to the satisfaction of the attorney-in fact or agent in a recorded, interactive session conducted via the Internet, both
  - confirmed his or her identity; and
  - reaffirmed, after an opportunity to review the required loan documents, his or her agreement to the terms and conditions of the required loan documents evidencing such transaction and to the execution of such required loan by such attorney-in-fact or agent.
- The lender must produce at Fannie Mae's request at any time during the term of the related loan, within a commercially reasonable time following such request and without additional

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expense to Fannie Mae, a recording and other documentary media memorializing the entirety of the interactive session.

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### **Restrictions on the Use of a Power of Attorney**

Except as required by applicable law, a power of attorney may not be utilized to sign a security instrument or note if either (or both) of the following applies:

- No other borrower executes such loan document in person in the presence of a notary public. Exceptions: A power of attorney may be utilized to sign such loan document for each borrower:
    - as permitted in connection with a refinance transaction conducted in a recorded, interactive session on the Internet as described above in Allowable Attorneys-in-Fact or Agents Under a Power of Attorney; or
    - as long as the attorney-in-fact or agent under the power of attorney is either the borrower’s attorney-at-law or the borrower’s relative.
  - The transaction is a cash-out refinance.
- 

### **Additional Requirements**

If a power of attorney is used because the lender determines such use is required by applicable law, the lender must include in the mortgage loan file a written statement that explains the circumstances. Such statement must be provided to the document custodian with the power of attorney.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcement</b>                      | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-03</a> | March 29, 2016    |
| <a href="#">Announcement SEL-2014-06</a> | May 27, 2014      |
| <a href="#">Announcement SEL-2013-08</a> | October 22, 2013  |

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# Chapter B8-6, Mortgage Assignments



## Mortgage Assignments

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### Introduction

This chapter describes Fannie Mae requirements related to mortgage assignments.

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### In This Chapter

This chapter contains the following topics:

|   |      |
|---|------|
| B8-6-01, General Information (04/01/2009) .....                                   | 1050 |
| B8-6-02, Mortgage Assignment to Fannie Mae (04/09/2013) .....                     | 1051 |
| B8-6-03, Authorized Use of Intervening and Blanket Assignments (02/23/2016) ..... | 1053 |

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## B8-6-01, General Information (04/01/2009)

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### Introduction

This topic contains general information on mortgage assignments.

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### General Information

An assignment of the mortgage to Fannie Mae is required for any mortgage that is not registered with MERS. If a mortgage is registered with MERS, the need for a mortgage assignment depends on whether or not the lender names MERS as nominee for the beneficiary in the security instrument or subsequently assigns the mortgage to MERS. When the lender names MERS as nominee for the beneficiary in the security instrument, no assignment of the mortgage is required. Refer to [B8-7-01, Mortgage Electronic Registration Systems \(MERS\)](#), for additional information.

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## **B8-6-02, Mortgage Assignment to Fannie Mae (04/09/2013)**

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### **Introduction**

This topic contains information on mortgage assignment to Fannie Mae, including:

- [General Requirements](#)
  - [Information Required for Recordation](#)
  - [Missing Information](#)
  - [Special Provision for Puerto Rico](#)
- 

### **General Requirements**

Lenders must prepare an assignment of the mortgage to Fannie Mae for any mortgage that is not registered with MERS, although the assignment should not be recorded. If the mortgage seller is not going to service the mortgage, the unrecorded assignment to Fannie Mae must be executed by the servicer.

Lenders may use the standard Fannie Mae form of assignment. When a lender chooses not to use Fannie Mae's standard assignment forms, the mortgage assignments that it prepares must meet the following requirements:

- They must show the assignee as Fannie Mae.
  - They must not include a recitation that the assignment of the mortgage or lien is “without recourse.”
  - They must be prepared in recordable form, but they should not be recorded. Recordable form usually is whatever form the local recorder's office requires.
- 

### **Information Required for Recordation**

If state law does not specifically address the information required for recordation, lenders must include the following information in the assignments:

- the date of execution;
- the lender's name;
- the borrower's name;

- 
- a legal description of the property;
  - the recording information related to the mortgage, such as the deed book and page number or the instrument number;
  - the original mortgage amount;
  - the date of the mortgage;
  - an authorized signature;
  - an appropriate notarization, if one is required by state law;
  - the Fannie Mae Assignment Address (see [E-1-03, List of Contacts](#)), if required by the jurisdiction.
- 

### **Missing Information**

Occasionally, a lender may not be able to meet Fannie Mae's specific assignment requirements because the local recorder's office has not returned the recorded mortgage documents. To avoid delays in funding, Fannie Mae will purchase or securitize the mortgage if the only reason for the incomplete assignment was that the mortgage recordation data necessary for a recordable form was unavailable at the time of delivery. Fannie Mae has the right to complete any missing information without the lender's authorization should the assignment need to be recorded at a later date.

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### **Special Provision for Puerto Rico**

Assignments of mortgages generally are not recordable in Puerto Rico. Therefore, because the originating lender remains the mortgagee of record, the unrecorded assignment of the mortgage to Fannie Mae must run from the originator of the mortgage to Fannie Mae. If the lender selling the mortgage to Fannie Mae is not the mortgage originator, it must make every effort to get the originator to execute an assignment of the mortgage to Fannie Mae (or, at least, to execute a blanket assignment that covers the mortgage). If it is unable to obtain an assignment from the mortgage originator for any reason, it (or the servicer, if the seller is not servicing the mortgage) must execute an individual unrecorded assignment of the mortgage to Fannie Mae.

No intervening assignments need to be prepared, recorded, or retained in the individual mortgage file.

The recordation of deeds of assignment is permitted in connection with direct mortgages (which are mortgages that are documented by a single instrument that combines the terms of the note

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and the terms of the mortgage). If the mortgage is a direct mortgage, the servicer must execute an assignment of the mortgage to Fannie Mae (which must be in recordable form, but unrecorded). In this case, the individual mortgage file must include a complete, unbroken chain of public deeds of assignment for the mortgage that evidence the transfer of title beginning with the originating lender and ending with the servicer.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date    |
|--|---------------|
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013 |

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## **B8-6-03, Authorized Use of Intervening and Blanket Assignments (02/23/2016)**

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### Introduction

This topic contains information on the authorized use of intervening and blanket assignments, including:

- [Intervening Assignments](#)
  - [Blanket Assignments](#)
- 

### Intervening Assignments

Lenders may use Fannie Mae’s standard assignment forms for intervening assignments. In such cases, the lender must modify the following phrase in the first paragraph of the applicable assignment form to reflect the same applicable information for the designated assignee.

“... unto the Federal National Mortgage Association (or Fannie Mae, as applicable), a corporation organized and existing under the laws of the United States (herein “Assignee”), whose address is 3900 Wisconsin Avenue, NW, Washington, DC 20016, ...”

When the mortgage seller and the mortgage servicer are not the same entity, Fannie Mae requires a recorded intervening assignment from the seller to the servicer—and then an assignment from the servicer to Fannie Mae (or MERS).

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When the mortgage is serviced by the lender who originated it, but is being sold to Fannie Mae by another party who is an affiliate of the originating lender or an investment banker acting as a conduit, Fannie Mae accepts an assignment from the originating lender.

When the originating lender has transferred its interest in the mortgage to another party (with the exception of the special provision for Puerto Rico mortgages), intervening assignments are required in most instances.

Lenders must obtain all of the intervening assignments that Fannie Mae requires, record them in any instance in which Fannie Mae requires recordation, and retain them in the individual mortgage file to ensure that there is evidence of the complete chain of ownership for the mortgage. Each of the intervening assignments should have a corresponding endorsement on the mortgage note. However, this may not always be the case because of Fannie Mae's policies that:

- allow the mortgage note to be endorsed in blank;
- require recordation of the assignment to the mortgage servicer when the mortgage seller does not service the mortgage, but do not require a corresponding note endorsement;
- waive the requirement for intervening assignments when the mortgage originator services a mortgage that is sold to Fannie Mae by one of its affiliates or an investment banker acting as a conduit (but require all of the applicable note endorsements); and
- permit the mortgage to be assigned to and registered with MERS.

The lender may be required to indemnify Fannie Mae (as described in [A2-1-03, Indemnification for Losses](#)), for any losses incurred by Fannie Mae due to the lender's failure to obtain, record (if applicable), and retain the necessary intervening assignments. Alternatively, Fannie Mae may require the lender to repurchase the mortgage or the security property.

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### **Blanket Assignments**

An assignment of the mortgage to Fannie Mae must be an individual assignment even if the recording jurisdiction accepts blanket assignments. (Blanket assignments are assignments that cover more than one mortgage.) Fannie Mae makes one exception to this—for a Puerto Rico mortgage, Fannie Mae accepts a blanket assignment from the mortgage originator (when the mortgage is sold to Fannie Mae by another lender). In this case, all of the mortgages covered by the blanket assignment must be delineated in the body of the assignment or in an attachment that is made part of the assignment.

Lenders may use blanket assignments for any intervening assignments that take place before the mortgage is delivered to Fannie Mae, as long as this type of assignment is acceptable to the



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applicable recording jurisdiction. Each blanket assignment must relate to a single recording jurisdiction.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |

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# Chapter B8-7, Mortgage Electronic Registration System (MERS)



## Mortgage Electronic Registration System (MERS)

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### Introduction

This chapter provides information related to mortgage loans registered with MERS.

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### In This Chapter

This chapter contains the following topic:

[B8-7-01, Mortgage Electronic Registration Systems \(MERS\) \(04/15/2014\)](#) ..... 1056

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## B8-7-01, Mortgage Electronic Registration Systems (MERS) (04/15/2014)

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### Introduction

This topic contains information about MERS, including:

- [Naming MERS as the Nominee for the Beneficiary in the Security Instrument](#)
  - [Use of MERS Rider in Specified Geographic Areas](#)
  - [MERS Registration](#)
  - [Use of the MIN](#)
  - [Mortgage Assignment to MERS](#)
- 

### Naming MERS as the Nominee for the Beneficiary in the Security Instrument

A lender that wants to register a newly originated mortgage (but not a co-op share loan) with MERS may prefer to designate MERS as the nominee for the beneficiary in the security

instrument, thereby eliminating the need for a subsequent assignment of the security instrument should the lender sell (or transfer servicing of) the mortgage to another lender that is a member of MERS. In such cases, the applicable security instrument must be modified to:

- show MERS as the nominee for the lender,
- define and name the originating lender, and
- obtain the borrower's acknowledgment of MERS' role in the mortgage transaction.

Changes that must be made to create a standard MERS security instrument for each jurisdiction may be found in the Instructions document for each state-specific security instrument (see [Security Instruments](#)), with the exception of loans secured by property located in certain geographic areas. As described below, a *Mortgage Electronic Registration Systems, Inc. Rider* (MERS Rider) ([Form 3158](#)) must be used in these jurisdictions, and the security instruments must be changed in accordance with the Instructions to the MERS Rider, which is posted on [Fannie Mae's website](#). As the MERS Rider must be used in these specified states, post-closing assignments into MERS are prohibited.

The lender is responsible for the accurate and timely preparation and recordation of the security instrument and the MERS Rider, when applicable, and must take all reasonable steps to ensure that the information on MERS is updated and accurate at all times.

Even when MERS is named as the nominee for the beneficiary in the security instrument, it has no beneficial interest in the mortgage. All actions that MERS takes with respect to a mortgage are based on the instructions initiated by the originating lender, Fannie Mae, or the servicer. The originating lender remains responsible for all of its Contractual Obligations and any liability that it or Fannie Mae incurs as a result of the MERS registration or any MERS transaction. In addition, the lender is solely responsible for any failure to comply with the provisions of its MERS Member Agreement, Rules, and Procedures and for any liability that it or Fannie Mae incurs as a result of the registration of the mortgage with MERS or any specific MERS transaction.

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### **Use of MERS Rider in Specified Geographic Areas**

In the states listed below, lenders must use the MERS Rider (Form 3158) when a newly originated mortgage loan (but not a co-op share loan) will be registered with MERS. Lenders must also follow the Instructions to the MERS Rider to make changes to the standard security instruments for the following states:

- Montana,

- Oregon, and
- Washington.

As the MERS Rider must be used in these specified states, post-closing assignments into MERS are prohibited.

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### **MERS Registration**

If a lender registers a mortgage with MERS before delivering it to Fannie Mae, the lender must ensure that the Mortgage Identification Number (MIN) is registered in MERS and names itself as the investor. Additionally, the lender must include the MIN in the delivery data. After Fannie Mae purchases or securitizes the mortgage, Fannie Mae notifies MERS to update its records to reflect Fannie Mae's ownership interest in the mortgage.

**Note:** For loans registered in MERS iRegistration where MERS is not named as the nominee for the beneficiary in the security instrument, the MERS MIN should not be reported on the loan schedules.

If a lender registers a mortgage with MERS after Fannie Mae has purchased or securitized the loan, the lender must name Fannie Mae as the investor during registration and notify MERS of Fannie Mae's ownership interest in the mortgage. (The MIN will not have been included on the Loan Schedule or Schedule of Mortgages.)

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### **Use of the MIN**

For each MERS-registered mortgage, the lender must indicate the MIN on the security instrument and related documents, regardless of whether the lender retains the documents or sends them to Fannie Mae's DDC or to the applicable document custodian. Because the status of a MERS-registered mortgage can change, the lender is not required to include the MIN on the mortgage note. Additionally, the lender is still responsible for making sure that the document custodian has sufficient information to determine whether a mortgage that is included in a subsequent transfer of servicing is registered with MERS at the time of the transfer. The lender must have adequate controls in its processes to enable it to readily identify MERS-registered mortgages.

The lender can choose from the following options:

- place the MIN on the note when the mortgage is registered with MERS and, if the MERS registration is subsequently terminated for any reason, notify the document custodian to delete the MIN from the note;

- 
- wait to advise the custodian of the status of the MERS registration for a mortgage until a change in status actually occurs; or
  - notify the custodian about the status of the MERS registration for a mortgage at the time of a servicing transfer by providing the custodian with a listing of all MERS-registered mortgages that are included in the transfer and a certification that any and all other mortgages included in the transfer are not currently registered with MERS. (The listing may be prepared by the lender or, with the lender's authorization, by MERS.) If there are more MERS-registered mortgages included in the transfer than there are unregistered mortgages, the listing may instead identify the unregistered mortgages—and, in that case, the certification should state that any and all other mortgages included in the transfer are currently registered with MERS.
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### **Mortgage Assignment to MERS**

If the originating lender is the beneficiary for a mortgage that it registers with MERS, the lender must prepare an assignment of the mortgage to MERS.

By delivering a MERS-registered mortgage to Fannie Mae, the lender:

- warrants that MERS is the mortgagee of record (either by being named as an assignee in a recorded assignment of the security instrument or as nominee for the beneficiary in the security instrument);
- warrants that the MIN is valid and properly registered in MERS naming the lender as the investor; and
- agrees that, in the event that either its membership in MERS or the MERS registration for an active mortgage is terminated for any reason while Fannie Mae has an ownership interest in the mortgage, the servicer is responsible for preparing and recording an assignment of the mortgage from MERS to itself, and then preparing (in recordable form) an assignment of the mortgage from itself to Fannie Mae and delivering that assignment to Fannie Mae's DDC (or to the applicable document custodian).

Lenders are not required to include a copy of the assignment of the mortgage to MERS in the delivery package they submit to Fannie Mae's DDC or the applicable document custodian. Lenders also are not required to prepare and submit an unrecorded assignment of the mortgage from MERS to Fannie Mae (unless Fannie Mae specifies otherwise for a particular transaction or transactions).

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b> |
|---|-------------------|
| <a href="#"><u>Announcement SEL-2014-03</u></a> | April 15, 2014    |
| <a href="#"><u>Announcement SEL-2012-06</u></a> | June 26, 2012     |
| <a href="#"><u>Announcement SEL-2011-04</u></a> | May 24, 2011      |
| <a href="#"><u>Announcement 08-37</u></a>       | December 19, 2008 |

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# Part C, Selling, Securitizing, and Delivering Loans



## Selling, Securitizing, and Delivering Loans

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### Introduction

This part describes the requirements associated with the two primary ways lenders transact business with Fannie Mae: selling whole loans for cash and pooling loans into Fannie Mae mortgage-backed securities (MBS).

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### [Subpart C1, General Information on Execution Options and Loan Delivery](#)

This subpart includes policies and procedures that pertain to both execution options: selling whole loans and pooling whole loans into MBS. It includes general information on making commitments, delivering loans, and servicing and borrower payment remittance options.

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### [Subpart C2, Whole Loan Transactions](#)

This subpart includes Fannie Mae's policies, parameters, and other information regarding the sale and delivery of whole loans for cash. Whole loan products, commitment types and process, servicing fees, remittance types, loan payments and purchase adjustments are covered in the first chapter; requirements for good delivery, extensions and pair-offs, required data and documentation, funding and post-purchase adjustments in the second chapter.

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### [Subpart C3, Mortgage-Backed Securities \(MBS\)](#)

This subpart describes Fannie Mae's requirements for pooling mortgages that will serve as the underlying asset for mortgage-backed securities (MBS). It includes Fannie Mae's MBS program parameters and other information regarding MBS commitments, guaranty and buyup and buydown fees, pooling loans into fixed-rate and ARM MBS and Fannie Majors, and delivering and trading MBS.

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**In This Part**

This part contains the following subparts:

|  |      |
|--|------|
| Subpart C1, General Information on Execution Options and Loan Delivery ..... | 1063 |
| Subpart C2, Whole Loan Transactions .....                                    | 1085 |
| Subpart C3, Mortgage-Backed Securities (MBS) .....                           | 1131 |

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# Subpart C1, General Information on Execution Options and Loan Delivery



## General Information on Execution Options and Loan Delivery

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### Introduction

This subpart includes policies and procedures that pertain to both execution options: selling whole loans and pooling whole loans into MBS. It includes general information on making commitments, delivering loans, and servicing and borrower payment remittance options.

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### In This Subpart

This subpart contains the following chapters:

|  |      |
|--|------|
| C1-1, Execution Options Overview .....     | 1064 |
| C1-2, Loan Delivery Overview .....         | 1070 |
| C1-3, Loan Remittance Types Overview ..... | 1083 |

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# Chapter C1-1, Execution Options Overview



## Execution Options Overview

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### Introduction

This chapter provides general information on selling whole loans and pooling loans into MBS.

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### In This Chapter

This chapter contains the following section:

|   |      |
|---|------|
| <a href="#">C1-1-01, Execution Options (12/06/2016)</a> ..... | 1064 |
|---|------|

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## C1-1-01, Execution Options (12/06/2016)

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### Introduction

This topic provides general information about selling whole loans to Fannie Mae and pooling loans into MBS, including:

- [Volume Limitations](#)
  - [Whole Loan Commitments](#)
  - [MBS Commitments](#)
  - [Pooling Loans Into a Fannie Mae Trust for MBS](#)
  - [Bulk Transactions Options](#)
  - [Pricing, Fees, and Loan-Level Price Adjustments](#)
  - [Premium Pricing Recapture](#)
  - [No Assignment of Whole Loan or MBS Commitments](#)
- 

### Volume Limitations

In conjunction with Section III. D of the *Mortgage Selling and Servicing Contract*, which provides that Fannie Mae is under no obligation to make a commitment to purchase any

mortgage or participation interest from the lender, the following policies apply with regard to volume limitations:

- Fannie Mae may establish, amend, or cancel any mortgage loan volume limitations specific to a lender, which may be applicable to aggregate whole loan deliveries and sales, deliveries and sales in exchange for MBS, or both.
- Fannie Mae may also decline to engage in any specific transaction with a lender.

#### Volume limitations

- may apply to volumes delivered on a daily, monthly, or quarterly basis, or as otherwise determined by Fannie Mae in its sole discretion, and any such limitation will supersede any higher daily limitation set forth in the *Selling Guide* ([C2-1.1-03, Mandatory Commitment Terms, Amounts, Periods and Other Requirements](#)) or Master Agreement;
- will apply even though the mortgage loans comply with all applicable provisions of the *Selling Guide*; and
- will apply without regard to Fannie Mae's confirmation of any commitment taken by the lender in the whole loan or MBS committing application and/or other commitment.

**Note:** Any confirmation made while a lender is over any such limitation or that would cause a lender to exceed such limitation may, at the option of Fannie Mae, be suspended or terminated, and the lender may be required to pair off such commitment(s).

Fannie Mae may impose volume limitations at any time, in its sole discretion, with no requirement that the lender be in default of any of its obligations under the Lender Contract. Fannie Mae's decision not to impose volume limitations against a lender does not mean that Fannie Mae condones any action or inaction by the lender, or that Fannie Mae is waiving its right to impose any such limitations in the future. Volume limitations will be effective when imposed, unless otherwise stated.

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### Whole Loan Commitments

Using Fannie Mae's whole loan committing application, lenders can enter into a mandatory or a best efforts commitment to sell whole loans to Fannie Mae for cash.

- With a mandatory commitment, the lender agrees to deliver a specified dollar amount of loans, within certain tolerances, to Fannie Mae by a specified future date. Fannie Mae agrees to purchase those loans at an agreed-upon price. If a lender is unable to meet the terms of the

agreement, it may have to pair off the commitment, which may require payment to Fannie Mae of a fee (called a pair-off fee) or the transaction may be eligible for a cash back pair-off. See [C2-1.1-04, Mandatory Commitment Extensions and Pair-Offs](#), for additional information.

- With a best efforts commitment, the lender agrees to deliver a specific loan to Fannie Mae by a specified date if that loan closes. If the loan does not close, the lender does not have to pay a fee. However, if the loan is closed, the lender must deliver the loan to Fannie Mae. If the lender changes the loan status to “Closed” and then does not deliver the loan, Fannie Mae may assess a pair-off fee.

For additional information, see Chapter C2–1, Mandatory and Best Efforts Commitments to Sell Whole Loans.

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### **MBS Commitments**

Using Fannie Mae’s MBS committing application, lenders can enter into mandatory commitments to sell MBS loans to Fannie Mae.

- With an MBS commitment, the lender agrees to sell a certain volume of mortgage loans having a specified set of loan parameters to Fannie Mae. Fannie Mae provides the lender with guaranty fee pricing for such mortgage loans for delivery under MBS execution. If a lender is unable to meet the terms of the commitments, it has the option to roll or pair off the commitments, which may require payments to Fannie Mae of a fee (referred to as a “roll fee” or “pair-off fee”).

For additional information, see [C3-2-04, Mandatory MBS Commitments](#).

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### **Pooling Loans Into a Fannie Mae Trust for MBS**

Lenders can obtain pool purchase contracts that enable them to sell Fannie Mae pools of loans with similar characteristics. In exchange, Fannie Mae will issue an MBS backed by those loans. MBS can be created for either swap-and-hold or swap-and-sell transactions. With a swap-and-hold transaction, the lender holds the security after it is created; whereas with a swap-and-sell, the security is immediately sold to other investors.

Minimum submission amounts (by aggregate issue date principal balance) required are:

- fixed-rate mortgage loans, single-lender pools: \$1 million
- adjustable-rate mortgage loans, single-lender pools: \$500,000

- Fannie Majors, multiple-lender pools: \$1,000. (Fannie Majors pools in aggregate must meet the minimum amounts noted above to be opened.)

For additional information, see Subpart C3, Mortgage Backed Securities.

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### **Bulk Transactions Options**

In addition to selling their current production on a flow basis, lenders can sell a wide variety of closed loans to Fannie Mae under MBS or whole loan transactions. For bulk transactions, lenders must contact their lead Fannie Mae regional office or the Capital Markets Sales Desk to determine what type of contract to use for MBS deliveries. (see [E-1-03, List of Contacts](#)).

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### **Pricing, Fees, and Loan-Level Price Adjustments**

When lenders commit to sell whole loans for cash, Fannie Mae provides a “live” price, so named because prices move throughout the day, generally in tandem with the MBS market. Live pricing options for mandatory whole loan commitments and best efforts commitments are posted within Fannie Mae’s whole loan committing application.

Lenders that participate in Fannie Mae’s MBS program pay Fannie Mae a guaranty fee remittance each month as compensation for the right to do so. Factors used to calculate the guaranty fee remittance rate include the credit risk of mortgages included in the pool, the servicing option that applies to each mortgage in the pool, and the remittance cycle that applies to the pool. The specific guaranty fee applicable to an MBS mortgage loan is set forth in the related MBS commitment between Fannie Mae and the lender.

**Note:** Any pricing changes that are directed by Fannie Mae’s regulator will not affect the base guaranty fee reflected in any existing commitment unless required by the regulator. If this occurs, the lender will have the option of cancelling any commitments that could be affected by the base guaranty fee change, with no pair-off, roll or extension fees due from the lender.

Lenders that elect to trade their MBS can obtain price indications by contacting Fannie Mae’s Capital Markets Sales Desk (see [E-1-03, List of Contacts](#)) or via various financial information service providers. Prices are based on pass-through rates, maturities, and other factors.

For both whole loan and MBS transactions, Fannie Mae may apply one or more loan-level price adjustments (LLPA) that are charged at loan delivery based on certain loan-level credit risk characteristics, such as credit score, loan purpose, occupancy, number of units, and product type. All LLPAs are calculated based on the acquisition date principal balance of the mortgage loan and are cumulative.

All applicable LLPAs for whole loan transactions will be deducted from the purchase proceeds. All applicable LLPAs for MBS transactions will be drafted from the lender's account designated for that purpose.

Lenders may be eligible for an LIPA refund on certain mortgage loans repurchased by the lender, as determined by Fannie Mae in its sole discretion. The refund will be calculated based on the LLPAs charged at acquisition less a processing fee of 50 basis points of the unpaid principal balance at acquisition. If the total of all LLPAs paid by the lender for a mortgage loan is 50 basis points or less, Fannie Mae will not refund the LIPA. The LIPA refunds are available only for mortgage loans originally delivered as whole loans and repurchased within 18 months of acquisition by Fannie Mae. The refunds will be issued to the responsible party for the selling representations and warranties as a separate transaction (independent from the repurchase transaction) in the month following the completion of the repurchase.

For a current listing of LLPAs, see the [Loan-Level Price Adjustment \(LIPA\) Matrix](#) and the [Refi Plus™ Mortgages Only Loan-LIPA Matrix](#).

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### **Premium Pricing Recapture**

With respect to any mortgage loan that pays off within 120 days from the whole loan purchase date or the MBS issue date, Fannie Mae in its sole discretion may require reimbursement by the lender for any premium paid in connection with the purchase of the mortgage loan. In Fannie Mae's sole discretion, the premium reimbursement amount may be reduced by the amount equal to the total of all LLPAs paid in connection with delivery of a mortgage loan less a processing fee of 50 basis points based on the unpaid principal balance at acquisition. For a whole loan, the premium is the amount that the purchase price exceeded the par price (100% of the face value) multiplied by the unpaid principal balance of the mortgage loan at the time of purchase. In the case of a mortgage delivered for MBS, the premium is the percentage amount above a par price that would have been applicable to the related MBS on the actual settlement date multiplied by the unpaid principal balance of the mortgage loan on the issue date.

For mortgage loans repurchased by a lender, Fannie Mae in its sole discretion may require reimbursement by the lender for any premium paid in connection with the purchase of the related repurchased mortgage loan without regard to the 120-day limitation.

**Note:** Fannie Mae may require this reimbursement on a mortgage loan in an MBS regardless of the MBS investor.

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### **No Assignment of Whole Loan or MBS Commitments**

Lenders are not permitted to assign Fannie Mae whole loan or MBS commitments (or any of the rights or obligations under the commitments) to another lender or third-party investor.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b>  |
|---|--------------------|
| <a href="#"><u>Announcement SEL-2016-09</u></a> | December 6, 2016   |
| <a href="#"><u>Announcement SEL-2015-12</u></a> | November 3, 2015   |
| <a href="#"><u>Announcement SEL-2015-09</u></a> | August 25, 2015    |
| <a href="#"><u>Announcement SEL-2015-06</u></a> | May 26, 2015       |
| <a href="#"><u>Announcement SEL-2012-13</u></a> | November 13, 2012  |
| <a href="#"><u>Announcement SEL-2012-10</u></a> | October 2, 2012    |
| <a href="#"><u>Announcement SEL-2012-06</u></a> | June 26, 2012      |
| <a href="#"><u>Announcement SEL-2012-02</u></a> | February 28, 2012  |
| <a href="#"><u>Announcement SEL-2012-01</u></a> | January 31, 2012   |
| <a href="#"><u>Announcement SEL-2011-11</u></a> | October 25, 2011   |
| <a href="#"><u>Announcement SEL-2010-06</u></a> | April 30, 2010     |
| <a href="#"><u>Announcement 09-29</u></a>       | September 22, 2009 |

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# Chapter C1-2, Loan Delivery Overview



## Loan Delivery Overview

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### Introduction

Many of the “good delivery” requirements for delivering loans in fulfillment of a whole loan commitment differ from those associated with a commitment to pool loans into an MBS. This chapter provides information about the delivery requirements that these executions have in common.

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### In This Chapter

This chapter contains the following topics:

|  |      |
|--|------|
| C1-2-01, General Information on Delivering Loan Data and Documents (12/06/2016) . . . .  | 1070 |
| C1-2-02, Loan Data and Documentation Delivery Requirements (06/30/2015) . . . . .  | 1072 |
| C1-2-03, Ownership of Mortgage Loans Prior to Purchase or Securitization and Third-Party Security Interests (11/13/2012) . . . . . | 1075 |
| C1-2-04, Bailee Letters (06/26/2012) . . . . .   | 1078 |

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## C1-2-01, General Information on Delivering Loan Data and Documents (12/06/2016)

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### Introduction

This topic provides general information on a lender’s obligation to supply data and documentation to all loans submitted to Fannie Mae for purchase, including:

- [Timing and Deadlines](#)
- [Delivery Tolerances](#)
- [Loan Qualifications](#)
- [Receiving Sale Proceeds or Securities](#)



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## Timing and Deadlines

A lender can begin to deliver loans against its commitments as soon as it receives a commitment confirmation number for whole loans, or an MBS commitment contract number for MBS loans. It must deliver the loans required to fulfill the commitment prior to the commitment expiration date. Specifically, lenders must submit loan data electronically, via Loan Delivery, and send the documentation package to Fannie Mae's DDC for a whole loan commitment or the document custodian for MBS delivery.

Fannie Mae may reject a loan for a variety of reasons, including failure to meet Fannie Mae's eligibility requirements, incomplete or inaccurate loan delivery data, or incomplete document submission packages. Fannie Mae may assess a late delivery fee for loans that are redelivered after a commitment has expired. See [C2-2-01, General Requirements for Good Delivery of Whole Loans](#), and [C2-2-02, Documentation Requirements for Whole Loan Deliveries](#), for information concerning whole loan data and document delivery requirements and [C3-7-04, Delivering Data and Documents](#), for information concerning data and document delivery requirements for loans in MBS pools.

---

## Delivery Tolerances

For both whole loan and MBS deliveries, lenders may deliver an amount slightly higher or lower than the original commitment amount, without charge. For information on delivery tolerances specific to whole loan sales and MBS transactions, see [C2-1.1-02, Pricing, Fees, and Pricing Adjustments](#), and [C3-7-03, Making Good Delivery](#).

---

## Loan Qualifications

Lenders must ensure that all loans selected for delivery meet Fannie Mae's underwriting and eligibility guidelines and legal requirements. The loan terms must also match the terms of the commitment, including mortgage type, amortization, original term, and pass-through rate(s) selected for delivery when the commitment was created.

---

## Receiving Sale Proceeds or Securities

When Fannie Mae purchases loans in fulfillment of a whole loan execution, it does so by sending funds via wire transfer to an account designated by the lender for this purpose. For MBS transactions, Fannie Mae issues securities to the lender, if the lender has elected to hold the securities in its portfolio, or to the investor designated by the lender, if the lender has sold the securities before it delivers the loans to Fannie Mae. If the lender has elected to use an "original

issue” settlement to fund a forward trade through Fannie Mae’s Capital Markets Sales Desk (see [E-1-03, List of Contacts](#)), the securities will be assigned directly to Fannie Mae. For details specific to the two types of transactions, see [C2-2-03, General Information on Whole Loan Purchasing Policies](#), and [C3-7-06, Settling the Trade](#), respectively.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 06, 2016 |
| <a href="#">Announcement 08-32</a>       | December 10, 2008 |



## C1-2-02, Loan Data and Documentation Delivery Requirements (06/30/2015)

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### Introduction

This topic provides information on the loan data lenders must deliver in order to make good delivery, including:

- [Electronic Submission via Loan Delivery](#)
- [Loan Delivery Application Resources](#)
- [Required Data Elements and Post-Purchase Delivery of Additional Data Elements](#)
- [Special Feature Codes](#)
- [Documentation Requirements](#)
- [Delivery of the Fannie Mae Loan Number to the Document Custodian](#)

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### Electronic Submission via Loan Delivery

Loan data for all mortgages must be electronically transmitted to Fannie Mae using Loan Delivery. Loan Delivery is a Web-based application that allows lenders to deliver whole loans for purchase and MBS loans for securitization to Fannie Mae. Lenders can import loan and pool data, perform edits to facilitate error-free delivery, transfer loans between commitments (or pools), track the status of loan deliveries, generate reports, and export loan and pool data back to the lender’s organization.

---

## Loan Delivery Application Resources

For information regarding the Uniform Loan Delivery Dataset (ULDD) and the data delivery requirements, access the [ULDD](#) page on Fannie Mae's website. The ULDD Implementation Guide, *Fannie Mae Appendix D - Fannie Mae XML Data Reference*, provides a listing of the ULDD required and conditionally required data fields, as well as field definitions and implementation notes. For additional guidance on ULDD, refer to the following resources available on the ULDD page:

- ULDD Quick Guides,
- ULDD Frequently Asked Questions, and
- ULDD Updates.

Resources specific to the Loan Delivery application that support the delivery of the ULDD data can be found on the [Loan Delivery](#) page on Fannie Mae's website. This page includes links to various resources, including:

- *Loan Delivery Release Notes and Change Notifications*,
- [Uniform Loan Delivery Dataset \(ULDD\) Fact Sheet: Loan Delivery User Tips](#), and
- Loan Delivery Job Aids and User Guide.

---

## Required Data Elements and Post-Purchase Delivery of Additional Data Elements

The lender must provide information about certain borrower and property characteristics as part of the loan delivery data. Although lenders are strongly encouraged to provide all data at the time of initial loan delivery, missing or corrected data must be provided by the lender as soon as possible after initial delivery using Fannie Mae's Additional Data Elements (ADE) application.

Each month, Fannie Mae sends lenders reports that show any missing or invalid Housing Goals data for year-to-date deliveries. Lenders have until 5:00 p.m. (Eastern time) on the last business day of the month to transmit missing information or corrections to Fannie Mae via ADE. For information about how to read these reports, see the [Housing Goals Data](#) page on Fannie Mae's website.

For additional information about delivery of this data, see [ULDD Quick Guide — Guidelines for Housing Goals](#).

---

## Special Feature Codes

Lenders must include specific special feature code(s) (investor feature identifier) as part of the delivery data when delivering certain mortgage loans. For a list of special feature codes, see [Special Feature Codes](#). If a lender fails to identify or incorrectly identifies on a consistent basis any applicable special feature code(s) when it submits loans requiring these codes in fulfillment of a whole loan commitment or for inclusion in an MBS pool, Fannie Mae may impose a compensatory fee. The amount of the fee will be based on:

- the lender's overall performance,
- the lender's explanation for its failure to comply,
- previous instances of noncompliance,
- the amount of any previous compensatory fee, and
- any other factors Fannie Mae deems relevant.

For additional information about delivery of special feature codes, see [ULDD Quick Guide — Special Feature Codes and New Required Fields](#).

---

## Documentation Requirements

The documentation to be submitted and the process used to submit it differ for loan deliveries made in fulfillment of whole loan and MBS transactions. Documents for whole loan deliveries must be sent to Fannie Mae's DDC. Documents for MBS mortgages must be sent to an approved document custodian or to Fannie Mae's DDC. For details, see [C2-2-01, General Requirements for Good Delivery of Whole Loans](#), [C2-2-02, Documentation Requirements for Whole Loan Deliveries](#), and [C3-7-04, Delivering Data and Documents](#), respectively.

See the [Fannie Mae Requirements for Document Custodians](#) guide for document delivery and certification requirements.

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## Delivery of the Fannie Mae Loan Number to the Document Custodian

The lender is responsible for ensuring that the document custodian receives, within 30 days of loan certification, the Fannie Mae loan number for every mortgage loan for which the document custodian provides custodial services. The lender must respond within three business days to any request from the document custodian to provide the Fannie Mae loan number following the certification of the related mortgage loan.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015     |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011  |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011     |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011     |
| <a href="#">Announcement 08-37</a>       | December 19, 2008 |



## C1-2-03, Ownership of Mortgage Loans Prior to Purchase or Securitization and Third-Party Security Interests (11/13/2012)

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### Introduction

This topic provides information on the following:

- [Mortgage Loan Certification Overview](#)
- [Control of Mortgage Notes During the Loan Certification Processes](#)
- [Ownership Interest and Title to Mortgage Notes](#)
- [Conflicts Regarding Rights in Mortgages](#)

---

### Mortgage Loan Certification Overview

The Fannie Mae certification processes for whole loan and MBS deliveries are designed to assure Fannie Mae and the marketplace that all mortgage loans purchased or securitized by Fannie Mae conform to Fannie Mae's requirements and are not subject to any liens or claims of any third parties. Therefore, it is in Fannie Mae's interest that liens and claims in and to such notes are properly resolved as part of the loan pooling, certification, and acquisition processes.

It is critical to Fannie Mae's purchase or securitization of mortgage loans that Fannie Mae receives good delivery of loans that conform to Fannie Mae's requirements and, if applicable, meet the characteristics attributed to them in MBS disclosures. Therefore, Fannie Mae requires

that mortgage sellers deliver mortgage documents to document custodians for review and certification prior to Fannie Mae's purchase or securitization of the loans. Document custodians must review all documents to ensure that all of the required documentation has been received and conform to Fannie Mae's requirements. Fannie Mae will not purchase whole loans or issue MBS until after it has received the document custodian's certification. The certification will state that the custodian has examined and maintains physical custody and control of the required documents for the mortgages.

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### **Control of Mortgage Notes During the Loan Certification Processes**

Fannie Mae recognizes that possession of notes is an important element of a note owner's or secured lender's protection of its rights. However, the nature of the whole loan purchase and MBS pooling and securitization processes requires that Fannie Mae, through its document custodian, obtains control of the notes as part of the certification review process and maintains control through the completion of the purchase or securitization process. Fannie Mae cannot purchase whole loans or permit pools to close and securities to be issued without being assured of continued control of the underlying notes.

Fannie Mae does not assert that it obtains ownership or title to the notes during the certification processes until such time as the purchase proceeds (cash or securities) for the certified loans are remitted pursuant to the terms of the purchase or securitization transaction. Any modifications or revisions to the terms of the notes or further physical movement of the notes during these processes are restricted; the certified documents must be "locked down" under the document custodian's control prior to Fannie Mae's remittance of the purchase proceeds. Fannie Mae recognizes that the legal rights of the mortgage seller delivering the notes (or, as applicable, of its warehouse lender) are unaffected by the certification processes until Fannie Mae has remitted purchase proceeds.

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### **Ownership Interest and Title to Mortgage Notes**

Effective upon the remittance of the purchase proceeds, Fannie Mae and/or its MBS trusts obtains and holds ownership and title to the notes and the notes will then be held by the document custodian on behalf of Fannie Mae. If the transaction fails to close as contemplated by the contract between Fannie Mae and the mortgage seller and purchase proceeds are not wired, Fannie Mae claims no ownership interest in the notes and requires that the document custodian return the notes to the mortgage seller or its warehouse lender, as applicable.

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### **Conflicts Regarding Rights in Mortgages**

If Fannie Mae becomes aware of any issues in which the rights of another party might impair its unqualified title to any mortgages that are delivered to Fannie Mae (including but not limited

to a bailee letter), then Fannie Mae will not be required to deliver the related purchase proceeds in accordance with the lender's delivery instructions until the issue is resolved to Fannie Mae's satisfaction and Fannie Mae receives adequate assurances that it will have unqualified title to the mortgages.

Fannie Mae will not be responsible for the consequences of any delay in the delivery of the proceeds that results from its having to resolve an issue related to title to the mortgages.

Fannie Mae has established procedures for resolving title issues presented by its receipt of a bailee letter. See [C1-2-04, Bailee Letters](#).

If a document custodian either:

- receives a bailee letter with the mortgage delivery documents (or receives the bailee letter separately and it identifies the related notes with reasonable specificity), or
- has knowledge that a warehouse lender or other third party is claiming an interest in the mortgage notes,

then it must comply with Fannie Mae's procedures for processing bailee letters as outlined in [C1-2-04, Bailee Letters](#), before it certifies the MBS pool in which the related mortgages are included (or, for whole loan deliveries, before it certifies that the related mortgages are eligible for purchase). When Fannie Mae's DDC is the document custodian, it will follow a similar verification process.

These processes are intended solely to verify the accuracy of certain loan information delivered by the mortgage seller (and not to benefit any third party). These procedures do not apply when the same corporate entity is both the warehouse lender claiming an interest and the document custodian because, by its execution of Fannie Mae's *Master Custodial Agreement*, ([Form 2003](#)), the lender releases any interest it may have in the mortgage notes when it takes possession of them as Fannie Mae's document custodian.

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## Related Announcements

The table below provides a reference to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012 |
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011  |
| <a href="#">Announcement 08-32</a>       | December 10, 2008 |



## **C1-2-04, Bailee Letters (06/26/2012)**

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### **Introduction**

This topic provides information on bailee letters, including:

- [Bailee Letters](#)
  - [Processing Bailee Letters \(and Other Third-Party Interests In Mortgages\)](#)
  - [Resolution of Mismatched Delivery Instructions](#)
  - [Liability for Losses Incurred by a Mortgage Seller or any Other Party](#)
  - [Processing Trust Receipts](#)
- 

### **Bailee Letters**

Bailee letters typically state that:

- the notes identified in the letter are pledged to the named third party,
- the lien of the third party's security interest will be released only if the proceeds from the transfer of the mortgages to Fannie Mae are delivered to the third party in accordance with the delivery instructions in the letter, and
- the recipient holds the notes as a "bailee" (or in trust) for the third party until the third party either receives the proceeds (cash or securities) or receives back the notes for any mortgages that were not purchased or securitized.

The term "bailee letter" includes any communication that notifies a document custodian of any of the following:

- the notes are pledged to a third party;
- the notes are subject to a security interest or lien held by a third party;
- the notes are owned by, or titled in the name of, a third party (for example, mortgages that are subject to a sale and repurchase arrangement); or
- the notes are subject to some other claim or interest held by a third party that would, if it were not released, result in Fannie Mae's acquiring less than clear, unencumbered, and exclusive title to the mortgage notes.



### Processing Bailee Letters (and Other Third-Party Interests In Mortgages)

The tables below explain when and how to process bailee letters and other notifications of third-party interests in mortgage loans.

| If...  | Then ...   |
|--|--|
| The document custodian receives a bailee letter,   | It must fax a copy of the bailee letter to the Certification Service Center (see <a href="#">E-1-03, List of Contacts</a> ). |
| The document custodian does not receive a bailee letter, but is nevertheless aware that a third party has an interest in certain mortgage notes, | It must fax an explanatory letter that identifies the applicable mortgage notes to the Certification Service Center.         |

The document custodian must include in its fax the name, telephone number, and email address of an authorized representative whom Fannie Mae can contact.

To confirm that Fannie Mae received the fax, the document custodian must call the Certification Service Center – Bailee Processing office.

**Note:** If the mortgage seller wants to take advantage of Flash MBS processing or for a whole loan delivery, it must make sure that the document custodian is aware that Fannie Mae must receive its fax of the bailee letter before 2:00 p.m. (Eastern time).

After Fannie Mae receives the bailee letter from the document custodian, Fannie Mae will compare the instructions for delivery of the transaction proceeds in the bailee letter to those that the mortgage seller provided on its *Delivery Schedule* ([Form 2014](#)).

If Fannie Mae receives an explanatory letter from the document custodian (instead of a bailee letter) or a fax of a bailee letter that does not include delivery instructions, Fannie Mae will not be able to compare instructions. This absence of information will be treated as a mismatch that must be resolved according to the following process:

| When delivery instructions | Then the following process is applied   |
|----------------------------|---|
| do not match,              | Fannie Mae contacts the mortgage seller to resolve the discrepancy.<br><br>Mismatches can be resolved when either the mortgage seller or the warehouse lender (or other third party) changes its instructions to conform to the other's instructions. |

| When delivery instructions  | Then the following process is applied   |
|---|---|
|   | <p>When a warehouse lender wants to change its delivery instructions, it must submit a <i>Release of Interest in Mortgages</i> (<a href="#">Form 2004A</a>) to Fannie Mae at Custodian Oversight and Monitoring or New Loan Submissions office (see <a href="#">E-1-03, List of Contacts</a>).</p> <p>The Certification Service Center accepts a fax transmission of Form 2004A if the warehouse lender (or other third party) also sends the executed original of the form by overnight delivery service to ensure that Fannie Mae will have the actual form in its possession on the next business day.</p> |
| <p>match (or after an initial mismatch is subsequently resolved),</p> | <p>Fannie Mae sends an email message to the document custodian’s authorized representative to indicate that the document custodian may complete its certification.</p> <p>No further changes to the delivery instructions will be permitted unless the warehouse lender provides its written consent to the change by sending Form 2004A.</p>   |

**Note:** If the document custodian needs to return one or more notes for any reason (for example, the mortgages cannot be certified because of errors in their execution), it must return the documents to the warehouse lender, rather than to the mortgage seller.

Custodians must not certify loans until they receive notification from Fannie Mae. For additional certification requirements, see [C3-7-04, Delivering Data and Documents](#).

### Resolution of Mismatched Delivery Instructions

Fannie Mae will undertake to identify mismatches and to achieve matches in delivery instructions promptly, in good faith, and in accordance with reasonable business practices.

### Liability for Losses Incurred by a Mortgage Seller or any Other Party

Fannie Mae will not be liable for any losses that a mortgage seller or any other party incurs as the result of Fannie Mae’s actions or omissions related to these procedures, including Fannie Mae’s execution of (or failure to execute) specific steps, and any resulting delay.

A mortgage seller is obligated to ensure that Fannie Mae takes free and clear title to the mortgages it delivers to Fannie Mae; therefore, it must make sure that its delivery instructions match those of its warehouse lender before it delivers the mortgage to Fannie Mae. Because of this obligation, the mortgage seller will be fully responsible for any trading or settlement delays (including those Fannie Mae experiences) that arise as the result of mismatches in delivery instructions. (See [C3-7-06, Settling the Trade](#), for information on how to settle different delivery instructions.) Further, the execution of these procedures will not constitute a waiver of any of the rights and remedies Fannie Mae has under the mortgage seller's representation and warranty that the title to any mortgage note it delivers to Fannie Mae is free and clear of any security interest, lien, pledge, or other encumbrance.

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### **Processing Trust Receipts**

Fannie Mae also requires that, in circumstances in which the document custodian is either:

- aware of the seller's issuance of a trust receipt (or other type of pledge documentation); or
- directly or indirectly involved in the issuance of a trust receipt (or other type of pledge documentation) to a funding facility, credit facility, or lending line in which the seller has pledged the mortgage note prior to its sale to Fannie Mae;

then, in such cases, the document custodian must work with the seller to ensure that the security interest has been released either prior to settlement in the case of an MBS loan or prior to certification in the case of a whole loan delivery. If a mortgage seller wants to take advantage of one of Fannie Mae's early funding options, it must make sure that the document custodian is aware of the applicable funding date.

The document custodian must have policies and procedures in place to capture the release date and must provide such documentation upon request. In addition, the processes must be testable by Fannie Mae.

These requirements do not affect or alter any other duty the custodian has to Fannie Mae under the bailee letter requirements described above.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b> |
|---|-------------------|
| <a href="#"><u>Announcement SEL-2012-06</u></a> | June 26, 2012     |
| <a href="#"><u>Announcement SEL-2011-11</u></a> | October 25, 2011  |
| <a href="#"><u>Announcement 08-32</u></a>       | December 10, 2008 |

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# Chapter C1-3, Loan Remittance Types Overview



## Loan Remittance Types Overview

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### Introduction

When selling loans to Fannie Mae, lenders must decide if they will service the loans or release the servicing to another Fannie Mae-approved lender. They must also select a method for remitting borrower payments to Fannie Mae. This chapter provides an overview regarding remitting payments to Fannie Mae.

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### In This Chapter

This chapter contains the following topic:

[C1-3-01, General Information on Remittance Types \(08/26/2014\)](#) ..... 1083

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## C1-3-01, General Information on Remittance Types (08/26/2014)

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### Introduction

This topic provides a overview of borrower payment remittance types, including:

- [Overview](#)
  - [Actual/Actual](#)
  - [Scheduled/Scheduled](#)
  - [Scheduled/Actual](#)
- 

### Overview

When taking down a commitment to sell whole loans to Fannie Mae, lenders must select a remittance type that identifies both the amount and timing for sending the borrowers' mortgage

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payments to Fannie Mae. Not all remittance types are available for all product types. For MBS mortgages, the only remittance type available is Scheduled/Scheduled.

After Fannie Mae purchases a mortgage, it generally will not change the remittance type the lender has selected. Refer to the applicable section of the *Servicing Guide* for more information about remittance types.

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### **Actual/Actual**

The Actual/Actual (A/A) remittance type is available for whole loans. It is required for HUD-guaranteed and Rural Development-guaranteed mortgages. Lenders must notify Fannie Mae immediately and remit the actual principal and interest collected from the borrower, net of servicing fees, to Fannie Mae.

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### **Scheduled/Scheduled**

The Scheduled/Scheduled (S/S) remittance type is available on a negotiated basis for whole loans, including ARMs, fully amortizing fixed-rate conventional monthly payment first mortgages, and some second mortgages. It is required for MBS mortgages. Lenders remit scheduled interest (net of servicing fees) and scheduled principal due, whether or not payment is collected from the borrower.

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### **Scheduled/Actual**

The Scheduled/Actual (S/A) remittance type is available for whole loans. Lenders remit scheduled interest (net of servicing fees) regardless of actual collections from the borrower and actual principal collected the month following receipt of funds.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2014–11</a> | August 26, 2014    |
| <a href="#">Announcement 09-29</a>       | September 22, 2009 |
| <a href="#">Announcement 09-28</a>       | August 21, 2009    |

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# Subpart C2, Whole Loan Transactions



## Whole Loan Transactions

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### Introduction

This subpart includes Fannie Mae’s policies, parameters, and other information regarding the sale and delivery of whole loans for cash. Whole loan products, commitment types and process, servicing fees, remittance types, loan payments and purchase adjustments are covered in the first chapter; requirements for good delivery, extensions and pair-offs, required data and documentation, funding and post-purchase adjustments in the second chapter.

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### In This Subpart

|  |      |
|--|------|
| C2-1, Mandatory and Best Efforts Commitments to Sell Whole Loans . . . . . | 1086 |
| C2-2, Whole Loan Deliveries to and Purchasing by Fannie Mae . . . . .      | 1112 |

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# Chapter C2-1, Mandatory and Best Efforts Commitments to Sell Whole Loans



## Mandatory and Best Efforts Commitments to Sell Whole Loans

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### Introduction

As noted in this chapter, when a lender enters into a mandatory commitment to sell whole loans to Fannie Mae, the lender agrees to deliver a specified dollar amount of loans, within certain tolerances, to Fannie Mae by a specified future date. Fannie Mae agrees to purchase those loans at an agreed-upon price. With a best efforts commitment, the lender agrees to deliver a specific loan to Fannie Mae by a specified date if that loan closes. The first section in this chapter provides the details associated with obtaining and fulfilling mandatory commitments to sell whole loans; the second section addresses best efforts commitments; and the third section describes the use of the Servicing Execution Tool in selling whole loans to Fannie Mae.

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### In This Chapter

This chapter contains the following sections:

|  |      |
|--|------|
| C2-1.1, Mandatory Commitments to Sell Whole Loans .....    | 1087 |
| C2-1.2, Best Efforts Commitments to Sell Whole Loans ..... | 1103 |
| C2-1.3, Servicing Execution Tool to Sell Whole Loans ..... | 1109 |

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## Section C2-1.1, Mandatory Commitments to Sell Whole Loans



### C2-1.1-01, Mandatory Commitment Process (10/30/2009)

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#### Introduction

This topic provides information on the process lenders use to obtain a mandatory commitment to sell whole loans to Fannie Mae.

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#### Mandatory Commitment Process

To obtain a mandatory commitment to sell whole loans to Fannie Mae, lenders may use Fannie Mae's whole loan committing application, a free Web-based application available to subscribers, or may contact the Capital Markets Sales Desk (see [E-1-03, List of Contacts](#)). Lenders can obtain information on subscribing to the whole loan committing application by contacting their lead Fannie Mae regional office or the Capital Markets Sales Desk, or by referring to [Fannie Mae's website](#).

Lenders can obtain commitments on any weekday, with the exception of bond market observed holidays as defined by the Securities Industry and Financial Markets Association (SIFMA).

Fannie Mae confirms its acceptance of the lender's request for a mandatory commitment by electronically transmitting a commitment confirmation to the lender. If Fannie Mae is unable to process the electronic transmission, lenders are notified promptly. Should a lender have a problem receiving a commitment confirmation, it should immediately contact the Capital Markets Sales Desk.

If the lender has obtained the commitment by contacting the Capital Markets Sales Desk, the legally binding terms of the commitment are captured in a recorded telephone conversation between the lender and the Desk.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                      | Issue Date       |
|------------------------------------|------------------|
| <a href="#">Announcement 09-32</a> | October 30, 2009 |



## C2-1.1-02, Pricing, Fees, and Pricing Adjustments (08/25/2015)

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### Introduction

This topic describes Fannie Mae's pricing policies and practices, including:

- [Overview](#)
- [Pass-Through Rates](#)
- [Access to Pricing](#)
- [Up-front Commitment, Extension, Overdelivery, Pair-off and Other Fees](#)
- [Additional Resources](#)

---

### Overview

As noted in [C1-1-01, Execution Options](#), when lenders commit to sell loans to Fannie Mae, Fannie Mae provides a "live" price, so named because prices move throughout the day, generally in tandem with the MBS market. Fannie Mae purchases regularly amortizing whole mortgages either at par (100% of the unpaid principal balance), at a discount, or at a premium, based on the type of mortgage being delivered and the pricing option specified in the whole loan commitment under which the mortgage is delivered.

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### Pass-Through Rates

For whole loans, the rate at which the lender must remit interest on the mortgages it sells to Fannie Mae via a mandatory commitment is the pass-through rate, defined as the difference between the gross note rate and the servicing fee. Lenders can choose a range of five consecutive pass-through rates in increments of 0.125% under the same mandatory commitment. When obtaining a commitment, lenders specify the minimum pass-through rate. The lender does not need to know the exact interest rate of the mortgages that will be delivered in fulfillment of the

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commitment as long as the pass-through rates fall within the selected range. The actual interest payments lenders will remit for regularly amortizing mortgages will depend on the remittance option selected by the lender.

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### **Access to Pricing**

Lenders obtain current pricing specific to their institution by accessing Fannie Mae's whole loan committing application.

Access to both generic and lender-specific pricing information is available to approved Fannie Mae lenders and requires a valid user ID and password. For information on obtaining access to this information, lenders should contact their lead Fannie Mae regional office or the Capital Markets Sales Desk (see [E-1-03, List of Contacts](#)). Fannie Mae posts required net yields and price indications for conventional fixed-rate and other mortgage products, typically once a day at approximately 8:15 a.m. (Eastern time).

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### **Up-front Commitment, Extension, Overdelivery, Pair-off and Other Fees**

Fannie Mae may charge up-front fees on commitments made to deliver adjustable-rate mortgages for which the lender has selected the scheduled/actual remittance option. See [C1-3-01, General Information on Remittance Types](#), for more information on this remittance type.

Fannie Mae may charge lenders for lender-requested and automatic extensions for mandatory commitments ("extensions"), delivering more than the maximum delivery amount of their commitment ("overdelivering"), repurchasing all or part of a commitment ("pairing-off"), or otherwise failing to satisfy mandatory commitment requirements. These fees, if charged, are drafted from the lender's designated account the business day following the assessment. If cash is due to the lender under a cash back pair-off, the lender's designated account will be credited the business day following the pair-off. See below for account requirements.

Extension fees are based on three factors:

- Amount to be extended, which equals the lender's original commitment amount minus any deliveries as of the date of the extension, and, if the extension is a partial extension, minus any partial pair-off amount;
- Actual number of days by which the commitment expiration date is being extended. (Note that if the request is for a 20-day extension and the 20th day falls on a weekend or holiday, the contract will be extended to the next business day.); and
- Daily interest charge, which is based on the minimum pass-through rate posted on the original commitment.

For overdelivery and pair-off fees, including cash back pair-offs, whole loan prices captured at commitment and again at the time of the overdelivery or pair-off are used to determine if a fee will be charged or if cash back is due and, if so, the amount. All pair-off amounts (including cash back pair-offs) are calculated from the original commitment amount, not the low delivery tolerance.

A lender must designate a non-MBS P&I custodial account from which Fannie Mae can and will automatically draft and credit whole loan transaction and related fees that it owes, or is owed by, Fannie Mae. To designate a drafting arrangement, the lender must send an executed *Authorization for Automatic Transfer of Funds* ([Form 1072](#)) to its custodial bank(s) and send a copy to Fannie Mae's Cash Processing Unit.

Fannie Mae will draft or credit, as applicable, up-front commitment, extension, overdelivery, and pair-off fees from the lender's designated account on the day following the request for the commitment, extension, overdelivery, or pair-off. Compensatory fees for failure to satisfy mandatory delivery requirements will be drafted from the designated account on the first Friday after the expiration of the commitment period and any additional time allowed to effect the delivery or a pair-off.

To ensure that funds related to borrower payments are not used to satisfy a lender's corporate responsibility for the payment of fees or charges due Fannie Mae, a lender must make sure that its designated account will have sufficient funds on hand when Fannie Mae drafts it for the related fee. The lender must notify Fannie Mae immediately about changes to the status of its designated account for drafting to ensure Fannie Mae's drafts are honored and protect the lender from being charged additional fees for late remittances.

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### **Additional Resources**

For additional information on specific topics, see the resources noted below:

- For information on best efforts and mandatory commitments, see [C2-1.2-02, Best Efforts Commitment Pricing, Periods, and Fees](#), and [C2-1.1-04, Mandatory Commitment Extensions and Pair-Offs](#).
- For information on overdeliveries, see [C2-2-01, General Requirements for Good Delivery of Whole Loans](#).
- For information on compensatory fees associated with the delivery of ARMs in fulfillment of a Converted ARM Resale Commitment, see [C2-1.1-07, Standard ARM and Converted ARM Resale Commitments](#).
- For information on LLPAs, see the [Loan-Level Price Adjustment \(LLPA\) Matrix](#).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Dates     |
|--|-----------------|
| <a href="#">Announcement SEL-2015-09</a> | August 25, 2015 |



## C2-1.1-03, Mandatory Commitment Terms, Amounts, Periods and Other Requirements (08/26/2014)

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### Introduction

This topic identifies the requirements for loans delivered against a whole loan commitment, including:

- [Required Common Loan Attributes](#)
- [Commitment Amounts](#)
- [Commitment Periods](#)
- [Age of Mortgages](#)
- [Borrower Payment Status Requirements](#)
- [Assignments, Sales and Transfers of Whole Mortgage Loans](#)
- [Negotiated Commitments](#)

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### Required Common Loan Attributes

All mortgages delivered against a whole loan commitment must share certain common attributes. These include:

- Product type — See [Mortgage Products](#) for information about products eligible for sale to Fannie Mae.
- Mortgage type — Conventional or government
- Lien type — First or second mortgages
- Amortization type — Fixed-rate or adjustable-rate
- Mortgage term — 10-, 15-, 20-, or 30-year. Lenders may commit to deliver loans with nonstandard amortization terms or loans that exceed the maximum number of months for

a given term by selecting the next highest amortization schedule available in Fannie Mae's whole loan committing application, regardless of pricing option.

- ARM plan number, if applicable
  - Remittance type
- 

### **Commitment Amounts**

Lenders may enter into multiple commitments but may not exceed \$200 million in aggregate commitment volume per day. Lenders seeking permission to exceed this amount must contact the Capital Markets Sales Desk (see [E-1-03, List of Contacts](#)). Lenders exceeding the limit without Fannie Mae approval may be required to pair off their commitment(s) at the lender's expense.

There is no minimum commitment amount for mandatory whole loan commitments. Note that commitments are issued in multiples of \$1.

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### **Commitment Periods**

Commitments to deliver most loan products can be taken for 1 to 90 days. Lenders should be sure to choose a commitment period that allows sufficient time after loan closing for the fulfillment of the lender's shipping and delivery requirements. (See [C2-2-01, General Requirements for Good Delivery of Whole Loans](#), and [C2-2-02, Documentation Requirements for Whole Loan Deliveries](#), for details.)

Commitments are based on calendar days but must expire on a business day. Lenders can track the status of their commitments in Fannie Mae's whole loan committing application.

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### **Age of Mortgages**

Lenders may sell most mortgages seasoned no more than 12 months, measured from closing date to delivery date. Lenders may sell 10-, 15-, 20-, and 30-year standard fixed rate mortgages seasoned up to 24 months.

Fannie Mae also buys older loans. Contact the Capital Markets Sales Desk for pricing and parameters (see [E-1-03, List of Contacts](#)).

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### **Borrower Payment Status Requirements**

The table below provides the requirements for payment status for mortgage loans delivered to Fannie Mae.

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| <b>Transaction Type</b>                        | <b>Payment Status</b>   |
|--|---|
| 12 or fewer months old at the time of delivery | The borrower must not have had any 30-day delinquencies since the mortgage was originated.  |
| More than one year old at the time of delivery | The borrower must not have any 30-day delinquencies in the 12-month period that precedes the lender's delivery of the mortgage to Fannie Mae.   |
| Assumed  | The payment status requirement applies to the current borrower. However, for a seasoned mortgage, if the current borrower has owned the property less than 12 months, the time period is reduced to the number of months that he or she has owned the property. |

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### **Assignments, Sales and Transfers of Whole Mortgage Loans**

By submitting a whole mortgage to Fannie Mae as a whole loan delivery, the lender represents, warrants, and agrees that all right, title, and interest in the mortgage is sold, transferred, set over, and otherwise conveyed by the lender to Fannie Mae as of the date of Fannie Mae's funding of the purchase proceeds.

A lender may deliver a mortgage that has been originated by another lender. However, the selling lender must make all of the warranties specified in Fannie Mae's Contract as if it were the originator. In such cases, the selling lender must be aware of all matters related to the mortgage that were known to the originating lender.

The lender may not assign Fannie Mae's whole loan commitments except to obtain construction financing or interim financing under a "warehouse" line of credit. If the construction or warehouse lender intends to use the commitment or contract to deliver mortgages to Fannie Mae on its own behalf, it must be an approved Fannie Mae lender. It also must notify the lender's lead Fannie Mae regional office of the assignment before it delivers a mortgage to Fannie Mae.

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### **Negotiated Commitments**

Lenders that want to sell loans to Fannie Mae that contain unique eligibility and underwriting considerations not permissible for delivery via a standard commitment may request a negotiated commitment.

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A Master Agreement between Fannie Mae and the lender is required when the lender is delivering whole loans via a negotiated commitment. Lenders should contact their lead Fannie Mae regional office for details (see [E-1-03, List of Contacts](#)).

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2014-11</a> | August 26, 2014  |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012    |
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011 |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011    |
| <a href="#">Announcement 09-28</a>       | August 21, 2009  |

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## C2-1.1-04, Mandatory Commitment Extensions and Pair-Offs (08/25/2015)

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### Introduction

This topic provides details on lender-requested and automatically-generated extensions and pair-offs, including:

- [Overview](#)
  - [Lender-Requested Commitment Extensions](#)
  - [Fannie Mae-Implemented \(Automatic\) Commitment Extensions](#)
  - [Lender-Requested Pair-offs](#)
  - [Fannie Mae-Implemented \(Automatic\) Pair-offs](#)
  - [Additional Resources](#)
- 

### Overview

Under certain circumstances, lenders may extend or pair off a mandatory whole loan commitment. In addition, in certain circumstances, Fannie Mae will automatically extend commitment periods and pair off commitment balances. For information on the fees associated with these activities, see [C2-1.1-02, Pricing, Fees, and Pricing Adjustments](#).



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### **Lender-Requested Commitment Extensions**

Lenders may extend commitments on or before the original commitment expiration date for up to a maximum of 30 days from that date. They may request multiple extensions as long as the total extension period is no longer than 30 days. Each request must be made before the contract expiration date in effect following the previous extension. See [C2-1.1-02, Pricing, Fees, and Pricing Adjustments](#), for information on the fees associated with a lender-requested extension.

Lenders may extend the entire outstanding commitment balance or a portion of it, if the lender also requests a partial pair-off of the remaining balance. The sum of the extended amount and the paired-off amount must equal the total remaining commitment amount.

Lenders may request extensions in Fannie Mae's whole loan committing application or through the Capital Markets Sales Desk between 8:15 a.m. and 10:00 p.m. (Eastern time) on any business day (see [E-1-03, List of Contacts](#)). All telephone conversations are voice-recorded. Lenders should maintain detailed records of the contract extensions requested.

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### **Fannie Mae-Implemented (Automatic) Commitment Extensions**

If a lender fails to meet Fannie Mae's good delivery requirement within the original commitment period and has not previously extended the commitment, Fannie Mae will automatically extend it. Commitments expiring with outstanding unpaid principal balances will be automatically extended a minimum of five calendar days and assessed the appropriate extension fee. See [C2-1.1-02, Pricing, Fees, and Pricing Adjustments](#), for information on the fees associated with an automatic extension.

If no deliveries have been made by the expiration of the five-day extension, Fannie Mae will effect an automatic pair-off and the appropriate fee assessed and drafted from the lender's designated account.

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### **Lender-Requested Pair-offs**

A lender may purchase (pair off) all or part of a mandatory delivery commitment in the whole loan committing application or by contacting the Capital Markets Sales Desk between 8:15 a.m. and 5:00 p.m. (Eastern time), if it is unable to satisfy Fannie Mae's minimum delivery requirement. The request can be made at any time between the date on which the commitment was executed and the date on which it expires. The lender can obtain a new quotation later, but before the commitment expiration date, to avoid an automatic extension and the possible assessment of an automatic pair-off fee.

After Fannie Mae verifies the information required for calculating a pair-off fee, it will provide the lender with a fee quotation through either the whole loan committing application or through the Capital Markets Sales Desk. The quotation may be for a pair-off fee to be paid by the lender or, if the transaction is eligible for a cash back pair-off, it may be for an amount due to the lender by Fannie Mae. The lender must accept the quotation within a short time frame if it wants to exercise the pair-off. Confirmation of the pair-off can be obtained in the whole loan committing application.

In conjunction with a lender-requested pair-off, if the whole loan price at commitment is greater than the price at the time of the pair-off solely as a result of market fluctuations (and not from any other cause, including product-related pricing changes implemented by Fannie Mae), then Fannie Mae will not charge a lender a pair-off fee but will provide cash back to the lender (known as a cash back pair-off). The lender is not eligible for a cash back pair-off on a commitment if

- the lender requests a pair-off quote after the expiration date of the original commitment (defined as no later than 5:00 p.m. Eastern time on the expiration date);
- the lender accepts Fannie Mae's offer of an overdelivery; or
- the mortgage products delivered under the commitment are deemed by Fannie Mae, in its sole discretion, to be ineligible per the *Selling Guide*.

Additionally, negotiated transactions with the Capital Markets Sales Desk and commitments that exceed the daily volume limit may not be eligible for cash back pair-offs.

Though lenders are generally eligible to receive cash back on pair-offs upon approval to transact business in the whole loan committing application, Fannie Mae may decline to activate a lender for cash back pair-offs if, in Fannie Mae's sole discretion, the lender's anticipated business strategy does not align with Fannie Mae's use of the cash back pair-off process.

Additionally, if any of the following events occur, Fannie Mae may immediately terminate a lender's eligibility for cash back pair-offs:

- Fannie Mae, in its sole discretion, determines that the lender is obtaining commitments without the intent to deliver;
- there is any suspension of the lender's selling privileges under the *Master Selling and Servicing Contract* (MSSC); or
- the lender's MSSC is terminated.

Termination will be effective as to any new or outstanding commitments as of the effective date of the termination.

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## Fannie Mae-Implemented (Automatic) Pair-offs

Fannie Mae automatically pairs off the entire remaining commitment balance for any expired, unfulfilled mandatory commitment that has been previously extended, although Fannie Mae will first process any mortgage deliveries pending in its purchase pipeline.

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## Additional Resources

See [C2-1.1-02, Pricing, Fees, and Pricing Adjustments](#), for information on

- the fees associated with a lender-requested pair-off,
- calculating cash back amounts, and
- the fees associated with an automatic pair-off.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2015-09</a> | August 25, 2015  |
| <a href="#">Announcement SEL-2015-06</a> | May 26, 2015     |
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011 |



## C2-1.1-05, Servicing Fees (10/25/2011)

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### Introduction

This topic describes how Fannie Mae compensates lenders for servicing loans on its behalf, including:

- [Determining and Obtaining a Servicing Fee](#)

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### Determining and Obtaining a Servicing Fee

A lender's servicing compensation when obtaining mandatory commitments is described in its applicable servicing contract. Lenders must also specify a maximum allowable servicing fee, which may differ, depending on the mortgage product.

If the lender has purchased lender-paid mortgage insurance (LPMI) on a particular loan and the premiums are paid for through periodic renewal premiums, it must increase the minimum required servicing fee by at least the amount of the mortgage insurance renewal premium.

Unless otherwise provided in the related servicing contract, every month, lenders deduct their servicing fee from the borrower's interest payment before remitting the remainder to Fannie Mae. Lenders will receive a servicing fee from Fannie Mae only for the period during which it serviced the loan on Fannie Mae's behalf.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011 |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011    |



## C2-1.1-06, Accrued Interest Payments for Regularly Amortizing Mortgages (06/28/2011)

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### Introduction

This topic describes the policies for accrued interest payments for regularly amortizing mortgages, including:

- [Overview](#)
- [Accrued Interest Payments for Regularly Amortizing Mortgages](#)

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### Overview

The amount of servicing fee Fannie Mae will pay lenders for servicing regularly amortizing mortgages delivered via a mandatory commitment depends on the remittance option the lender has selected. (See [C1-3-01, General Information on Remittance Types](#), for descriptions of the remittance types.)

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### Accrued Interest Payments for Regularly Amortizing Mortgages

For A/A remittances, Fannie Mae purchases accrued interest from the last paid installment date for the mortgage up to, but not including, the purchase date. This interest adjustment is based

on the unpaid principal balance of the mortgage at the time it is submitted for purchase and the designated pass-through rate of the mortgage (which is the lesser of the net note rate and Fannie Mae's required yield for mortgages delivered under whole loan commitments that specify the standard pricing option). If interest is prepaid, Fannie Mae deducts accrued interest from the purchase proceeds.

For S/S remittances, Fannie Mae purchases accrued interest from the first day of the purchase month up to, but not including, the purchase date. This interest adjustment is based on the scheduled unpaid principal balance for the mortgage as of the purchase date and the designated pass-through rate of the mortgage.

For S/A remittances, Fannie Mae purchases accrued interest from the first day of the purchase month up to, but not including, the purchase date. This interest adjustment is based on the unpaid principal balance for the mortgage at the time it is submitted for purchase and the designated pass-through rate of the mortgage (which is the lesser of the net note rate and Fannie Mae's required yield for mortgages delivered under cash commitments that specify the standard pricing option).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date    |
|--|---------------|
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011 |



## C2-1.1-07, Standard ARM and Converted ARM Resale Commitments (12/06/2016)

### Introduction

This topic provides information about whole loan mandatory commitments to deliver ARM loans to Fannie Mae, including:

- [Standard ARM Mandatory Commitments](#)
- [Minimum Commitment Amount for Converted ARM Resale Commitments](#)
- [Process for Converting an ARM within an MBS to a Fixed-Rate Mortgage](#)
- [Commitment Timing, Pricing and Compensatory Fees for Converted ARM Resale Commitments](#)

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## Standard ARM Mandatory Commitments

Lenders may take down mandatory whole loan commitments to deliver a variety of ARMs to Fannie Mae. Fannie Mae will purchase ARMs with varying initial fixed rate periods and indices.

See the [Standard ARM Plan Matrix](#) for parameters for ARM loans eligible for sale to Fannie Mae, including the initial fixed interest rate period, interest rate adjustment frequency, indices, and cap structure. Fannie Mae's standard ARM program does not permit the purchase of ARMs with caps ("floors") (other than the ARM's margin) on the lifetime decreases to the life of the loan.

ARM commitments are issued with specified commitment margins, which do not include the servicing fee amount. The margin for each ARM delivered must include the same servicing fee specified in the commitment. The commitment margins are posted by ARM plan on the *Standard ARM Plan Matrix*. Fannie Mae may change commitment margins at any time without notice.

For additional information, see the *Standard ARM Plan Matrix*.

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## Minimum Commitment Amount for Converted ARM Resale Commitments

Converted ARM Resale mandatory commitments are used by lenders to redeliver ARMs that were originally in an MBS pool and have been converted to fixed-rate whole loans.

Lenders must agree to deliver an amount (total UPB) equal to the outstanding balance of the mortgage to be delivered under the commitment. If the lender is delivering multiple mortgages with the same interest rate after conversion, the amount must equal the combined UPB of those mortgages.

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## Process for Converting an ARM within an MBS to a Fixed-Rate Mortgage

ARM loans with a conversion option are eligible for conversion to fixed-rate mortgages. When a borrower chooses to convert an ARM currently in an MBS pool, the lender must follow these steps.

| Step | Process for Converting the Mortgage  |
|------|--|
| 1.   | Contact Fannie Mae to repurchase the mortgage from the MBS pool before interest begins accruing at the new fixed rate. |

| Step | Process for Converting the Mortgage   |
|------|---|
| 2.   | Redeliver the mortgage to Fannie Mae as a whole loan (A/A remittance only), if the lender specified a take-out post-conversion disposition option when it originally delivered the ARM.                               |
| 3.   | Continue any recourse or credit enhancement that initially applied to the mortgage unless the lender and Fannie Mae agree otherwise.  |
| 4.   | Obtain a Converted ARM Resale commitment number from Fannie Mae.<br><br><b>Note:</b> Only mortgages originally delivered with the take-out post-conversion disposition option may be delivered under this commitment. |

For additional information concerning the redelivery of ARMs under both the take-out and market rate options, see [C3-5-06, Pooling ARMs with a Conversion Option](#).

### Commitment Timing, Pricing and Compensatory Fees for Converted ARM Resale Commitments

See the table below for information on the relationship between the timing of the commitment and the pricing and fees Fannie Mae may charge.

| Date Of Commitment Request  | Price  |
|---|--|
| On or before the 16th day of the month in which the conversion rate is requested. | Par.   |
| After the 16th day of the month in which the conversion rate is requested.        | Fannie Mae may discount the price the lender receives by <ul style="list-style-type: none"> <li>• \$250 or</li> <li>• the applicable discount created by the market movement between the first business day of the month in which the commitment was supposed to be requested and the date on which the commitment actually is obtained. As a result, Fannie Mae either bills lenders for the compensatory discount or reduces the lender’s purchase proceeds by the applicable amount.</li> </ul> |

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b> |
|---|-------------------|
| <a href="#"><u>Announcement SEL-2016-09</u></a> | December 06, 2016 |
| <a href="#"><u>Announcement SEL-2015-12</u></a> | November 3, 2015  |

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## Section C2-1.2, Best Efforts Commitments to Sell Whole Loans



### C2-1.2-01, Best Efforts Commitment Process (05/26/2015)

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#### Introduction

This topic describes basic information about obtaining a best efforts commitment.

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#### Best Efforts Commitment Process

To obtain a best efforts commitment, lenders may use Fannie Mae's whole loan committing application, a free Web-based application available to subscribers, or may contact the Capital Markets Sales Desk. Lenders can obtain information on subscribing to the whole loan committing application by contacting their lead Fannie Mae regional office or the Capital Markets Sales Desk (see [E-1-03, List of Contacts](#)), or by referring to [Fannie Mae's website](#).

Best efforts commitments may be made on weekdays between 8:15 a.m. and 5:00 p.m. (Eastern time) with the exception of bond market observed holidays as defined by SIFMA. After hours best efforts committing is also available on weekdays until 10:00 p.m.

Fannie Mae confirms its acceptance of the lender's request for a best efforts delivery commitment by providing a confirmation to the lender that the loan has been committed.

Additional information may also be obtained by reviewing [Pricing & Execution on Fannie Mae's website](#).

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#### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2015-06</a> | May 26, 2015     |
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011 |
| <a href="#">Announcement 09-32</a>       | October 30, 2009 |



## **C2-1.2-02, Best Efforts Commitment Pricing, Periods, and Fees (05/26/2015)**

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### **Introduction**

This topic provides information on best efforts commitments, including:

- [Best Efforts Commitment Pricing](#)
  - [Best Efforts Pair-off Fees and Duplicate Commitment Price Adjustments](#)
  - [Best Efforts Commitment Periods and Extension Fees](#)
- 

### **Best Efforts Commitment Pricing**

As is the case with mandatory whole loan commitments, Fannie Mae offers lenders a “live” price in Fannie Mae’s whole loan committing application as its purchase price for loans delivered via best efforts commitments. Live prices move throughout the day, generally in tandem with the MBS market. Fannie Mae may charge fees or make pricing adjustments in conjunction with a best efforts commitment. See also [C1-1-01, Execution Options](#). Where a concurrent sale of servicing has been arranged via the Servicing Execution Tool (SET) in the whole loan committing application, Fannie Mae will pay the acquisition price (subject to adjustments) plus or minus certain amounts related to the sale of servicing. See Section C2–1.3, Servicing Execution Tool to Sell Whole Loans, for more information.

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### **Best Efforts Pair-off Fees and Duplicate Commitment Price Adjustments**

Under the best efforts commitment option, generally a pair-off fee will not be assessed for commitments that fallout due to:

- cancellation of an applicant's rate lock, as long as the cancellation results from an applicant withdrawal or lender declination; or
- a change to the product type or key data which results in a change of the committed loan from a loan eligible for a best efforts commitment to a loan ineligible for a best efforts commitment.

A pair-off fee will be assessed for commitments where the fallout event is due to a failure, for any reason, to deliver the closed and committed loan to Fannie Mae, including when a lender (or a third-party originator who originates in the lender's name) has solicited new pricing and committed or sold the loan to Fannie Mae or another investor.

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Fannie Mae may cancel a commitment and charge a pair-off fee in the event the property address is missing or fictitious or in the event the identical property address is used to enter into multiple commitments.

A duplicate commitment price adjustment will be assessed in the event a lender delivers a loan to Fannie Mae against any other (duplicate) commitment(s) for the same borrower and property address committed prior to or within 30 days of the original commitment's fallout or expiration date (the earlier of the two).

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### Best Efforts Commitment Periods and Extension Fees

As is the case with mandatory commitments, best efforts commitment periods may be as short as one day and as long as 90 days. Lenders may extend commitments on or before the original commitment expiration date for up to a maximum of 30 days for a fee. Lenders may request multiple extensions as long as the total extension period is not longer than 30 days. A best efforts commitment with a “Closed” loan status will automatically extend for five calendar days until the loan is purchased or the commitment has been extended for a maximum of 60 calendar days from the original expiration date. After a commitment has reached its maximum allowed auto-extension period, the whole loan committing application will automatically pair off the “Closed” status commitment.

Fannie Mae will notify lenders via the whole loan committing application of fees associated with extending the commitment period. Once notice is given, payment of the fee becomes an absolute obligation.

**Note:** All committing fees and post purchase price adjustments will be drafted from the lender’s draft account with Fannie Mae. All draft fees can be viewed on [Fannie Mae’s website](#).

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2015-06</a> | May 26, 2015     |
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011 |



## **C2-1.2-03, Best Efforts Commitment Terms, Amounts, and Other Requirements (05/26/2015)**

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### **Introduction**

This topic provides information on terms and other requirements associated with best efforts commitments, including:

- [Best Efforts Commitment Terms and Amounts](#)
  - [Best Efforts Servicing Options](#)
  - [Other Best Efforts Requirements](#)
  - [DU Recommendations on Loans Delivered with Best Efforts Commitments](#)
- 

### **Best Efforts Commitment Terms and Amounts**

By accepting any prices and delivering mortgages to Fannie Mae pursuant to a commitment obtained through Fannie Mae's whole loan committing application, the lender confirms that:

- the lender is approved and continues to satisfy the eligibility requirements as described in this Guide, and
- the mortgages comply with all Fannie Mae requirements in the *Mortgage Selling and Servicing Contract* and the *Selling and Servicing Guides*.

Fannie Mae will commit to pay to lenders proceeds that are based upon the acquisition price for committed loans, subject to any applicable adjustments, as long as:

- the key data and product type delivered matches the key data and product type reported to Fannie Mae to enter into the commitment, and
- the acquisition date is on or before the date upon which the commitment expires.

Best efforts commitments are for a specific borrower, address, and commitment period. Loan substitution is not allowed. Lenders may not change a best efforts commitment to a mandatory commitment (or vice versa) or change the remittance type from scheduled/scheduled to actual/actual (or vice versa).

Lenders must notify Fannie Mae via the whole loan committing application within one business day of any change to the key data or product type that occurs during the commitment period. If there is a change to the key data or product type and the new loan meets Fannie Mae's eligibility

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requirements, the acquisition price for the committed loan may be changed to reflect the revised information (using worse case pricing when applicable).

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### **Best Efforts Servicing Options**

Lenders may retain, release, or sell the servicing rights associated with the loans they deliver in fulfillment of a best efforts commitment. Lenders may also execute a concurrent transfer of servicing via the whole loan committing application. If approved to participate in the Servicing Execution Tool component of the whole loan committing application, lenders have the option to retain servicing or arrange for the concurrent sale of servicing to a participating servicer through the Servicing Execution Tool. See [C2-1.3-01, Servicing Execution Tool](#), for more information.

Those retaining or releasing servicing may do so using the actual/actual or scheduled/scheduled remittance type. Certain products, however, require servicing via a specific remittance type. See [C1-3-01, General Information on Remittance Types](#), for information on remittance types and the [Cash Remittance System](#) for details on remittance requirements for specific mortgage products.

For more information and to learn about additional terms and conditions associated with servicing-released executions, lenders should contact their lead Fannie Mae regional office or the Capital Markets Sales Desk for details. See [E-1-03, List of Contacts](#).

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### **Other Best Efforts Requirements**

Fannie Mae's designated document custodian (DDC) serves as the document custodian for loans delivered via a best efforts execution. For additional information on the role of Fannie Mae's DDC, see [C2-2-02, Documentation Requirements for Whole Loan Deliveries](#).

Early funding is available for loans delivered in fulfillment of a best efforts commitment. For details on this option and other options, and terms and conditions associated with best efforts commitments, lenders should contact their lead Fannie Mae regional office or the Capital Markets Sales Desk.

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### **DU Recommendations on Loans Delivered with Best Efforts Commitments**

A lender may fulfill a best efforts commitment by delivering a mortgage loan with a valid DU loan casefile ID that is associated with the lender's institution ID. The DU loan casefile must have received a DU recommendation of Approve/Eligible no earlier than 60 days prior to commitment. Alternatively, lenders may select the "Other" Underwriting Method (as viewed in the whole loan committing application), in which case a DU recommendation is not required.

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### Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>          | <b>Issue Date</b>  |
|---|--------------------|
| <a href="#"><u>Announcement SEL-2015-06</u></a> | May 26, 2015       |
| <a href="#"><u>Announcement SEL-2015-01</u></a> | January 27, 2015   |
| <a href="#"><u>Announcement SEL-2014-16</u></a> | December 16, 2014  |
| <a href="#"><u>Announcement SEL-2013-08</u></a> | October 22, 2013   |
| <a href="#"><u>Announcement SEL-2012-07</u></a> | August 21, 2012    |
| <a href="#"><u>DU Version 9.0</u></a>           | July 24, 2012      |
| <a href="#"><u>Announcement SEL-2011-11</u></a> | October 25, 2011   |
| <a href="#"><u>Announcement SEL-2011-04</u></a> | May 24, 2011       |
| <a href="#"><u>Announcement 09-29</u></a>       | September 22, 2009 |
| <a href="#"><u>Announcement 08-32</u></a>       | December 10, 2008  |

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## Section C2-1.3, Servicing Execution Tool to Sell Whole Loans



### C2-1.3-01, Servicing Execution Tool (03/31/2015)

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#### Introduction

This topic describes the process for concurrent sale of servicing using the Servicing Execution Tool (SET) component of Fannie Mae's whole loan committing application, including:

- [Concurrent Sale of Servicing](#)
  - [Relationship Between Lenders and Servicers](#)
  - [Funding](#)
  - [No Recourse to Fannie Mae](#)
  - [Number of Servicers in SET](#)
- 

#### Concurrent Sale of Servicing

Lenders may retain, release, or sell the servicing rights associated with the loans they deliver to Fannie Mae. Lenders may execute a concurrent transfer of servicing via Fannie Mae's whole loan committing application with either a best efforts or a mandatory commitment. By electing to participate in the servicing-released component of the whole loan committing application or in the SET Bifurcation option (which requires specific lender approval), lenders may arrange on a loan-by-loan basis for a concurrent sale of the servicing to an approved Fannie Mae servicer. See [A3-3-02, Concurrent Servicing Transfers](#), for the SET Bifurcation option terms and conditions.

All transfers of servicing must comply with this Guide, the *Servicing Execution Tool — Mortgage Loan Servicing Purchase and Sale Agreement*, and all applicable laws. The procedures and documentation required for a transfer of servicing are set out in the *Servicing Execution Tool Servicing Transfer Instructions* (available on [Fannie Mae's website](#)).

A lender's rights and obligations related to a committed loan for which the lender has sold the servicing are as set forth in the *Mortgage Selling and Servicing Contract* and the *Selling and Servicing Guides*, and use of the whole loan committing application in no way alters a lender's obligations to Fannie Mae with respect to such loans.

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## Relationship Between Lenders and Servicers

Lenders and servicers using SET must enter into the non-negotiable *Servicing Execution Tool — Mortgage Loan Servicing Purchase and Sale Agreement*, the terms of which govern all sales of servicing rights between lenders and servicers using SET. See [E-2-06, Servicing Execution Tool — Mortgage Loan Servicing Purchase and Sale Agreement](#).

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## Funding

If the lender accepts Fannie Mae's price on a loan and the servicer's price on the associated servicing and subsequently sells the loan to Fannie Mae, Fannie Mae will facilitate the sale of the related servicing by:

- calculating the net funding servicing-released premium (SRP) (see definition below);
- collecting an amount equal to the net funding SRP from the servicer; and
- remitting an amount equal to the net funding SRP to the lender on behalf of the servicer, together with the acquisition price.

The “net funding SRP” is based on the servicer's net SRP for that loan (which takes into account price adjustments and fees agreed to between the lender and the servicer in the *Servicing Execution Tool — Mortgage Loan Servicing Purchase and Sale Agreement* but not the escrows) as well as the final amount of escrow funds entered into the whole loan committing application by the lender.

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## No Recourse to Fannie Mae

Fannie Mae's calculation of the net SRP and the net funding SRP is based on unpaid principal balance, escrow funds, and other loan information submitted by the lender through the whole loan committing application, and information submitted by the servicer through SET. Fannie Mae accepts no responsibility for the accuracy or completeness of such information and is entitled to rely on such information in calculating the net SRP and the net funding SRP and in collecting an amount equal to the net funding SRP from the servicer and remitting it to the lender on behalf of the servicer (or in deducting an amount equal to any negative net funding SRP from the acquisition proceeds and remitting it to the active servicer). Lenders will have no recourse to Fannie Mae if issues arise with any of the following:

- the accuracy or completeness of the information that the whole loan committing application uses to calculate the net SRP or the net funding SRP;



- the accuracy and completeness of any information that the lender obtains from the whole loan committing application and uses or relies upon in any way;
  - the lender's sale (or attempted sale) of servicing to the servicer (other than the calculation, collection, and remittance of the net funding SRP and transfer of certain data to the servicer); or
  - the servicing obligations and obligations relating to escrow funds.
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### **Number of Servicers in SET**

Fannie Mae may increase or decrease the number of servicers that participate in SET at any time.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2015-03</a> | March 31, 2015    |
| <a href="#">Announcement SEL-2014-16</a> | December 16, 2014 |
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011  |

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# Chapter C2-2, Whole Loan Deliveries to and Purchasing by Fannie Mae



## Whole Loan Deliveries to and Purchasing by Fannie Mae

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### Introduction

Whether selling whole loans to Fannie Mae under the terms of a mandatory, best efforts or converted ARM resale commitment, lenders receive the sale proceeds when they have made “good delivery.” This means that the mortgages delivered meet all of Fannie Mae’s underwriting and legal criteria and satisfy the terms of the commitment under which they are being delivered. This chapter provides information on the lender’s requirements for making good delivery and the policies and procedures Fannie Mae uses to fund Fannie Mae’s purchases. See C1-2-02, Loan Data and Documentation Delivery Requirements, for general information about this subject.

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### In This Chapter

This chapter contains the following topics:

|  |      |
|--|------|
| C2-2-01, General Requirements for Good Delivery of Whole Loans (05/26/2015) . . . . .  | 1113 |
| C2-2-02, Documentation Requirements for Whole Loan Deliveries (10/25/2011) . . . . .   | 1116 |
| C2-2-03, General Information on Whole Loan Purchasing Policies (11/13/2012) . . . . .  | 1118 |
| C2-2-04, Timing of Distribution of Whole Loan Purchase Proceeds (06/28/2011) . . . . . | 1120 |
| C2-2-05, Whole Loan Purchasing Process (02/23/2016) . . . . .                          | 1121 |
| C2-2-06, Authorization to Transfer Funds (02/23/2016) . . . . .                        | 1124 |
| C2-2-07, Purchase Payee Codes (07/30/2013) . . . . .                                   | 1126 |
| C2-2-08, Triparty Wiring Instructions (04/01/2009) . . . . .                           | 1128 |

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## **C2-2-01, General Requirements for Good Delivery of Whole Loans (05/26/2015)**

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### **Introduction**

This topic provides Fannie Mae's requirements for good delivery of whole loans, including delivery limitations and tolerances and options for delivering loan amounts beyond the maximum amount allowed in the commitment, including:

- [Definition of Whole Loan Good Delivery](#)
  - [Limitations on High-Balance Whole Loan Deliveries](#)
  - [Whole Loan Good Delivery Amounts](#)
  - [Overdeliveries of Whole Loan Commitments](#)
  - [Extending and Pairing-Out of Whole Loan Commitments](#)
- 

### **Definition of Whole Loan Good Delivery**

To receive funding for loans delivered in fulfillment of a mandatory, best efforts, or converted ARM resale commitment, lenders must make "good delivery," meaning the loans delivered must meet all of Fannie Mae's underwriting and legal criteria and satisfy the terms of the original commitment.

Fannie Mae's good delivery requirements are not met unless:

- the applicable error-free mortgage documents and data reach Fannie Mae's DDC (or another document custodian, if the lender has received Fannie Mae's permission to use a document custodian other than the DDC, or as directed by Fannie Mae) by first morning delivery on the expiration day of the commitment;
- the data reflected on the Loan Schedules pass all of the Fannie Mae purchasing edits;
- the aggregate unpaid principal balance of all mortgages delivered under the commitment at least equals Fannie Mae's minimum required delivery amount (but does not exceed the maximum delivery amount on the expiration day of the commitment); and
- the aggregate unpaid principal balance of all mortgages delivered under the commitment does not exceed Fannie Mae's delivery limits for loans with nonstandard characteristics, such as high-balance loans.

To make good delivery on a best efforts commitment, the information concerning the loan that is delivered must match the key data elements specified in Fannie Mae's whole loan committing application.

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## Limitations on High-Balance Whole Loan Deliveries

The following outlines key whole loan requirements:

- In the whole loan committing application, high-balance 10-, 15-, 20-, and 30-year fully amortizing fixed-rate mortgage loans are eligible for delivery under standard whole loan mandatory commitments, as long as the high-balance loans do not comprise more than 10% of the aggregate unpaid principal balance of the commitment. If the delivery of a high-balance mortgage loan causes the lender to exceed the 10% limitation, the lender is required to deliver the mortgage loan against a high-balance whole loan commitment. High-balance products are available in the whole loan committing application for this purpose.

**Note:** 10-year fully amortizing fixed-rate high-balance mortgage loans are delivered under a 15-year high-balance commitment and 20-year fully amortizing fixed-rate high-balance mortgage loans are delivered under a 30-year high-balance commitment.

- The 10% limitation does not apply in the whole loan committing application to high-balance mortgage loans originated with non-TBA-eligible products (for example, ARMs) which may be delivered against standard conforming whole loan commitments, with no restriction on concentration.
- For best efforts commitments in the whole loan committing application, 15-year and 30-year fully amortizing fixed-rate high-balance mortgage loans must be delivered under 15-year or 30-year high-balance commitments, respectively. High-balance mortgage loans with 10- or 20-year fixed-rate terms or non-TBA-eligible products (such as ARMs) are not accommodated for best efforts commitments.

See [B5-1-01, High-Balance Mortgage Loan Eligibility and Underwriting](#) and [B5-1-02, High-Balance Pricing, Mortgage Insurance, Special Feature Codes, and Delivery Limitations](#) for additional information about high-balance mortgage loans.

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## Whole Loan Good Delivery Amounts

To make good delivery on a mandatory commitment, lenders must deliver loans for which the total UPB does not fall below the greater of \$10,000 or 2.5% of the original commitment amount.

The minimum required delivery amount is an amount that will not fall below the original commitment amount by more than the greater of \$10,000 or 2.5% of the original commitment amount, unless a lender requests a partial pair-off of a commitment. If that occurs, the minimum required delivery amount will be reduced to \$50 below the revised commitment amount.

The maximum delivery amount is an amount that will not exceed the original commitment amount by more than the greater of \$10,000 or 2.5% of the original commitment amount, unless a lender requests an overdelivery. If a lender requests an overdelivery, the maximum required delivery amount will be \$50 above the revised commitment amount.

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### **Overdeliveries of Whole Loan Commitments**

Lenders may request permission via the whole loan committing application for mandatory commitments or by contacting the Capital Markets Sales Desk (see [E-1-03, List of Contacts](#)) during regular business hours to over deliver, or deliver a total UPB that exceeds the maximum delivery amount.

The maximum overdelivery amount is 25% of the original commitment amount, up to a maximum of the one-unit single-family conforming loan limit. For example, on an original commitment amount of \$150,000, the maximum overdelivery amount is an additional \$37,500 (25% of \$150,000). In this example, the total delivered against the commitment cannot exceed \$187,550 (\$150,000 + \$37,500 + \$50).

After an overdelivery occurs, the maximum delivery tolerance level decreases to \$50 above the new commitment amount. For commitments for which the overdelivery calculation (based on 25% of the original commitment amount) is less than \$10,000, the high tolerance level becomes the maximum amount the lender can deliver.

Fannie Mae generally bases its decision on whether an overdelivery price adjustment will be due based on the movement in market prices between the date the commitment was originally obtained and the date on which Fannie Mae approved the overdelivery. If a price adjustment is due, Fannie Mae will draft an overdelivery price adjustment from the lender's designated account on the following business day.

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### **Extending and Pairing-Out of Whole Loan Commitments**

For information about extending and pairing-out of whole loan commitments, see [C2-1.1-04, Mandatory Commitment Extensions and Pair-Offs](#).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2015-06</a> | May 26, 2015      |
| <a href="#">Announcement SEL-2014-11</a> | August 26, 2014   |
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011  |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011    |
| <a href="#">Announcement 09-08R</a>      | June 8, 2009      |
| <a href="#">Announcement 08-37</a>       | December 19, 2008 |
| <a href="#">Announcement 08-27</a>       | October 16, 2008  |



## C2-2-02, Documentation Requirements for Whole Loan Deliveries (10/25/2011)

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### Introduction

This topic describes the documentation requirements for whole loan deliveries, including:

- [Required Documents for Whole Loan Mortgages](#)
- [Submission of Documents for Whole Loans to Fannie Mae's Designated Document Custodian](#)
- [Whole Loan Deliveries to Fannie Mae's DDC](#)

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### Required Documents for Whole Loan Mortgages

See [E-2-01, Required Custodial Documents](#), for a list of the mortgage documents that should be included in the document submission package for all mortgage loans.

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### Submission of Documents for Whole Loans to Fannie Mae's Designated Document Custodian

Mortgage document submission packages for whole loan deliveries must be submitted to Fannie Mae's DDC via overnight delivery (with instructions for first morning delivery) as follows:

- for whole mortgage loans and E-notes to The Bank of New York Mellon Trust Company, N.A., at [E-1-03, List of Contacts](#).
- for As Soon As Pooled loans to The Bank of New York Mellon Trust Company, N.A., at [E-1-03, List of Contacts](#).

All packages shipped to the DDC should be sent to Fannie Mae New Loan Submissions with the related *Delivery Schedule*.

The DDC will certify the loans in accordance with the *Designated Custodian Master Custodial Agreement (Form 2010)*, the Guides, and the [Fannie Mae Requirements for Document Custodians guide](#). There may be delays in funding if document submission packages are not delivered to the appropriate address.

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### **Whole Loan Deliveries to Fannie Mae's DDC**

Lenders are required to submit data for whole loan deliveries to Fannie Mae via Loan Delivery for regularly amortizing loans. The seller must use a "Purchase Document" code of 4. A Purchase Document code of 4 allows the data to properly route to the DDC for certification. Failure to specify the proper code may result in a delay of certification and/or purchase of the mortgage loan.

To ensure timely delivery to Fannie Mae's DDC, the seller should ensure that the mortgage document submission package is submitted to its overnight carrier (with instructions for first morning delivery) the same day that the seller submits the loan data to Fannie Mae for purchase. Loan data delivered by the seller to Fannie Mae will be certified the next business day provided the documents have been delivered to Fannie Mae's DDC via first morning delivery, and there are no discrepancies.

When the DDC receives the mortgage document submission package, it will review the related mortgage documentation to verify that all of the required documents have been received and are in order. As a convenience to Fannie Mae's lenders, the DDC will correct any certification data errors to assure that the data transmitted to Fannie Mae by the lender matches the data on the mortgage documents.

The lender will be notified of any document deficiencies or corrections to data via the DDC's Web portal. The lender should work directly with the DDC to resolve any document issues. Provided there are no document related errors, the DDC will then transmit a certification to Fannie Mae (along with any data corrections, if applicable). The lender shall be deemed to have ratified any such correction if it does not notify Fannie Mae of its objection to such correction within 24 hours of the lender's receipt of such notice from the DDC.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011  |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011     |
| <a href="#">Announcement 08-37</a>       | December 19, 2008 |
| <a href="#">Announcement 08-32</a>       | December 10, 2008 |



## C2-2-03, General Information on Whole Loan Purchasing Policies (11/13/2012)

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### Introduction

This topic includes information on the conditions under which Fannie Mae will fund the purchase of a loan delivered in fulfillment of a whole loan commitment, including:

- [Whole Loan Funding Requirements](#)
- [Warehouse Lender's Release of Interest in the Property](#)
- [Procedures Related to the Secure Transfer of Funds](#)

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### Whole Loan Funding Requirements

Fannie Mae will send the proceeds from the whole loan sale and delivery via a wire transfer into the lender's designated account on the purchase date shown on the Purchase Advice if:

- the designated payee code is valid;
- the mortgage is eligible for purchase; and
- Fannie Mae's DDC received a complete, accurate mortgage document submission package and loan delivery data by the applicable cutoff times.

Fannie Mae will direct the wire transfer to either:

- the account(s) and depository institution(s) the lender designates, or
- the lender itself (if it is able to receive wire transfers through the Fedwire system).



Lenders may make arrangements for up to ten different payees to receive transfers of purchase proceeds on an ongoing basis, unless a lender and its warehouse lender have executed a Triparty Wiring Instruction Agreement. See [C2-2-08, Triparty Wiring Instructions](#), for details.

To avoid delays in purchasing and funding, Fannie Mae accepts delivery of any mortgage up to 45 days from the due date of the reported last paid installment.

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### **Warehouse Lender's Release of Interest in the Property**

When Fannie Mae purchases a mortgage, the mortgage seller represents and warrants that title to the mortgage note is free and clear of any security interest, lien, pledge, or other encumbrance, which means that any interest held by a warehouse lender must be released no later than the date Fannie Mae acquires the note.

To ensure that this is always the case, Fannie Mae has established delivery procedures to cover those instances in which the DDC either receives with the mortgage delivery documents a bailee letter notifying it of a warehouse lender's security interest or is otherwise aware that a warehouse lender is claiming an interest of any kind in the mortgage notes being delivered. This process is intended solely to ensure the correctness of the selling representations and warranties a mortgage seller makes to Fannie Mae (and not to benefit any third party). These procedures are outlined in [C1-2-04, Bailee Letters](#). Also see [C1-2-03, Ownership of Mortgage Loans Prior to Purchase or Securitization and Third-Party Security Interests](#), for additional information.

Fannie Mae also has established operational procedures that can be used to reduce instances of conflicting delivery instructions for pledged mortgages. See [C1-1-01, Execution Options](#).

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### **Procedures Related to the Secure Transfer of Funds**

Each lender is responsible for establishing and maintaining controls and procedures that ensure the confidentiality of all transfer instructions and payee codes and the integrity of its communications with Fannie Mae.

The lender agrees to be bound by any transfer instructions issued in its name and sent to Fannie Mae, whether or not they were authorized.

A lender is solely liable for transfers that are initiated (either directly or indirectly) as the result of a breach in its security arrangements or as the result of its failure to give Fannie Mae timely notice of an error, omission, or irregularity in establishing payee arrangements. The lender is fully responsible for notifying the Fannie Mae Asset Acquisitions by telephone and submitting written confirmation of the call to Fannie Mae within 24 hours of the breach. Fannie Mae will do everything possible to suspend operations until a correction is sent, including removing all payee

codes on record for the lender and issuing new codes based on instructions the lender provides in accordance with Fannie Mae standard procedures.

The lender is advised that these procedures will not be used to detect an error in the transmission or content of a transfer of funds to the lender's designated bank or an error in processing a request to set up a payee code for use in transferring funds.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012 |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011     |
| <a href="#">Announcement 08-37</a>       | December 19, 2008 |



## C2-2-04, Timing of Distribution of Whole Loan Purchase Proceeds (06/28/2011)

### Introduction

This topic describes the timing of Fannie Mae's funding of loans it purchases, including:

- [Timing of Distribution of Proceeds for Regularly Amortizing Mortgages](#)
- [Impact of Late Submissions of Required Data and Documentation](#)
- [Early Funding Options](#)

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### Timing of Distribution of Proceeds for Regularly Amortizing Mortgages

Fannie Mae will fund the purchase proceeds for whole loan deliveries of regularly amortizing mortgages provided the following procedure has already occurred:

- lender has electronically submitted clean, error-free loan delivery data through Loan Delivery by 9:00 p.m. (Eastern time);
- Fannie Mae's DDC has received a complete and accurate mortgage document submission package from a lender by first morning delivery the following day; and
- Fannie Mae's DDC has certified the mortgage document submission package.

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## Impact of Late Submissions of Required Data and Documentation

If the required delivery data and documentation are not received by the applicable cutoff time, Fannie Mae will disburse the purchase proceeds on the business day following the date it receives these materials, assuming they are in order and the mortgage is eligible for purchase.

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## Early Funding Options

Fannie Mae offers approved lenders the ability to receive funding at earlier points in the process. For information on Fannie Mae's Early Funding Options and Funding Express, the application lenders use to submit requests for early funding, see [Fannie Mae's website](#) or contact the Capital Markets Sales Desk (see [E-1-03, List of Contacts](#)).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011     |
| <a href="#">Announcement 08-37</a>       | December 19, 2008 |



## C2-2-05, Whole Loan Purchasing Process (02/23/2016)

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### Introduction

This topic provides information on the process Fannie Mae uses to notify the lender (and the servicer, if the lender is not servicing the loan) of a whole loan purchase, including:

- [Notification to Lender of Purchases of Regularly Amortizing Mortgages](#)
- [Contents of the Purchase Advice](#)
- [Reconciliation of Purchase Advices and After Sale Corrections to Whole Loan Disbursements](#)
- [Submission of Mortgage Record Change to HUD for FHA Mortgage Purchases](#)

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### Notification to Lender of Purchases of Regularly Amortizing Mortgages

Fannie Mae will electronically transmit via Message Manager the following documents to the lender:

- a seller's Purchase Advice to detail Fannie Mae's disbursement of the purchase proceeds and
- a report to summarize the lender's purchases for each whole loan commitment.

Fannie Mae also will transmit a servicer's Purchase Advice to the mortgage servicer to provide the information necessary for its accounting records for the mortgage if the lender will not be servicing the mortgage.

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### **Contents of the Purchase Advice**

The Purchase Advice will contain the following information:

- each mortgage, identified by a Fannie Mae loan number (which the servicer should enter into its records immediately because it must be used in reporting all subsequent activity related to the mortgage to Fannie Mae); and
- a report with the applicable payee code for each wire transfer request.

Fannie Mae will transmit the Purchase Advice on the business day it funds the purchase proceeds.

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### **Reconciliation of Purchase Advices and After Sale Corrections to Whole Loan Disbursements**

The lender should examine each Purchase Advice it receives and reconcile the advice to its books and records to ensure that any transfer of funds is properly credited to the lender's designated bank.

Fannie Mae expects lenders to have appropriate controls and procedures in place to perform timely and accurate reconciliations of the transfers of funds for all whole loan deliveries.

The lender must send Fannie Mae written notice of any error, omission, or irregularity in the transfer of funds or in processing the request for the repetitive transfer within 30 days of the date of the Purchase Advice or Fannie Mae will assume that the information on its Purchase Advice is correct.

If the lender believes the amount disbursed is incorrect, it can request an adjustment by following the instructions provided in [Seller-Initiated Post-Purchase Adjustments](#). The message should include details of the discrepancy and the corrective action required.

Requests must include the following information:

- the lender’s nine-digit Fannie Mae seller/servicer number;
- the ten-digit Fannie Mae loan number;
- copies of
  - the Purchase Advice;
  - the *Loan Schedule*;
  - the mortgage note;
  - the mortgage payment history, if the discrepancy is related to the last paid installment or unpaid principal balance (UPB) at delivery;
  - the ARM rider, if the loan is an ARM; and
  - any other items relating to the correction.

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### Submission of Mortgage Record Change to HUD for FHA Mortgage Purchases

After the lender receives notification that Fannie Mae has purchased a regularly amortizing FHA mortgage for its portfolio, the lender must complete a Mortgage Record Change (HUD Form 92080) and submit it to HUD through FHA Connection.

For notifications to FHA, lenders will also need to include Fannie Mae’s Mortgagee Number 950010999 on the form. Only the first five digits of this number are required if submitting the HUD form through FHA Connection.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012 |
| <a href="#">Announcement SEL-2011-05</a> | June 28, 2011     |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011    |



## C2-2-06, Authorization to Transfer Funds (02/23/2016)

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### Introduction

This topic explains how a lender authorizes Fannie Mae to transfer funds for whole loan deliveries into its designated accounts, including:

- [Documentation Requirements](#)
  - [Lender's Agreement Related to the Execution of the Authorization to Transfer Funds](#)
  - [Authorization for Repetitive Transfers](#)
  - [Changes to or Deletion of the Authority to Transfer Funds](#)
- 

### Documentation Requirements

Fannie Mae will not transfer purchase proceeds for whole loan deliveries to a lender's designated bank account until the lender has provided Fannie Mae with an executed *Certificate of Authority, Incumbency, and Specimen Signatures (Form 360)* that designates the person or persons authorized to establish, change, or delete wire transfer instructions on the lender's behalf.

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### Lender's Agreement Related to the Execution of the Authorization to Transfer Funds

By executing Form 360, a lender agrees that

- Fannie Mae is authorized to conclusively rely on the accuracy, genuineness, and good faith of any written communication related to transfer instructions that bears the signature of one of the individuals designated on Form 360; and
- it will be fully responsible for any and all losses incurred by Fannie Mae that result from Fannie Mae's reliance on any instruction given to Fannie Mae by the lender's authorized representatives or any other person who has (or obtains) access to information or documents that compromise the security of Fannie Mae payee codes or the Fannie Mae Automated Wire Transfer System.

Once Fannie Mae receives an executed Form 360 from a lender, Fannie Mae will rely on the information on that Certification until such time as the lender requests to modify or delete it.

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### Authorization for Repetitive Transfers

A repetitive transfer is one in which all aspects of the transfer, other than the date of the transfer and the amount of funds transferred, remain constant over time.

A lender that wants the purchase proceeds for the whole loan deliveries that it submits over any period of time to be wired to the same account(s) and depository institution(s) must have its authorized representative(s) submit a separate *Seller's Designation of Wire Transfer Instructions* ([Form 482](#)) for each arrangement, specifying any desired transfer routing instructions, any intermediary depository institutions, and appropriate account numbers for these repetitive transfers.

Fannie Mae will assign a unique payee code to identify each of the lender's instructions for repetitive transfers. The lender must then use this payee code to identify each whole loan delivery for which the purchase proceeds are to be wired to the designated payee.

A lender may make arrangements for up to ten different payees to receive transfers of purchase proceeds on an ongoing basis.

Fannie Mae will rely on the ABA routing number and the account numbers that the lender's representative specifies on the Form 482 when it creates a payee code to identify each individual payee arrangement. Fannie Mae will make no effort to verify the accuracy of the routing number or the account numbers.

Generally the only exception to this is that a lender may designate only one payee arrangement if it has executed a Triparty Wiring Instruction Agreement with its warehouse lender (see [C2-2-08, Triparty Wiring Instructions](#)). When a lender executes a Triparty Wiring Instruction Agreement, it specifies this information in the Agreement instead of submitting a Form 482.

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### **Changes to or Deletion of the Authority to Transfer Funds**

To add, delete, or change an authorized representative, the lender must submit a new Form 360 and corporate resolution.

Fannie Mae reserves the right to verify or authenticate any request for a change, but the lender cannot consider Fannie Mae's failure to do so an act of negligence.

In emergency situations, Fannie Mae will delete the name of an authorized representative on the basis of a telephone call and a fax transmission from another authorized representative; however, a revised Form 360 and a new corporate resolution must then be submitted as confirmation of the change.

Fannie Mae will make every effort to act quickly on requests for emergency deletions of the names of authorized representatives. Fannie Mae cannot guarantee that it will be able to act quickly enough to prevent the execution of transfers that had previously been validated by the individuals being deleted.

Wiring instructions will be inactivated after two years of inactivity.

## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcement                             | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016  |
| <a href="#">Announcement SEL-2013-07</a> | September 24, 2013 |
| <a href="#">Announcement SEL-2013-05</a> | July 30, 2013      |



## C2-2-07, Purchase Payee Codes (07/30/2013)

### Introduction

This topic contains information on purchase payee codes, including:

- [Entering Purchase Payee Codes Into Fannie Mae's Records](#)
- [Changing or Deleting Purchase Payee Codes From Fannie Mae's Records](#)

### Entering Purchase Payee Codes Into Fannie Mae's Records

Lenders must specify a valid and appropriate payee code at delivery to have the purchase proceeds for a specific mortgage or group of mortgages transferred to the designated account.

The following steps are required to enter a payee code into Fannie Mae records:

| Step | Procedure  |
|------|--|
| 1.   | The lender's authorized representative submits a <i>Seller's Designation of Wire Transfer Instructions</i> ( <a href="#">Form 482</a> ) to Fannie Mae. |
| 2.   | Fannie Mae contacts the lender's authorized representative with the new payee code.  |
| 3.   | The lender adds the new payee code to the Loan Delivery application.   |
| 4.   | The lender informs the appropriate staff (those who submit delivery data to Fannie Mae) regarding which payee code to use for which payee arrangement. |



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## Changing or Deleting Purchase Payee Codes From Fannie Mae's Records

To change or delete an existing payee code, lenders must submit a new Form 482. Fannie Mae can delete or change the payee codes that are used to identify the lender's transfer arrangements at any time. If Fannie Mae intends to delete or change the payee codes, it will give lenders notice of its intention to do so. (Changes to, or deletion of, a payee code created in connection with the execution of a Triparty Wiring Instruction Agreement must be handled in accordance with the provisions of the Agreement.)

The following steps are required to change or delete an existing payee code:

| Step | Procedure  |
|------|--|
| 1.   | The lender's authorized representative completes and submits a new Form 482.   |
| 2.   | Fannie Mae will make the requested change within two business days after receiving the valid and completed Form 482; however, Fannie Mae cannot guarantee that this will occur in time to prevent a previously authorized transfer of funds for a mortgage that is in its purchase pipeline or to stop a wire transfer that is in process. |
| 3.   | Fannie Mae contacts the lender's authorized representative to confirm the change or deletion.  |

**Note:** In emergency situations, Fannie Mae will delete a payee code based on the lender's authorized representative's request; however, Fannie Mae cannot guarantee that it will be able to act quickly enough to prevent the execution of transfers that had been previously validated. The lender must then submit a Form 482 to confirm the request for the deletion.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date    |
|--|---------------|
| <a href="#">Announcement SEL-2013-05</a> | July 30, 2013 |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012 |



## **C2-2-08, Triparty Wiring Instructions (04/01/2009)**

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### **Introduction**

This topic contains information on triparty wiring instruction, including:

- [General Information About Triparty Wiring Instruction Agreements](#)
  - [Arrangement of Triparty Wiring for Multiple Warehouse Lenders](#)
  - [Execution and Submission of Triparty Wiring Instructions Agreements](#)
  - [Changes to Triparty Wiring Instruction Agreements](#)
  - [Termination of Triparty Wiring Instruction Agreements](#)
- 

### **General Information About Triparty Wiring Instruction Agreements**

A Triparty Wiring Instruction Agreement provides a warehouse lender with contractual assurance that when mortgages in which it has an interest are delivered to Fannie Mae, the proceeds will be directed in accordance with its requirements.

By executing a Triparty Wiring Instruction Agreement, a lender, a warehouse lender, and Fannie Mae agree that the purchase proceeds for whole loan deliveries will be wire transferred to a single bank account and that no change to the wiring instructions will be made unless both the mortgage seller and the warehouse lender agree to the change.

Triparty Wiring Instruction Agreements are available through the lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)).

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### **Arrangement of Triparty Wiring for Multiple Warehouse Lenders**

If the mortgage lender uses multiple warehouse lenders, then it must designate one warehouse lender to

- execute the Triparty Wiring Instruction Agreement, and
- represent the interests of each of the other warehouse lenders.

The other warehouse lenders must execute a separate written agreement that

- gives the warehouse lender that signed the Triparty Wiring Instruction Agreement the authority to represent them for those mortgages in which they have an interest, and

- obligates the designated warehouse lender to take the steps necessary to redistribute purchase proceeds to the other warehouse lenders in a way that ensures that they receive their share of the proceeds, as appropriate.
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### **Execution and Submission of Triparty Wiring Instructions Agreements**

The lender and the warehouse lender must execute three originals of the Triparty Wiring Instruction Agreement and send them to Fannie Mae for execution to Triparty Wiring Instructions (see [E-1-03, List of Contacts](#)).

If the lender does not have a *Certificate of Authority, Incumbency, and Specimen Signatures (Form 360)* on file with Fannie Mae, it must execute that form and submit it to Fannie Mae with the Triparty Wiring Instruction Agreement so Fannie Mae can confirm that the individual executing the Agreement is authorized to do so.

Fannie Mae will return one executed original Triparty Wiring Instruction Agreement to the lender and one to the warehouse lender.

A Triparty Wiring Instruction Agreement will not become effective until the date that appears immediately after Fannie Mae's signatory execution; therefore, the lender must not send Fannie Mae any deliveries that are to be covered under the terms of the Agreement until the specified effective date.

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### **Changes to Triparty Wiring Instruction Agreements**

The lender's wiring instructions for any mortgage delivery that takes place after the effective date of the Triparty Wiring Instruction Agreement may be changed only if both the lender and the warehouse lender submit a jointly executed change request (in the format specified in Attachment A to the Agreement).

The effective date for the change may be "as soon as possible" or a specific date in the future (which should take into consideration that Fannie Mae makes a change within five business days after receiving a change request).

If a Fannie Mae wire transfer is rejected by the depository institution because of an inability to identify the account, then Fannie Mae will contact the lender to verify the instructions and allow it to update any erroneous ABA routing number or account number that resulted in the rejection.

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### **Termination of Triparty Wiring Instruction Agreements**

To terminate a Triparty Wiring Instruction Agreement, either the lender or the warehouse lender may give advance written notice to Fannie Mae, as long as the party giving notice obtains an

acknowledgment from the other party to the Agreement (in the format specified in Attachment B to the Agreement).

The notice may specify an effective date for the termination, which must be at least six business days after the notice is sent in order to ensure that Fannie Mae has sufficient time to change its records to accommodate future deliveries.

The termination will not apply to any still unfunded mortgages that were delivered to Fannie Mae before its receipt of the termination notice.

Fannie Mae will disburse the purchase proceeds for those mortgages to the warehouse lender in accordance with the instructions it originally received, unless all of the parties to the Agreement agree otherwise in writing.

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# Subpart C3, Mortgage-Backed Securities (MBS)



## Mortgage-Backed Securities (MBS)

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### Introduction

This subpart describes Fannie Mae's requirements for pooling mortgages that will serve as the underlying asset for mortgage-backed securities (MBS). It includes Fannie Mae's MBS program parameters and other information regarding MBS commitments, guaranty and buyup and buydown fees, pooling loans into fixed-rate and ARM MBS and Fannie Majors, and delivering and trading MBS.

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### In This Subpart

This subpart contains the following chapters:

|  |      |
|--|------|
| C3-1, MBS Program Overview .....                                   | 1132 |
| C3-2, MBS Securitization Process .....                             | 1138 |
| C3-3, MBS Guaranty Fees and Guaranty Fee Buyups and Buydowns ..... | 1148 |
| C3-4, Pooling Loans into Fixed-Rate MBS .....                      | 1155 |
| C3-5, Pooling Loans into ARM MBS .....                             | 1159 |
| C3-6, Pooling Loans into Fannie Majors .....                       | 1180 |
| C3-7, Delivering and Trading MBS .....                             | 1184 |

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# Chapter C3-1, MBS Program Overview



## MBS Program Overview

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### Introduction

This chapter provides basic information on Fannie Mae’s MBS program and the lender’s responsibilities associated with pooling loans into MBS.

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### In This Chapter

This chapter contains the following topics:

|  |      |
|--|------|
| <a href="#">C3-1-01, General Information About Fannie Mae’s MBS Program (12/06/2016)</a> | 1132 |
| <a href="#">C3-1-02, Preparing to Pool Loans into MBS (12/06/2016)</a>                   | 1136 |

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## C3-1-01, General Information About Fannie Mae’s MBS Program (12/06/2016)

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### Introduction

This topic includes general information about Fannie Mae’s MBS program, including:

- [MBS Program Description](#)
  - [MBS Single-Family Pool Trust Agreement](#)
  - [Guaranty Fees](#)
  - [MBS Pricing Parameters](#)
  - [MBS Servicing Fees](#)
  - [MBS Remittance Types and Cycles](#)
  - [MBS Program Transaction Options](#)
  - [Structured Transactions](#)
  - [Fannie Mae’s Capital Markets Sales Desk](#)
- 

### MBS Program Description

Fannie Mae MBS are securities that represent an ownership interest in pools of residential mortgages with similar characteristics. MBS are also known as “pass-through certificates,”

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because the principal and interest on the underlying mortgages are passed through to investors based on the percentage of the security that each investor owns. Fannie Mae guarantees to the related trust holding the mortgages that it will supplement amounts received by that trust as required to permit timely payment of principal and interest on the MBS.

Fannie Mae's MBS program provides for the issuance and sale of MBS that represent fractional, undivided, beneficial ownership interests in a distinct pool of mortgages, such as the following mortgage types:

- conventional,
- FHA-insured,
- VA-guaranteed, and
- HUD-guaranteed Section 184 loans.

MBS transactions result in the formation of one of two types of pools:

- a single-lender pool, in which all of the mortgages share a common characteristic, such as lien type, amortization type, loan term or range of loan terms, mortgage type, or ARM plan number. The minimum pool size (aggregate UPB) for a fixed rate, single-lender pool is \$1 million. For ARMs, the minimum pool size is \$500,000.
- a multiple-lender pool, known as a Fannie Majors, that consists of pools of whole mortgages delivered by more than one lender. For Fannie Mae to open a Fannie Majors pool, the pool's aggregate UPB must meet the minimum amounts noted above. Once opened, a lender may deliver loans with UPBs as low as \$1,000.

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### **MBS Single-Family Pool Trust Agreement**

Fannie Mae holds, in its capacity as trustee, the mortgages sold to Fannie Mae by a lender or lenders in a trust comprising the pool and issues MBS that are backed by those mortgages. All mortgage loans related to a pool represent a separate trust and issuance of MBS. For each issuance of MBS, there will be an issue supplement to the Trust Agreement.

The Trust Agreement and any issue supplement are entered into by Fannie Mae in its corporate capacity (as Issuer, Master Servicer and Guarantor) and as Trustee. The trust agreement is posted at [Single Family Master Trust Agreement](#). Issue supplements are available to investors in related pools upon request from the Fixed-Income Investor Helpline; see [E-1-03, List of Contacts](#).

The 2016 Single-Family Master Trust Agreement is effective for all fixed-rate and adjustable-rate mortgage loans in pools delivered to Fannie Mae, and Pooled from Portfolio loans included in pools, for all MBS issued on or after June 1, 2016.

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## Guaranty Fees

The lender must pay Fannie Mae a guaranty fee remittance each month as compensation for the lender's right to participate in the MBS program. The guaranty fee is ultimately a corporate responsibility of the servicer and is not a function of the pool cash flows; therefore, it must be paid even if there is no pool collection activity.

The guaranty fee remittance rate for MBS mortgages varies depending on:

- the credit risk of mortgages included in the pool,
- the servicing option that applies to each mortgage in the pool, and
- the remittance cycle that applies to the pool.

For additional details, see [C1-1-01, Execution Options](#).

Lenders may buy up or buy down their guaranty fees. See [C3-2-03, MBS Remittance Type and Selecting a Remittance Cycle](#), and Chapter C3-3, MBS Guaranty Fees and Guaranty Fee Buyups and Buydowns, for more information.

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## MBS Pricing Parameters

MBS prices are driven by investors and can change continually throughout the day. Pricing is a function of the security itself, such as, the type of mortgage backing the security and the coupon rate (the rate at which interest is paid to the investor); and market factors, such as interest rate fluctuations and overall MBS demand.

MBS may be bought or sold at par, at a premium, or at a discount, that is, a price equal to, greater than, or less than 100% of their face value.

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## MBS Servicing Fees

The lender determines the amount of the total servicing compensation it wants to receive when it establishes the interest rate for the mortgage, but Fannie Mae requires that it provide for at least a minimum servicing fee. Generally, the total servicing fee for a regularly amortizing mortgage is the difference between the mortgage interest rate of a mortgage loan and the sum of (a) the pass-through rate on the loan (or, for ARMs, the loan's contributions to the pool accrual rate), (b) the guaranty fee, and (c) any lender-purchased mortgage insurance.

The total servicing fee — after deduction of the applicable guaranty fee for an MBS mortgage and/or the applicable renewal premium accrual for a mortgage with lender-purchased mortgage

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insurance — must at least equal Fannie Mae’s required minimum servicing fee for the particular type of mortgage.

The minimum servicing fee can vary by mortgage product and, in certain cases, a lender has a choice of minimum servicing fees for the same product. Fannie Mae may specify a maximum allowable servicing fee for some products.

The total servicing fee that is established when the MBS pool is formed generally will remain in effect for the life of the pool (without regard to whether the pool contains fixed-rate mortgages or ARMs).

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### **MBS Remittance Types and Cycles**

The scheduled principal and interest due on mortgages pooled into MBS must be remitted to Fannie Mae, whether or not it is collected from the borrowers (that is, accounted for using the scheduled/scheduled remittance type).

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### **MBS Program Transaction Options**

Lenders can opt to either hold the MBS in their investment portfolio (often referred to as a “swap-and-hold” transaction) or sell the MBS to another investor as part of the same transaction (“swap-and-sell”). Lenders can choose to service the mortgages underlying the MBS or sell the servicing associated with these loans to another financial institution.

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### **Structured Transactions**

MBS may be combined with other Fannie Mae mortgage-related securities to create a single structured transaction security, such as:

- Megas — Pass-through securities backed by groups of existing MBS or other existing Megas;
- SMBS — Pass-through securities created by either (1) restructuring the interest and principal payments into separately tradable securities (standard SMBS) or (2) with Fannie Mae’s approval, depositing into an SMBS trust a portion of the interest payable on mortgage loans backing certain MBS—the “excess yield” (excess servicing SMBS); and
- REMICs — Multiclass mortgage-related securities backed by MBS or whole loans.

Lenders that wish to deliver mortgage-related securities to Fannie Mae in exchange for a structured transaction security should contact the Capital Markets Structured Transactions group, to seek approval to do so.

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## Fannie Mae's Capital Markets Sales Desk

Lenders in good standing may be eligible to use the services of Fannie Mae's Capital Markets Sales Desk ("the Desk") to either buy or sell MBS (and whole loans as well). The Desk also assists lenders in obtaining current market quotes and in finding markets for nonstandard MBS products. However, the Desk will not make individualized trade recommendations or determine the appropriateness or benefit of any particular transaction or strategy for a lender.

Lenders should note that they must consent to the recordation of all telephone conversations with the Desk. In the event of a conflict between a recorded telephone conversation and a confirmation or settlement notice sent by Fannie Mae to the lender, the recorded conversation represents the official terms of the transaction.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 06, 2016 |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011  |
| <a href="#">Announcement 08-31</a>       | December 8, 2008  |



## C3-1-02, Preparing to Pool Loans into MBS (12/06/2016)

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### Introduction

This topic provides information on the steps lenders need to take before they can obtain MBS commitments and pool loans into MBS, including:

- [Obtaining Approval to Deliver MBS Loans](#)
- [Selecting a Document Custodian](#)

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### Obtaining Approval to Deliver MBS Loans

A lender must obtain approval for MBS execution and access to Fannie Mae's MBS committing application before it can deliver mortgages into a single-lender MBS pool or a Fannie Majors.

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Fannie Mae considers a number of factors prior to offering MBS execution to a lender. These factors include, but are not limited to, the following:

- the expertise of the lender’s management in securitization,
- whether the lender’s operational processes support MBS delivery and servicing requirements,
- the lender’s ability to manage and maintain a delivery process that ensures the delivery of accurate data to Fannie Mae,
- the lender’s prepayment speeds, and
- the lender’s performance against outstanding Fannie Mae obligations.

Fannie Mae does not accept requests for MBS execution from lenders whose selling or servicing privileges have been suspended or that have not performed satisfactorily under other MBS commitments or contracts.

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### Selecting a Document Custodian

Lenders must select an eligible document custodian and have an executed *Master Custodial Agreement* ([Form 2003](#)) in place before obtaining an MBS commitment. The document custodian certifies, takes and retains actual physical possession of the custodial documents for the mortgages. See [A3-3-04, Document Custodians](#), for document custodian eligibility criteria, and the [RDC guide](#).

Lenders may also use Fannie Mae’s DDC as their document custodian for MBS loans.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 06, 2016 |
| <a href="#">Announcement 08-37</a>       | December 19, 2008 |

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# Chapter C3-2, MBS Securitization Process



## MBS Securitization Process

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### Introduction

This chapter provides information on the MBS securitization process, including loan parameters, transaction types, guaranty fees, buyups and buydowns, servicing fees, pricing, and funding.

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### In This Chapter

This chapter contains the following sections:

|  |      |
|--|------|
| C3-2-01, Determining Eligibility for Loans Pooled into MBS (12/06/2016) .....    | 1138 |
| C3-2-02, Selecting a Servicing Option (04/01/2009) .....                         | 1143 |
| C3-2-03, MBS Remittance Type and Selecting a Remittance Cycle (10/25/2011) ..... | 1144 |
| C3-2-04, Mandatory MBS Commitments (12/06/2016) .....                            | 1145 |

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## C3-2-01, Determining Eligibility for Loans Pooled into MBS (12/06/2016)

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### Introduction

This topic contains information on eligibility requirements for loans pooled into MBS, including:

- [General Eligibility Requirements for Loans Pooled into MBS](#)
- [Nonstandard Loans](#)
- [Identifying Nonstandard Loans at Delivery](#)
- [Amortization Schedule Requirements for MBS Loans](#)
- [Age of Loan Requirements for Loans Pooled into MBS](#)
- [Interest Rate Requirements for Loans Pooled into MBS](#)
- [Servicer Requirements for Loans Pooled into MBS](#)

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## General Eligibility Requirements for Loans Pooled into MBS

All mortgages pooled into MBS must be secured by a first or subordinate lien and must represent the entire right, title, and interest in the mortgage note and the related security instrument, unless the MBS commitment expressly indicates otherwise.

As of the issue date of the MBS, the mortgages in the related MBS pool may not be delinquent by more than the monthly installment of principal and interest that is due on the issue date (including the period beginning on the second day of the month preceding the issue date and ending on the issue date). For example, if the first payment due date is November 1, and if the issue date of the MBS is January 1, then, in order to be eligible for purchase by Fannie Mae, the November and December payments must have been paid, and the only payment that may be delinquent (due) would be for the period December 2 through January 1.

In addition,

- if the mortgage is one year or less from the first payment date to the pool issue date, the borrower cannot have any 30-day delinquencies since origination; and
- if the current borrower assumed the mortgage and has owned the property for one year or less, the borrower must have no 30-day delinquencies since purchasing the property.

See [B2-1.4-02, Mortgage Loan Eligibility](#), for the requirements concerning seasoned mortgages.

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## Nonstandard Loans

“Nonstandard loans” (or loans with nonstandard characteristics) may be pooled into MBS, but depending on the concentration in the pool, may only be pooled as negotiated rather than standard transactions.

Nonstandard loans are:

- co-op share loans,
- relocation loans (defined below),
- loans with significant interest rate buydowns, and
- high-balance loans.

In a TBA MBS pool, nonstandard loans are each limited to 10% of the issue date UPB of a TBA MBS pool. If loans with more than one of the nonstandard characteristics are included in the same TBA MBS pool, the sum of the issue date UPB of two or more of the loans with

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nonstandard characteristics may not exceed 15% of the total issue date UPB of the pool. The 15% cumulative limitation, however, does not apply to high-balance loans.

For pools with greater than 10% concentrations of high-balance mortgage loans, see the [Pool Prefix Glossary](#) for the applicable pool prefixes. High-balance loans may be delivered into existing MBS commitments and may use the same base guaranty fee as those used for the lender's standard conforming mortgage loans.

Lenders may deliver loans with the nonstandard characteristics described above into Fannie Majors TBA-eligible MBS pools. For Fannie Majors requirements, see [C3-6-01, Parameters for Pooling Loans Into Fannie Majors](#).

For the purposes of TBA pooling parameters, relocation loans are loans made under a relocation lending agreement between the lender and the employer (or its agent). A loan that involves an employee relocation that is not subject to a relocation lending agreement between the lender and the employer (or its agent) is not considered a relocation loan for TBA pooling purposes, and as such, the pooling limitations and SFC 013 delivery requirement are not applicable.

### **Examples**

The issue date UPB of loans with significant interest rate buydowns and the issue date UPB of co-op share loans individually may not exceed 10% of the total issue date UPB of the TBA MBS, and together may not exceed 15% of the total TBA MBS. However, while the issue date UPB of high-balance loans and the issue date UPB of co-op share loans individually may not exceed 10% of the total issue date UPB of the TBA MBS, together they may exceed 15% of the total TBA MBS because high-balance loans are not subject to the 15% limitation.

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### **Identifying Nonstandard Loans at Delivery**

As a reminder, nonstandard loans must be identified at delivery with the following:

- relocation loans – SFC 013
- loans with significant interest rate buydowns – SFC 014
- high-balance loans – SFC 808
- co-op share loans – the Legal Structure in Loan Delivery is “cooperative.”

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### **Amortization Schedule Requirements for MBS Loans**

Fannie Mae's standard pooling option allows lenders to include in an MBS pool only those mortgages for which the first payment due date is no later than the first day of the month that

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immediately follows the issue date of the related MBS. The pool issue date is the first day of the month in which securities backed by the MBS pool are issued. For seasoned loans, the first payment due date must be at least 12 months prior to the pool's issue date. Seasoned loans can be commingled in pools with unseasoned loans but must comply with the maturity parameters specified in [C3-4-02, Commingling Fixed-Rate Mortgages in MBS](#).

In addition, the mortgage's amortization schedule must not provide for any period during which principal has been disbursed and is outstanding, but interest is not accruing.

However, if the lender has selected the "same month pooling" option, the mortgage may begin to amortize on the first day of the month that is two months after the issue date of the securities, with the initial remittance to Fannie Mae being an "interest-only" remittance, because the borrower will not have made his or her first payment at the time of the initial remittance.

A negotiated contract is needed to pool loans for which the borrower's monthly payment is due on a day other than first of the month ("odd due dates").

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### **Age of Loan Requirements for Loans Pooled into MBS**

Lenders may pool current or seasoned loans into a single-lender MBS. Fannie Mae has no minimum seasoning requirement for conventional mortgages included in single pool transactions. However, conventional mortgages included in Fannie Majors transactions must not have been originated more than 12 months prior to the issue date of the related securities. In addition, for certain Fannie Majors securities identified on the [Fannie Majors](#) page, conventional mortgages may not have been originated more than two months prior to the issue date of the related securities.

If a pool of adjustable-rate mortgages will have amortized by more than 12 monthly payments as of the issue date of the pool, the terms of a negotiated contract will specify whether the loans will be treated as current or seasoned. The key determinants are the length of the interest rate adjustment intervals and whether interest rate or payment adjustments will have occurred by the pool's issue date.

For a converted ARM (which is a fixed-rate mortgage that was once an ARM until the borrower exercised an option to convert it to a fixed rate), the 12-month period is measured from the date of conversion to the issue date month of the related pool.

To sell seasoned mortgages under an MBS execution, lenders must have an MBS commitment that permits delivery of seasoned mortgages. For information on pricing and parameters, contact the Capital Markets Sales Desk (see [E-1-03, List of Contacts](#)).

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### **Interest Rate Requirements for Loans Pooled into MBS**

Mortgages with different annual rates of interest can be included in the same MBS pool, as long as those rates fall within the minimum and maximum spreads Fannie Mae allows between the mortgage interest rates and the pass-through rate for the MBS pool.

For most fixed-rate mortgages that are pooled, the minimum allowable interest rate is 25 basis points (.25%) above the pool's pass-through rate and the maximum allowable interest rate is 250 basis points (2.50%) above the pool's pass-through rate. For fixed-rate pools allowing minimum servicing fee less than 25 basis points, the minimum allowable interest rate is 225 basis points (2.25%) above the pool's pass-through rate.

Generally, for ARMs that are pooled, the minimum allowable interest rate is the sum of the lowest guaranty fee (after all applicable adjustments have been made, including buyups and buydowns) and the lender's minimum servicing fee, which must include renewal premiums for lender-purchased mortgage insurance, if applicable. The maximum allowable interest rate is 100 basis points (1%) over the minimum allowable interest rate. Lenders must comply with the allowable minimum and maximum interest rates for each MBS ARM structure. For example, the minimum and maximum interest rates are different for uniform hybrid ARM MBS versus other ARM structures.

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### **Servicer Requirements for Loans Pooled into MBS**

All mortgages in a single MBS pool must be serviced by the same entity. If a lender plans to deliver several pools for inclusion in a multiple pool (Fannie Majors), a single pool may only be serviced by a single entity when multiple pools make up the Major. Further, that entity (regardless of whether it is the lender delivering the pools or a third party) must be servicing mortgages in the multiple pool that have the same remittance cycle as the mortgages that are being delivered (or for which servicing is being assigned).



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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 06, 2016  |
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016   |
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016  |
| <a href="#">Announcement SEL-2014-11</a> | August 26, 2014    |
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011   |
| <a href="#">Announcement SEL-2011-06</a> | July 26, 2011      |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010   |
| <a href="#">Announcement 09-29</a>       | September 22, 2009 |
| <a href="#">Announcement 09-08R</a>      | June 8, 2009       |
| <a href="#">Announcement 08-36</a>       | December 18, 2008  |



## **C3-2-02, Selecting a Servicing Option (04/01/2009)**

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### Introduction

This topic provides information about the two options lenders must choose from when deciding how they wish to service loans pooled into MBS. These options include:

- [Impact of Servicing Option Selection on Guaranty Fees](#)
- [Regular Servicing Option](#)
- [Special Servicing Option](#)

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### Impact of Servicing Option Selection on Guaranty Fees

Guaranty fees are affected by the servicing option chosen by the lender. Generally, the guaranty fee for pooled loans serviced under the Regular Servicing option is typically lower than for pooled loans serviced under the Special Servicing option.

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## Regular Servicing Option

Under the Regular Servicing option (identified by foreclosure risk code L), the lender assumes the entire risk of loss from a borrower default while servicing the mortgage and, as a result, is charged a lower guaranty fee. The lender also agrees to provide for a successor to this agreement if it transfers its responsibilities for servicing the mortgage to another servicer.

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## Special Servicing Option

Under the Special Servicing option (identified by foreclosure risk code F), Fannie Mae assumes the risk of loss from a borrower default. Fannie Mae reimburses the lender for its share of the lender's unrecovered advances for delinquencies and advances related to servicing the mortgages.

See the *Servicing Guide* for more information about both options.



## C3-2-03, MBS Remittance Type and Selecting a Remittance Cycle (10/25/2011)

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### Introduction

In this topic, the lender's options with respect to remitting principal and interest on MBS pool loans are addressed, including:

- [MBS Pool Remittance Type](#)
- [Standard Remittance Cycle](#)

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### MBS Pool Remittance Type

All MBS mortgages are accounted for as the scheduled/scheduled remittance type. This means that a servicer may have to advance its own funds to cover the amount Fannie Mae is due on a mortgage for which the monthly payment of principal and interest is late.

---

### Standard Remittance Cycle

Under the standard remittance cycle, lenders remit scheduled P&I payments on the 18th of the month in which they are due from the borrowers (or, if the 18th is not a business day, on the

business day preceding the 18th). Unscheduled principal payments must be remitted by the 18th of the month following collection.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011 |



## C3-2-04, Mandatory MBS Commitments (12/06/2016)

---

### Introduction

This topic contains information on obtaining and fulfilling mandatory commitments to sell loans under an MBS execution, including:

- [Overview](#)
- [Mandatory MBS Committing Process](#)
- [Access to Guaranty Fee Pricing](#)
- [Negotiated Commitments](#)
- [MBS Commitment Rolls and Pair-Offs](#)

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### Overview

A lender must obtain an MBS commitment before it can deliver mortgages into a single lender MBS pool or a Fannie Majors. The commitment evidences an agreement between Fannie Mae and a lender to buy and sell, respectively, mortgages for inclusion in a particular MBS pool. These contracts set forth the terms and conditions for delivery of specified mortgages for MBS. When a lender enters into a mandatory MBS commitment to sell loans to Fannie Mae, the lender agrees to sell a certain volume of loans having a specified set of loan parameters to Fannie Mae, and Fannie Mae provides the lender with guaranty fee pricing for such mortgage loans for delivery under MBS execution.

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### Mandatory MBS Committing Process

To deliver MBS loans to Fannie Mae a lender must obtain a mandatory MBS commitment using Fannie Mae's MBS committing application, a free Web-based application available to

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subscribers approved for MBS execution. The lender's agreement to use Pricing & Execution (PE)-MBS in accordance with the applicable requirements is part of the Lender Contract. For more information and terms of use applicable to the PE-MBS application, see Fannie Mae's [website](#).

Lenders can obtain commitments on any weekday, with the exception of bond market observed holidays as defined by the Securities Industry and Financial Markets Association (SIFMA). Lenders can also obtain commitments for delivery in a future MBS issue month for all mortgage products for which pricing is offered through the MBS committing application.

Fannie Mae confirmed its acceptance of the lender's request for a mandatory commitment by electronically transmitting a commitment confirmation to the lender. Lenders should contact the Capital Markets Sales Desk if they experience any problems receiving a commitment confirmation (see [E-1-03, List of Contacts](#)).

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### **Access to Guaranty Fee Pricing**

Lenders obtain current guaranty fee pricing specific to their institution by accessing Fannie Mae's MBS committing application. If the lender wants to request pricing for a mortgage product in an issue month that is not available in the MBS committing application, then the lender must contact its Fannie Mae regional office or the Capital Markets Sales Desk.

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### **Negotiated Commitments**

Lenders that want to sell loans to Fannie Mae that contain unique eligibility and underwriting considerations not permissible for delivery via a standard commitment may request a negotiated commitment. Lenders should contact their Fannie Mae regional office for details (see [E-1-03, List of Contacts](#)).

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### **MBS Commitment Rolls and Pair-Offs**

MBS commitments are for mandatory delivery by the lender. If the lender is unable to meet the terms of the commitment, the lender must take the action in the MBS committing application to pair-off or roll the outstanding balance of the commitment before the last business day of the issue month applicable to that commitment. Fannie Mae may charge lenders for lender-executed or lender-requested rolls or pair-offs for mandatory commitments. These fees, if charged, are drafted from the lender's designated account.

Fannie Mae may pair-off the outstanding balance of a commitment on a lender's behalf if the lender fails to pair-off or roll the outstanding balance into the following issue month by last business day of the issue month of the related commitment.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b>  |
|---|--------------------|
| <a href="#"><u>Announcement SEL-2016-09</u></a> | December 06, 2016  |
| <a href="#"><u>Announcement SEL-2014-11</u></a> | August 26, 2014    |
| <a href="#"><u>Announcement SEL-2014-10</u></a> | July 29, 2014      |
| <a href="#"><u>Announcement SEL-2012-13</u></a> | November 13, 2012  |
| <a href="#"><u>Announcement SEL-2012-06</u></a> | June 26, 2012      |
| <a href="#"><u>Announcement SEL-2011-11</u></a> | October 25, 2011   |
| <a href="#"><u>Announcement 09-29</u></a>       | September 22, 2009 |

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# Chapter C3-3, MBS Guaranty Fees and Guaranty Fee Buyups and Buydowns



## MBS Guaranty Fees and Guaranty Fee Buyups and Buydowns

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### Introduction

Lenders must pay Fannie Mae a guaranty fee remittance each month as compensation for the lender's right to participate in the MBS program. This chapter provides information on guaranty fees and the requirements associated with buying the fee up or down.

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### In This Chapter

This chapter contains the following topics:

|   |      |
|---|------|
| C3-3-01, Determining and Remitting Guaranty Fees (10/25/2011) .....                                   | 1148 |
| C3-3-02, Accessing Buyup and Buydown Ratios and Calculating Payments or Charges<br>(12/15/2015) ..... | 1150 |
| C3-3-03, Buying Up and Buying Down the Guaranty Fee for MBS (07/29/2014) .....                        | 1153 |

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## C3-3-01, Determining and Remitting Guaranty Fees (10/25/2011)

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### Introduction

This topic provides information on the factors used to determine the amount of a lender's guaranty fee, including:

- [Guaranty Fee Overview](#)
- [Determining the Annualized Weighted-Average Guaranty Fee Factor for a Pool](#)
- [Determining the Monthly Guaranty Fee Remittance for the Pool](#)
- [Remitting Guaranty Fees to Fannie Mae](#)

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## **Guaranty Fee Overview**

The guaranty fee for individual loans included in an MBS pool depends upon the credit risk associated with the loan and the lender's choice of servicing option and remittance cycle. The guaranty fee remittance for MBS pools is based upon a weighted-average guaranty factor. See below for a description of how to calculate the annualized weighted-guaranty factor and the pool guaranty fee.

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### **Determining the Annualized Weighted-Average Guaranty Fee Factor for a Pool**

The annualized weighted-average guaranty fee factor for a pool (expressed in basis points) is determined by multiplying the issue date principal balance of each mortgage loan in the pool (or, in subsequent months, the "scheduled" balance of each mortgage loan) by the applicable guaranty fee rate for the mortgage loan expressed in basis points (adjusted for any remittance cycle adjustments, buyup, or buydown, if applicable), then:

- summing the products of all the mortgage loans in the pool,
- dividing that sum by the aggregate issue date principal balance for the pool (or, in subsequent months, by the "scheduled" security balance for the pool), and
- rounding the result to the nearest hundredth of a basis point.

The result is the annualized weighted-average guaranty fee factor for a pool.

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### **Determining the Monthly Guaranty Fee Remittance for the Pool**

The annualized weighted-average guaranty fee factor is then

- multiplied by the aggregate issue date principal balance of the pool (or, in subsequent months, the "scheduled" security balance for the pool),
- divided by 120,000, and
- rounded to two decimal places.

The result is monthly guaranty fee remittance for the pool.

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### **Remitting Guaranty Fees to Fannie Mae**

On the 7th day of each month (or, if the 7th is a holiday or weekend, on the preceding business day), Fannie Mae will draft guaranty fee remittances from the custodial bank account the lender designates as its draft account.

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If the guaranty fee remittance is to be drafted from the lender's P&I custodial account for MBS pools, then the lender must make sure that it does not withdraw the guaranty fee remittance when it takes its monthly servicing fee from the account.

For more information about designating bank accounts for drafting purposes and confirming guaranty fee remittances, see the *Servicing Guide*.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011 |



## C3-3-02, Accessing Buyup and Buydown Ratios and Calculating Payments or Charges (12/15/2015)

---

### Introduction

This topic provides information lenders need in order to buy up or buy down their guaranty fee, including:

- [General Information on Buyups](#)
- [General Information on Buydowns](#)
- [Accessing Buyup and Buydown Ratios](#)
- [Calculating Buyup Payments and Buydown Charges](#)
- [Buyup Payment Recapture](#)

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### General Information on Buyups

Loan level guaranty fee buyups and buydowns allow lenders to pool a wider range of note rates under one MBS coupon. Lenders can buy up guaranty fees, meaning they agree to remit a guaranty fee higher than the contractual fee applicable for the particular servicing option and remittance cycle in return for a one-time payment from Fannie Mae.

Fannie Mae disburses payment for buyups to lenders once a month in a single cash transfer covering all of the lender's mortgages with buyups that were in pools for which securities were issued in the previous month.



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## General Information on Buydowns

Lenders can buy down or agree to remit a lower guaranty fee than the applicable contract fee in exchange for a one-time, upfront payment to Fannie Mae.

When Fannie Mae drafts the lender's monthly guaranty fee remittances, it also will draft charges for buydowns on pooled loans for which securities were issued in the previous month. Generally, lenders must place buydown funds into a T&I escrow account. If buydown funds (or subsidy payments or other advance payments made by the borrower) are directed for immediate application under the mortgage documents, the lender may deposit these amounts directly into the P&I custodial account.

If a lender holds MBS certificates and the buydown account and its attorneys believe there are tax complications, the lender may deposit the funds in a special account with another institution that meets Fannie Mae's requirements for custodial depositories. For more information, see Fannie Mae's *Servicing Guide*.

If a lender buys down a guaranty fee but does not service the associated mortgage, Fannie Mae establishes a receivable in the lender's name. The lender must deposit the funds into a designated account in time for Fannie Mae to draft the funds on the seventh calendar day of the month (or the preceding business day if the seventh is a holiday or weekend) following the issue date of the related MBS pool.

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## Accessing Buyup and Buydown Ratios

Fannie Mae posts guaranty fee buyup/buydown ratios for nearly all mortgage products in a matrix format that enables a lender to find the applicable buyup or buydown ratio for any individual mortgage that it plans to include in an MBS pool by using the gross note rate and remaining term (in months) of the mortgage.

Information concerning guaranty fee buyup or buydown ratios can come from several different sources. For example,

- registered users of Message Manager can obtain them on the day after they are posted by accessing Message Manager, and
- lenders may request a copy of the posted ratios from their lead Fannie Mae regional office (see [E-1-03, List of Contacts](#)).

Refer to [Fannie Mae's website](#) for information about the buyup and buydown grids.

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## Calculating Buyup Payments and Buydown Charges

The total buyup disbursement or buydown charge is calculated as follows:

- multiply the number of basis points by which each mortgage in a given pool was bought up/down (the difference between the “guaranty fee rate before the buyup or buydown” and the “guaranty fee rate after the buyup/buydown”) by the “buyup/buydown per basis point” (rounding to three decimal places),
- multiply the rounded product by 0.0001 to convert the basis points to a decimal equivalent, and
- multiply the decimal equivalent by the delivered unpaid principal balance with a guaranty fee rate buyup/buydown.

Do this for all pools that include mortgages with guaranty fee rate buyups/buydowns and settled in the month. The total of the buyups or buydowns for all of the pools will be the amount Fannie Mae collects, disburses, or nets.

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## Buyup Payment Recapture

With respect to any mortgage loan that pays off within 120 days from the MBS issue date that involved a guaranty fee buyup, Fannie Mae reserves the right to request reimbursement of any or all buyup proceeds paid by Fannie Mae.

For mortgage loans repurchased by a lender, Fannie Mae in its sole discretion may require reimbursement by the lender of any buyup proceeds paid by Fannie Mae in connection with the purchase of the related repurchased mortgage loan without regard to the 120-day limitation.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2015-13</a> | December 15, 2015 |
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014     |
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012 |
| <a href="#">Announcement SEL-2012-02</a> | February 28, 2012 |



## **C3-3-03, Buying Up and Buying Down the Guaranty Fee for MBS (07/29/2014)**

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### **Introduction**

This topic contains information on buying up and buying down the guaranty fee for MBS, including:

- [Guaranty Fee Buyup Maximums and Buydown Minimums for Fixed-Rate Mortgages](#)
  - [Eligibility Requirements for ARM Guaranty Fee Buyups and Buydowns](#)
  - [Guaranty Fee Buyup Maximums and Buydown Minimums for ARMs](#)
- 

### **Guaranty Fee Buyup Maximums and Buydown Minimums for Fixed-Rate Mortgages**

The guaranty fee cannot be bought up more than 0.25% (25 basis points) nor bought down to a number less than zero.

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### **Eligibility Requirements for ARM Guaranty Fee Buyups and Buydowns**

A lender may buy up or buy down the guaranty fee remittance for MBS pools consisting of adjustable-rate mortgages (ARMs) originated under any standard ARM plan, as long as the mortgages meet the following eligibility criteria:

- The guaranty fee rate may be bought up or bought down in increments of 0.0001% (one one-hundredth of a basis point).
  - Any buyup or buydown of the guaranty fee remittance rate for adjustable-rate MBS pools must be calculated on the reduced guaranty fee remittance rate that applies to this type of remittance cycle.
- 

### **Guaranty Fee Buyup Maximums and Buydown Minimums for ARMs**

The weighted-average coupon of the pooled mortgages must not exceed the following limits:

- 1.000% (100 basis points) higher than the accrual rate (the pass-through rate) for the pool as of the issue date for mortgages originated under most ARM plans; or
  - 0.875% (87.5 basis points for mortgages originated under ARM plans that have initial fixed-rate periods of 3, 5, 7, or 10 years).
-

Additionally, for all ARM plans, the guaranty fee buyup is limited to 0.25% (25 basis points). The guaranty fee cannot be bought down to a number less than zero.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b> |
|---|-------------------|
| <a href="#"><u>Announcement SEL-2014-10</u></a> | July 29, 2014     |
| <a href="#"><u>Announcement SEL-2012-10</u></a> | October 2, 2012   |
| <a href="#"><u>Announcement SEL-2012-02</u></a> | February 28, 2012 |
| <a href="#"><u>Announcement SEL-2011-11</u></a> | October 25, 2011  |

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# Chapter C3-4, Pooling Loans into Fixed-Rate MBS



## Pooling Loans into Fixed-Rate MBS

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### Introduction

Lenders can pool mortgages into one of two types of MBS: fixed-rate MBS and ARM MBS. This chapter provides information on pooling loans into fixed-rate MBS.

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### In This Chapter

This chapter contains the following topics:

|   |      |
|---|------|
| <a href="#">C3-4-01, Term-Related Fixed-Rate Mortgage Pooling Parameters (12/06/2016)</a> | 1155 |
| <a href="#">C3-4-02, Commingling Fixed-Rate Mortgages in MBS (02/23/2016)</a>             | 1157 |

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## C3-4-01, Term-Related Fixed-Rate Mortgage Pooling Parameters (12/06/2016)

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### Introduction

Fannie Mae issues and specially designates securities backed by either government-insured or government-guaranteed loans or conventional loans. This topic contains information on pooling fixed-rate mortgages (FRM) of various terms, including:

- [30-year \(Long-Term\) FRM MBS](#)
  - [20-year FRM MBS](#)
  - [15-year \(Intermediate-Term\) FRM MBS](#)
  - [10-year FRM MBS](#)
- 

### 30-year (Long-Term) FRM MBS

Each loan in a long-term fixed-rate MBS pool must provide for constant monthly installments payable on a specified day of the month of an amount sufficient to pay interest and amortize the principal amount of the loan within the remaining term.

The loans must:

- have original terms of no less than 181 months and no more than 360 months for both single-issuer pools and Fannie Majors, and
- provide for the reduction of the principal amount of the loan to zero no more than 30 years after the issue date of the related securities.

Loans that provide for interest to be paid in advance may be included in an MBS pool without converting the interest payment to interest in arrears on a loan-by-loan basis.

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### **20-year FRM MBS**

Fannie Mae issues and specially designates securities that are backed by conventional loans that have loan terms that do not extend for more than 20 years after the origination of the loan. Such securities will have a maturity date no greater than 20 years from their issue date, which represents the date by which all loans backing the pool will have been liquidated from the pool and the securities will have been retired.

The loans must:

- have original terms of no less than 181 months and no more than 240 months for both single-issuer pools and Fannie Majors, and
  - provide for the reduction of the principal amount of the loan to zero no more than 20 years after the issue date of the related securities.
- 

### **15-year (Intermediate-Term) FRM MBS**

Fannie Mae issues and specially designates securities that are backed by conventional loans that have loan terms that do not extend for more than 15 years after the origination of the loan.

Such securities will have a maturity date no greater than 15 years from their issue date, which represents the date by which all loans backing the pool will have been liquidated from the pool and the securities will have been retired.

The loans must:

- have original terms of no less than 85 months and no more than 180 months for both single-issuer pools and Fannie Majors, and
  - provide for the reduction of the principal amount of the loan to zero no more than 15 years after the issue date of the related securities.
-

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## 10-year FRM MBS

Fannie Mae issues and specially designates securities that are backed by conventional loans that have loan terms that do not extend for more than 10 years after the origination of the loan. Such securities will have a maturity date no greater than 10 years from their issue date, which represents the date by which all loans backing the pool will have been liquidated from the pool and the securities will have been retired.

The loans must:

- have original terms of no less than 85 months and no more than 120 months for both single-issuer pools and Fannie Majors, and
- provide for the reduction of the principal amount of the loan to zero no more than 10 years after the issue date of the related securities.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date         |
|--|--------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 06, 2016  |
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016   |
| <a href="#">Announcement SEL-2014-11</a> | August 26, 2014    |
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011   |
| <a href="#">Announcement 09-29</a>       | September 22, 2009 |



## C3-4-02, Commingling Fixed-Rate Mortgages in MBS (02/23/2016)

### Introduction

This topic contains Fannie Mae's policies regarding commingling fixed-rate mortgages in MBS, including:

- [Fixed-Rate Loan Types that May Be Commingled in the Same Pool](#)
- [Fixed-Rate Loan Types that May Not Be Commingled in the Same Pool](#)

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### Fixed-Rate Loan Types that May Be Commingled in the Same Pool

Fixed interest rate co-op share loans, relocation loans, loans with significant interest rate buydowns, and high-balance loans may be pooled separately under specially designated pool prefixes or may be commingled with other similar mortgages as long as they do not constitute more than 10% of the issue date UPB of the pool under a TBA-eligible prefix. If the pool has at least two or more of these features, the issue date UPB of the combination cannot exceed 15% of the UPB of the TBA pool. If the percentage exceeds 15%, non-TBA prefixes will apply. The 15% cumulative limitation does not apply to high-balance loans. For example, a TBA pool may contain 10% high-balance loans and 10% co-op share loans.

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### Fixed-Rate Loan Types that May Not Be Commingled in the Same Pool

The following loan types may not be commingled in the same pool:

- Government-guaranteed and government-insured loans may not be commingled with conventional loans.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b>  |
|--|--------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016  |
| <a href="#">Announcement SEL-2014-11</a> | August 26, 2014    |
| <a href="#">Announcement SEL-2010-02</a> | March 2, 2010      |
| <a href="#">Announcement 09-29</a>       | September 22, 2009 |
| <a href="#">Announcement 09-08R</a>      | June 8, 2009       |
| <a href="#">Announcement 08-36</a>       | December 18, 2008  |



## Chapter C3-5, Pooling Loans into ARM MBS



### Pooling Loans into ARM MBS

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#### Introduction

There are two primary types of ARM MBS pools, those with weighted-average coupons, also called ARM Flex pools, and stated-structure ARM MBS pools. Accrual rates for weighted-average ARM Flex pools may be based on a weighted-average or a fixed MBS margin. This chapter provides information on pooling loans into ARM MBS, including:

- Creating Stated-Structure ARM MBS
- Creating Weighted-Average ARM MBS
- Calculating Weighted-Average Pool Accrual Rates for ARM Flex Pools Using a Fixed MBS Margin
- Calculating Weighted-Average Pool Accrual Rates for ARM Flex Pools Using a Weighted-Average MBS Margin
- Pooling ARMs with a Conversion Option
- Uniform Hybrid ARM MBS
- Commingling ARMs in MBS

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## In This Chapter

This chapter contains the following topics:

|  |      |
|--|------|
| C3-5-01, Creating Stated-Structure ARM MBS (12/06/2016) .....  | 1160 |
| C3-5-02, Stated-Structure ARM MBS Pooling Process (04/01/2009) .....   | 1162 |
| C3-5-03, Creating Weighted-Average ARM MBS (08/26/2014) .....  | 1167 |
| C3-5-04, Calculating the Weighted-Average Pool Accrual Rates for ARM Flex Pools Using a Fixed MBS Margin (04/01/2009) .....            | 1168 |
| C3-5-05, Calculating the Weighted-Average Pool Accrual Rates for ARM Flex Pools Using a Weighted-Average MBS Margin (04/01/2009) ..... | 1171 |
| C3-5-06, Pooling ARMs with a Conversion Option (12/06/2016) .....  | 1174 |
| C3-5-07, Uniform Hybrid ARM MBS (04/01/2009) .....   | 1176 |
| C3-5-08, Commingling ARMs in MBS (02/23/2016) .....  | 1178 |



## C3-5-01, Creating Stated-Structure ARM MBS (12/06/2016)

### Introduction

This topic provides information on creating stated-structure ARM MBS, including:

- [General Information on Stated-Structure ARM MBS](#)
- [Interest Rate Change Date and Payment Change Date](#)
- [Pool Accrual Rates Established On the Issue Date](#)
- [Stated-Structure Convertible ARM MBS](#)

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### General Information on Stated-Structure ARM MBS

Stated-structure ARM MBS provide uniform accruals of interest to the holders of these securities. Lenders may deliver stated-structure ARM MBS only as single pool transactions (however, some ARM plans allow ARMs to be included in a multiple pool). The original term of an ARM included in a stated-structure ARM MBS must be no more than 30 years.

The standard ARM plans that appear on the [Standard ARM Plan Matrix](#) can be delivered as a stated-structure ARM MBS; however, different ARM plans cannot be commingled in the same pool.

For information on using stated-structure pooling for ARMs or to discuss the types of negotiated ARM plans that can be included in stated-structure ARM MBS, lenders should contact their lead Fannie Mae regional office. (See [E-1-03, List of Contacts](#).)

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### Interest Rate Change Date and Payment Change Date

The loan must accrue interest in arrears and have a payment due date of the first day of the month.

The next interest rate change date and payment change date that occur after the issue date of the pool must be the same for all loans in a stated-structure ARM MBS pool.

To enable the grouping of loans originated on different dates so that the first interest rate changes will begin accruing (and the resulting payment changes will become due) at the same time, lenders can establish a first interest rate adjustment interval for each ARM in the pool that differs from the standard adjustment interval.

Each interest rate adjustment interval after the first must reflect the interval that is standard for the particular ARM plan.

For more information on standard ARM plans, see the Standard ARM Plan Matrix.

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### Pool Accrual Rates Established On the Issue Date

The pool accrual rate that is established on the issue date must be based on the loan interest rates that are in effect (and accrue) during the issue date month.

| If ...  | Then ...  |
|---|---|
| The ARMs in the pool have interest rate changes that occur on the issue date, | Lenders must report on their delivery schedules the loan interest rate and payment amounts that are due on the first day of the month following the issue date. |

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### Stated-Structure Convertible ARM MBS

The table below explains what a lender must do when a borrower converts an ARM that is in a stated-structure convertible ARM MBS pool to a fixed-rate mortgage.

| If ...  | Then ...  |
|---|---|
| The borrower elects to exercise his or her conversion option under an ARM plan that allows for conversion to a fixed-rate loan, | Lender must repurchase the loan from the ARM MBS pool.                              |
| Lenders delivered a convertible ARM,  | Lender must have selected one of the following post-conversion disposition options: |

| If ... | Then ...  |
|--------|---|
|        | <ul style="list-style-type: none"> <li>• a “market rate” option allows lenders to determine whether they want to redeliver the converted loan to Fannie Mae; or</li> <li>• a “take-out” option requires that the loan be redelivered to Fannie Mae. (The take-out option is not available for ARM Plans 650, 652, 661, 721, 751, 1437, 2722, 2724, 2726, and 2728 or for any convertible ARM that has lender-purchased mortgage insurance).</li> </ul> <p>Only loans that have the same post-conversion disposition option can be included in any given ARM MBS pool.</p> |

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcement                             | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 06, 2016 |
| <a href="#">Announcement SEL-2014-11</a> | August 26, 2014   |
| <a href="#">Announcement SEL-2011-09</a> | August 30, 2011   |



## **C3-5-02, Stated-Structure ARM MBS Pooling Process (04/01/2009)**

### Introduction

This topic provides information on stated-structure ARM MBS pooling process.

### Pooling Process for Stated-Structure ARM MBS

The examples assume that the lender plans to pool ARMs with a minimum servicing fee rate of 0.250% into a pool with a standard remittance cycle and that all of the mortgages in the pool are

serviced under the special servicing option and have a guaranty fee of 35 basis points. All of the mortgages have borrower-purchased mortgage insurance.

| Category                        | Loan A   | Loan B   | Loan C   |
|---------------------------------|----------|----------|----------|
| Mortgage Interest Rate          | 7.950%   | 7.750%   | 7.875%   |
| Mortgage Margin                 | 2.750%   | 2.850%   | 3.000%   |
| Mortgage Ceiling                | 13.750%  | 13.650%  | 13.500%  |
| First Payment Date              | 03/01/02 | 06/01/02 | 09/01/02 |
| First Interest Rate Change Date | 08/01/02 | 08/01/02 | 08/01/02 |

These mortgages will be delivered as a single pool transaction so each step in these procedures should be followed. If the lender wanted to include these mortgages in a Fannie Majors multiple pool transaction, Steps One through Three would not be necessary because Fannie Mae posts the pool parameters for multiple pools. However, the lender would need to determine the range of acceptable ARM rates based on the guaranty fee and the minimum servicing fee (see Step Four).

### Step One: Determine the Pool Accrual Rate

The pool accrual rate is based on the mortgage interest rates that are in effect on the issue date; therefore, each mortgage interest rate must at least support the sum of the pool accrual rate, the guaranty fee, and the minimum servicing fee.

- In view of the above, the lowest mortgage interest rate would be the basis for determining the pool accrual rate. This would be Loan B at 7.750%. Subtract the guaranty fee and the minimum servicing fee from the lowest mortgage interest rate to derive a net ARM rate ( $7.750\% - 0.350\% - 0.250\% = 7.150\%$ ).
- The pool accrual rate must be evenly divisible by 0.125. If the net ARM rate is not evenly divisible by 0.125, it must be rounded down to at least the nearest .125%. (It could be rounded down further to increase the lender's servicing fee above the 0.250% Fannie Mae specified in the example for this pool.) The net ARM rate for Loan B (7.150%) is not evenly divisible by 0.125, but rounding it down to 7.125% makes it evenly divisible.
- Thus, the pool accrual rate for this pool will be 7.125%.

### Step Two: Determine the MBS Margin

After the first interest rate change date, the pool accrual rate is a function of the MBS margin and the index (rounded to the nearest .125% and subject to any periodic or lifetime caps). Therefore, each mortgage margin must support the sum of the MBS margin, the guaranty fee, and the minimum servicing fee.

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In view of the above, the lowest mortgage margin would be the basis for determining the MBS margin. This would be Loan A at 2.750%. Subtract the guaranty fee and the minimum servicing fee from the lowest mortgage margin to derive a net mortgage margin ( $2.750\% - 0.350\% - 0.250\% = 2.150\%$ ).

- The MBS margin must be evenly divisible by 0.125. If the net mortgage margin is not evenly divisible by 0.125, it must be rounded down to at least the nearest .125%. (Rounding down further would increase the lender's servicing fee.) The net mortgage margin for Loan A (2.150%) is not evenly divisible by 0.125, but rounding it down to 2.125% makes it evenly divisible.
- Thus, the MBS margin for this pool would be 2.125%.

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### **Step Three: Determine the Maximum Pool Accrual Rate**

The maximum pool accrual rate is based on the mortgage interest rate ceilings of the mortgages in the pool. Therefore, each mortgage interest rate ceiling must at least support the maximum pool accrual rate, the guaranty fee, and the minimum servicing fee.

- In view of the above, the lowest mortgage interest rate ceiling would be the basis for determining the maximum pool accrual rate. This would be Loan C at 13.500%. Subtract the guaranty fee and the minimum servicing fee from the lowest mortgage interest rate ceiling to derive a net mortgage ceiling ( $13.500\% - 0.350\% - 0.250\% = 12.900\%$ ).
- The maximum pool accrual rate must be evenly divisible by 0.125. If the net ARM ceiling is not evenly divisible by 0.125, it must be rounded down to at least the nearest .125%. (Rounding down further would increase the lender's servicing fee.) The net mortgage ceiling for Loan C (12.900%) is not evenly divisible by 0.125, but rounding it down to 12.875% makes it evenly divisible.
- Thus, the maximum pool accrual rate for this pool would be 12.875%.

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### **Step Four: Determine the Minimum and Maximum Spreads for the Pool Parameters (as developed in Steps One through Three) and Determine the Range of Eligible Mortgage Interest Rates**

The minimum spread is determined by adding the guaranty fee and the minimum servicing fee to the pool parameter that was previously determined.

- In Step One, the Pool Accrual Rate was established at 7.125%, so the minimum current mortgage interest rate that could be included in the pool would be 7.725% ( $7.125\% + 0.350\% + 0.250\% = 7.725\%$ ).

- In Step Two, the MBS Margin was established at 2.125%, so the minimum mortgage margin that could be included in the pool would be 2.725% ( $2.125\% + 0.350\% + 0.250\% = 2.725\%$ ).
- In Step Three, the Maximum Pool Accrual Rate was established at 12.875%, so the minimum mortgage interest rate ceiling that could be included in the pool would be 13.475% ( $12.875\% + 0.350\% + 0.250\% = 13.475\%$ ).

The maximum spread is determined by adding 1% to the minimum spreads calculated above.

- Based on the Pool Accrual Rate determined in Step One, the maximum current mortgage interest rate that could be included in the pool would be 8.125% ( $7.125\% + 1.000\% = 8.125\%$ ).
- Based on the MBS Margin determined in Step Two, the maximum mortgage margin that could be included in the pool would be 3.125% ( $2.125 + 1.000\% = 3.125\%$ ). (The numbers in this example would only be allowed if it were a negotiated transaction since the maximum allowed for most standard plans is 3.00%.)
- Based on the Maximum Pool Accrual Rate determined in Step Three, the maximum mortgage interest rate ceiling that could be included in the pool would be 13.875% ( $12.875\% + 1.000\% = 13.875\%$ )

Compare the mortgage interest rate of each ARM to be pooled to the minimum and maximum allowable spreads. In this example, all three ARMs are eligible for the pool because each has a mortgage interest rate, mortgage margin, and mortgage interest rate ceiling that falls within the allowable spreads. If other ARMs were to be included in the pool, they would have to have a current mortgage interest rate in the range from 7.725% to 8.125%, a mortgage margin in the range from 2.725% to 3.125%, and a mortgage interest rate ceiling in the range from 13.475% to 13.875%.

If the lender wanted to receive a higher servicing fee for the mortgages in a given pool, it could do so. However, in such cases, the lender would have to decrease the 1% spread between the minimum and maximum rates by the amount of the servicing fee increase. For example, if the lender wanted a 0.375% servicing fee—an increase of .125%—it would have to reduce the spread between the minimum and maximum rates to 0.875% ( $1.000\% - 0.125\% = 0.875\%$ ). This adjustment is required to ensure that the maximum servicing fee does not exceed 1.375%.

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#### **Step Five: Determine Whether the Servicing Fee for Any Mortgage in the Pool Will Vary More than 0.25% over the Life of the Mortgage**

Each mortgage interest rate must support the pool accrual rate, the guaranty fee, and the minimum servicing fee. Mortgages with higher mortgage interest rates, mortgage margins,

and mortgage interest rate ceilings will have higher servicing fees. To equalize the various components, mortgages with different mortgage interest rates, mortgage margins, or mortgage interest rate ceilings will have different servicing fees.

In view of the above, compare the mortgage interest rate, mortgage margin, and mortgage interest rate ceiling for each mortgage to the specified related pool parameters (less the guaranty fee) to derive the total servicing fee variance. In this example, all three mortgages are eligible for inclusion in the pool because none of them has a variance between the highest and lowest servicing fees that is greater than 0.25% (as calculated by using each of the different parameters).

- For **Loan A**, the variance between the highest and lowest servicing fees—0.250% (0.525% – 0.275% = 0.250%)—is developed as follows:

| Category       | Interest Rate | Margin | Ceiling |
|----------------|---------------|--------|---------|
| Mortgage       | 7.950         | 2.750  | 13.750  |
| – Pool         | 7.125         | 2.125  | 12.875  |
| – Guaranty Fee | 0.350         | 0.350  | 0.350   |
| Servicing Fee  | 0.475         | 0.275  | 0.525   |

- For **Loan B**, the variance between the highest and lowest servicing fees—0.150% (0.425% – 0.275% = 0.150%)—is developed as follows:

| Category       | Interest Rate | Margin | Ceiling |
|----------------|---------------|--------|---------|
| Mortgage       | 7.750         | 2.850  | 13.650  |
| – Pool         | 7.125         | 2.125  | 12.875  |
| – Guaranty Fee | 0.350         | 0.350  | 0.350   |
| Servicing Fee  | 0.275         | 0.375  | 0.425   |

- For **Loan C**, the variance between the highest and lowest servicing fees—0.250% (0.525% – 0.275% = 0.250%)—is developed as follows:

| Category       | Interest Rate | Margin | Ceiling |
|----------------|---------------|--------|---------|
| Mortgage       | 7.875         | 3.000  | 13.500  |
| – Pool         | 7.125         | 2.125  | 12.875  |
| – Guaranty Fee | 0.350         | 0.350  | 0.350   |
| Servicing Fee  | 0.400         | 0.525  | 0.275   |





## **C3-5-03, Creating Weighted-Average ARM MBS (08/26/2014)**

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### **Introduction**

This topic contains information on creating weighted-average ARM MBS (ARM Flex), including

- [General Information on Weighted-Average ARM MBS \(ARM Flex\)](#)
  - [ARM Flex Pool Accrual Rate Calculation Options](#)
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### **General Information on Weighted-Average ARM MBS (ARM Flex)**

ARM Flex pools provide interest accruals at a weighted-average pool accrual rate to the holders of securities backed by the ARMs in the pool. These pools may be delivered only as single pool transactions and different standard ARM plans may not be commingled in the same pool.

The original term of an ARM included in a weighted-average ARM MBS pool must be no more than 30 years. Each mortgage must accrue interest in arrears and have a payment due date of the first day of the month. There is no restriction on the range of first payment due dates, interest rate change dates, and payment change dates.

To limit the effect that prepayments have on the weighted-average pool accrual rate of an ARM Flex, lenders should consider limiting to 1% (100 basis points) the range between the lowest and highest mortgage margins and the lowest and highest mortgage interest rate ceilings of all the mortgages in the pool.

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### **ARM Flex Pool Accrual Rate Calculation Options**

Under the ARM Flex pooling structure, lenders may create a weighted-average ARM MBS using either the

- fixed MBS margin or
- weighted-average MBS margin.

The difference between the two margin types is the method used to determine the interest rate that accrues on the pool and the retained servicing fee. The fixed MBS margin option is based on a pool-level MBS margin and a loan-level servicing fee. This means that when the pooled mortgages have different mortgage margins, the servicing fees for the mortgages vary in order to

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equalize the differences in the mortgage margins. While the guaranty fee remains the same, the servicing spread (the sum of the servicing fee and the guaranty fee and, if applicable the periodic renewal premium for lender-purchased mortgage insurance) differs from mortgage to mortgage.

The fixed MBS margin applies to each mortgage in the weighted-average ARM MBS; therefore, the lowest mortgage margin in the pool must be able to, at least, support the sum of the MBS margin, the guaranty fee, and the minimum allowable servicing fee. The periodic renewal premium for lender-purchased mortgage insurance must also be included, if applicable.

The weighted-average MBS margin option is based on a pool-level servicing fee and a loan-level MBS margin, which means that when the mortgages in the pool have different mortgage margins, the servicing spread will be equal for all the mortgages, but the MBS margin will vary from mortgage to mortgage.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Dates     |
|--|-----------------|
| <a href="#">Announcement SEL-2014-11</a> | August 26, 2014 |



## **C3-5-04, Calculating the Weighted-Average Pool Accrual Rates for ARM Flex Pools Using a Fixed MBS Margin (04/01/2009)**

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### Introduction

This topic contains information on calculating the weighted-average pool accrual rates for ARM Flex pools using a fixed MBS margin.

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### **How to Determine the Weighted-Average Pool Accrual Rate(s) for ARM Flex Pools Using a Fixed MBS Margin (based on Pool-Level MBS Margin and Loan-Level Servicing Fee)**

In the following example, assume that the lender wants to place the following three ARM Plan 57 ARMs into a weighted-average ARM Flex MBS pool with a standard remittance cycle. All

of the mortgages in the pool will be serviced under the special servicing option and will have a guaranty fee of 0.35%. All of the mortgages have borrower-purchased mortgage insurance.

| Category                  | Loan A   | Loan B   | Loan C   |
|---------------------------|----------|----------|----------|
| Mortgage Interest Rate    | 9.00%    | 9.50%    | 10.00%   |
| Mortgage Margin           | 2.25%    | 2.50%    | 2.50%    |
| Mortgage Ceiling          | 15.00%   | 15.50%   | 16.00%   |
| UPB                       | \$70,000 | \$50,000 | \$60,000 |
| Interest Rate Change Date | 1–Jun    | 1–Jul    | 1–Aug    |

To develop a fixed MBS margin, the lender must first derive a loan-level servicing fee by reducing the mortgage margin for each mortgage to be included in the pool by the desired fixed MBS margin and then by the applicable guaranty fee percentage and, if applicable, by the periodic renewal premium for lender-purchased mortgage insurance. The differences in the servicing fees for the mortgages in the pool will be exactly equal to the differences in their mortgage margins. The weighted-average pool accrual rate is then determined by first reducing each individual mortgage interest rate by the servicing spread for the mortgage (the sum of the guaranty fee and the calculated loan-level servicing fee and, if applicable, the periodic renewal premium for lender-purchased mortgage insurance) and then developing a weighted-average of the net mortgage interest rates. This same procedure also is used to establish the maximum weighted-average pool accrual rate (and any applicable minimum weighted-average pool accrual rate), using the weighted-average of the net mortgage interest rate ceilings (or floors) of the mortgages in the pool.

### Step One:

Determine the loan-level servicing fee, using a 1.50% pool-level MBS margin.

| Category        | Loan A | Loan B | Loan C |
|-----------------|--------|--------|--------|
| Mortgage Margin | 2.25%  | 2.50%  | 2.75%  |
| MBS Margin      | 1.50%  | 1.50%  | 1.50%  |
| Guaranty Fee    | 0.35%  | 0.35%  | 0.35%  |
| Servicing Fee   | 0.40%  | 0.65%  | 0.90%  |

### Step Two:

Determine the net mortgage interest rate.

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| Category                   | Loan A | Loan B | Loan C |
|----------------------------|--------|--------|--------|
| Mortgage Interest Rate     | 9.00%  | 9.50%  | 10.00% |
| Guaranty Fee               | 0.35%  | 0.35%  | 0.35%  |
| Servicing Fee              | 0.40%  | 0.65%  | 0.90%  |
| Net Mortgage Interest Rate | 8.25%  | 8.50%  | 8.75%  |

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**Step Three:**

Determine the weighted-average pool accrual rate.

| Loan ID | Net Mortgage Interest Rate | UPB       | Product   |
|---------|----------------------------|-----------|-----------|
| Loan A  | 8.25%                      | \$70,000  | 5,775.00  |
| Loan B  | 8.50%                      | \$50,000  | 4,250.00  |
| Loan C  | 8.75%                      | \$60,000  | 5,250.00  |
|         |                            | \$180,000 | 15,275.00 |

$15,275/180,000 = 8.486\%$ , rounded to three decimal places.

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**Step Four:**

Determine the net mortgage interest rate ceiling.

| Category                           | Loan A | Loan B | Loan C |
|------------------------------------|--------|--------|--------|
| Mortgage Interest Rate Ceiling     | 15.00% | 15.50% | 16.00% |
| Guaranty Fee                       | 0.35%  | 0.35%  | 0.35%  |
| Servicing Fee                      | 0.40%  | 0.65%  | 0.90%  |
| Net Mortgage Interest Rate Ceiling | 14.25% | 14.50% | 14.75% |

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**Step Five:**

Determine the maximum weighted-average pool accrual rate.

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| <b>Loan ID</b> | <b>Net Mortgage Interest Rate</b> | <b>UPB</b> | <b>Product</b> |
|----------------|-----------------------------------|------------|----------------|
| Loan A         | 14.25%                            | \$70,000   | 9,975.00       |
| Loan B         | 14.50%                            | \$50,000   | 7,250.00       |
| Loan C         | 14.75%                            | \$60,000   | 8,850.00       |
|                |                                   | \$180,000  | 26,075.00      |

$26,075.00/180,000 = 14.486\%$ , rounded to three decimal places.

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### **Step Six:**

Determine the minimum weighted-average pool accrual rate (if the mortgages have an interest rate floor). Since the mortgages in this example do not have an interest rate floor, this step is not necessary. It is shown for illustration purposes only.

First, find the net mortgage interest rate floor by following Step Four, substituting the mortgage interest rate floor for the ceiling.

Then, follow Step Five to find the minimum weighted-average pool accrual rate, using the net mortgage interest rate floor just calculated for each mortgage instead of the mortgage interest rate ceilings.



## **C3-5-05, Calculating the Weighted-Average Pool Accrual Rates for ARM Flex Pools Using a Weighted-Average MBS Margin (04/01/2009)**

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### **Introduction**

This topic contains information on calculating the weighted-average pool accrual rates for ARM flex pools using a weighted-average MBS margin.

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### **How to Determine the Weighted-Average Pool Accrual Rate(s) for ARM Flex Pools Using a Weighted-Average MBS Margin (based on Pool-Level Servicing Fee and Loan-Level MBS Margin)**

In the following example, assume that the lender wants to place the following three ARM Plan 57 ARMs into a weighted-average ARM Flex MBS pool with a standard remittance cycle. All

of the mortgages in the pool will be serviced under the special servicing option and will have a guaranty fee of 0.35%. All of the mortgages have borrower-purchased mortgage insurance.

| Category                  | Loan A   | Loan B   | Loan C   |
|---------------------------|----------|----------|----------|
| Mortgage Interest Rate    | 9.00%    | 9.50%    | 10.00%   |
| Mortgage Margin           | 2.25%    | 2.50%    | 2.50%    |
| Mortgage Ceiling          | 15.00%   | 15.50%   | 16.00%   |
| UPB                       | \$70,000 | \$50,000 | \$60,000 |
| Interest Rate Change Date | 1–Jun    | 1–Jul    | 1–Aug    |

To develop a weighted-average MBS margin, the lender must reduce the mortgage margin for each mortgage to be included in the pool by the applicable guaranty fee percentage and then by the desired fixed servicing fee (and, if applicable, by the periodic renewal premium for lender-purchased mortgage insurance) to arrive at a loan-level MBS margin. The difference between the MBS margins for the mortgages in the pool will be exactly equal to the differences in their mortgage margins. The weighted-average pool accrual rate is then determined by first reducing each individual mortgage interest rate by the servicing spread for the mortgage (the sum of the guaranty fee and the desired servicing fee and, if applicable, the periodic renewal premium for lender-purchased mortgage insurance) and then developing a weighted-average of the net mortgage interest rates. This same procedure also is used to establish the maximum weighted-average pool accrual rate (and any applicable minimum weighted-average pool accrual rate), using the weighted-average of the net mortgage interest rate ceilings (or floors) of the mortgages in the pool.

### Step One:

Determine the loan-level MBS margin, using a 0.250% standard servicing fee.

(This step is not necessary. It is included for informational purposes only.)

| Category        | Loan A | Loan B | Loan C |
|-----------------|--------|--------|--------|
| Mortgage Margin | 2.250% | 2.500% | 2.750% |
| –Guaranty Fee   | 0.350% | 0.350% | 0.350% |
| –Servicing Fee  | 0.250% | 0.250% | 0.250% |
| MBS Margin      | 1.650% | 1.900% | 2.150% |

### Step 2:

Determine the net mortgage interest rate.

| Category                   | Loan A | Loan B | Loan C  |
|----------------------------|--------|--------|---------|
| Mortgage Interest Rate     | 9.000% | 9.500% | 10.000% |
| Guaranty Fee               | 0.350% | 0.350% | 0.350%  |
| Servicing Fee              | 0.250% | 0.250% | 0.250%  |
| Net Mortgage Interest Rate | 8.400% | 8.900% | 9.400%  |

**Step 3:**

Determine the weighted-average pool accrual rate.

| Loan ID | Net Mortgage Interest Rate | UPB       | Product   |
|---------|----------------------------|-----------|-----------|
| Loan A  | 8.400%                     | \$70,000  | 5,880.00  |
| Loan B  | 8.900%                     | \$50,000  | 4,440.00  |
| Loan C  | 9.400%                     | \$60,000  | 5,640.00  |
|         |                            | \$180,000 | 15,970.00 |

$15,970/180,000 = 8.872\%$ , rounded to three decimal places.

**Step Four:**

Determine the net mortgage interest rate ceiling.

| Category                           | Loan A  | Loan B  | Loan C  |
|------------------------------------|---------|---------|---------|
| Mortgage Interest Rate Ceiling     | 15.000% | 15.500% | 16.000% |
| –Guaranty Fee                      | 0.350%  | 0.350%  | 0.350%  |
| –Servicing Fee                     | 0.250%  | 0.250%  | 0.250%  |
| Net Mortgage Interest Rate Ceiling | 14.400  | 14.900% | 15.400% |

**Step Five:**

Determine the maximum weighted-average pool accrual rate.

| Loan ID | Net Mortgage Interest Rate Ceiling | UPB      | Product   |
|---------|------------------------------------|----------|-----------|
| Loan A  | 14.400%                            | \$70,000 | 10,080.00 |
| Loan B  | 14.900%                            | \$50,000 | 7,450.00  |

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| Loan ID | Net Mortgage Interest Rate Ceiling | UPB       | Product   |
|---------|------------------------------------|-----------|-----------|
| Loan C  | 15.400%                            | \$60,000  | 9,240.00  |
|         |                                    | \$180,000 | 26,770.00 |

$26,770.00/180,000 = 14.872\%$ , rounded to three decimal places.

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### Step Six:

Determine the minimum weighted-average pool accrual rate (if the mortgages have an interest rate floor). Since the mortgages in this example do not have an interest rate floor, this step is not necessary. It is shown for illustration purposes only.

First, find the net mortgage interest rate floor by following Step Four, substituting the mortgage interest rate floor for the ceiling.

Then, follow Step Five to find the minimum weighted-average pool accrual rate, using the net mortgage interest rate floor just calculated for each mortgage instead of the mortgage interest rate ceilings.



## C3-5-06, Pooling ARMs with a Conversion Option (12/06/2016)

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### Introduction

This topic provides information on pooling ARMs with conversion options, including

- [ARM Conversion Options](#)
- [Redelivering a Converted ARM that Originally Required Recourse or Credit Enhancement](#)

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### ARM Conversion Options

If a borrower chooses to convert an adjustable-rate mortgage that includes an option to convert to a fixed-rate mortgage, the lender must repurchase the mortgage from the MBS pool before interest begins accruing at the new fixed rate. Lenders may choose from two options for disposing of the converted mortgage after it has been repurchased from the pool:

- take-out option
- market rate option



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If the take-out post-conversion option was selected when the convertible ARM was delivered, the servicer must redeliver the converted mortgage to Fannie Mae as a whole loan (A/A remittance type only).

The take-out option is not available on mortgages that have lender-purchased mortgage insurance or were originated under an ARM plan that permits conversion to a fixed interest rate only on specified interest rate adjustment dates.

The conversion option selected for each convertible ARM delivered to Fannie Mae must be identified by the appropriate special feature code:

- SFC 037 Convertible ARM — Take-Out Option, or
- SFC 038 Convertible ARM — Market Rate Option.

In order to receive a par price on a redelivered converted mortgage, the lender must obtain a take-out mandatory delivery commitment (Converted ARM Resale Commitment) by the 16th day of the month in which the conversion was requested.

If the market rate option was chosen, the servicer is not required to redeliver the mortgage to Fannie Mae, although it may choose to redeliver the mortgage as a whole loan (A/A, S/A or S/S remittance types) or as part of a fixed-rate MBS. It may deliver the loan under any existing standard fixed-rate whole loan or MBS commitment that it has outstanding, as long as Fannie Mae's original acceptance of the mortgage was not conditional on the lender providing some type of special recourse or credit enhancement.

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### **Redelivering a Converted ARM that Originally Required Recourse or Credit Enhancement**

If Fannie Mae originally required recourse or credit enhancement on an ARM that includes an option to convert to a fixed-rate mortgage, and the conditions that led to its requirement still exist, then lenders will not be able to use a standard commitment to redeliver the converted mortgage to Fannie Mae. Instead, lenders must

- obtain a new negotiated contract (which may or may not require recourse or credit enhancement) or
- include the converted mortgage as part of a delivery under an outstanding negotiated contract that has acceptable recourse or credit enhancement.

If the conditions that led to Fannie Mae requiring recourse or credit enhancement no longer exist, and Fannie Mae determines that the recourse or credit enhancement is no longer necessary, lenders may redeliver the converted mortgage under

- a standard whole loan commitment, or

- a standard MBS commitment.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 06, 2016 |
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014     |



## C3-5-07, Uniform Hybrid ARM MBS (04/01/2009)

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### Introduction

This topic provides information on creating MBS with Hybrid ARMs, including

- [Hybrid ARM Product Description](#)
- [Hybrid ARM Pooling Parameters](#)

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### Hybrid ARM Product Description

Fannie Mae has established a standard offering for annually adjusting ARMs that have extended initial fixed interest rate periods. These mortgages are referred to as Uniform Hybrid ARMs. This pooling option provides for more uniform accruals of interest to the security holders during the fixed period of these mortgages.

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### Hybrid ARM Pooling Parameters

The pool parameters for the uniform hybrid ARM MBS pool are described in the following table:

| Parameter             | Description  |
|-----------------------|--|
| ARM Plan              | ARM Plan 3252 must be used for a 5/1 ARM within a uniform hybrid ARM MBS pool.   |
| Original Term         | The original term of the mortgages in the pool must be no more than 30 years.    |
| Seasoning Requirement | The mortgages cannot be seasoned more than two months as of the pool issue date. |

| <b>Parameter</b>                     | <b>Description</b>  |
|--------------------------------------|---|
| Transaction Type                     | The pools may be delivered as a single-lender or multiple-lender transaction.   |
| Aggregate Principal Balance          | The aggregate principal balance of all of the mortgages included in the pool as of the issue date of the securities cannot be less than \$500,000 for a single-lender transaction or \$1,000 per lender for a multiple-lender transaction.  |
| Initial Gross Mortgage Interest Rate | The initial gross mortgage interest rates of the mortgages in the pool may not be more than 75 basis points greater than the initial pool accrual rate applicable to that pool.   |
| MBS and Mortgage Margins             | The MBS margin for the uniform hybrid ARM pool is 1.75%. The difference between the mortgage margin of each ARM in the pool and the required 1.75% MBS margin for the uniform hybrid ARM pool may not exceed 75 basis points.   |
| Pool Accrual Rate                    | <p>The initial fixed pool accrual rate is calculated as follows: The initial mortgage interest rate of each mortgage in the pool, less the sum of a servicing fee on a loan-level basis and the guaranty fee, which results in a uniform loan-level accrual rate that equals the pool accrual rate (or pass-through rate) during the initial fixed-rate period.</p> <p>This initial fixed pool accrual rate can be issued in increments of 0.25% and will remain in effect until the initial interest rate adjustment date among the mortgages in the pool.</p> <p>After the initial interest rate adjustment, the pool accrual rate will be based on the weighted average of the interest rates of the mortgages in the pool, net of the servicing spread (the sum of the servicing fee and guaranty fee percentages).</p> |
| Interest Rate Adjustments            | <p>The interest rates of the mortgages in the pool will adjust based upon the applicable index value combined with the mortgage margin rounded to the nearest 0.125% and subject to any applicable caps, as is common with other standard ARMs.</p> <p>For a 5/1 ARM within a uniform hybrid ARM MBS pool, lenders may retain a minimum servicing fee of as low as 0.125%. (Lenders, however, should be aware that, in view of the 75-basis-point limitation described above, there may be circumstances where the fee percentage associated with a particular mortgage may result in it being ineligible for inclusion in a uniform hybrid ARM MBS pool.)</p>  |

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| Parameter | Description  |
|-----------|--|
|           | <p>The first interest rate adjustment dates will vary among the mortgages in the pool; however, they must be within a specified range that is more constricted than the range for other pools of ARMs.</p> <p>For example, in the case of a pool of uniform hybrid ARMs with an initial fixed period of 5 years (a 5/1 ARM), to ensure that the interest rate change dates are similar, the mortgages will reset within a range of 54 to 62 months, inclusive, after the first payment date.</p> |

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## **C3-5-08, Commingling ARMs in MBS (02/23/2016)**

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### **Introduction**

This topic provides information on commingling ARMs, including:

- [ARM Loan Types Lenders May Commingle in the Same Pool](#)
  - [ARM Loan Types Lenders May Not Commingle in the Same Pool](#)
- 

### **ARM Loan Types Lenders May Commingle in the Same Pool**

ARMs originated under the same ARM plan may have original terms up to 30 years and may be commingled in the same ARM pool.

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### **ARM Loan Types Lenders May Not Commingle in the Same Pool**

ARMs originated under different ARM plans cannot be commingled in the same pool. In certain cases, however, lenders may be permitted to pool seasoned ARMs in ARM plans with shorter initial fixed-rate periods. Interested lenders should contact their lead Fannie Mae regional office to determine what flexibility may be available for a specific situation.

ARMs originated under a single ARM plan, but with different post-conversion disposition options (market rate option or take-out option) cannot be included in the same pool.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b> |
|---|-------------------|
| <a href="#"><u>Announcement SEL-2016-02</u></a> | February 23, 2016 |

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# Chapter C3-6, Pooling Loans into Fannie Majors



## Pooling Loans into Fannie Majors

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### Introduction

Lenders can pool mortgages into two types of MBS: Single-Issuer and Fannie Majors. This chapter provides information on pooling loans into Fannie Majors.

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### In This Chapter

This chapter contains the following topic:

[C3-6-01, Parameters for Pooling Loans Into Fannie Majors \(10/24/2016\)](#) ..... 1180

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## C3-6-01, Parameters for Pooling Loans Into Fannie Majors (10/24/2016)

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### Introduction

This topic contains general parameters for pooling loans into Fannie Majors, including:

- [Fannie Majors Overview](#)
  - [Obtaining Fannie Majors Pool Numbers](#)
  - [Selecting Mortgages to Include in a Fannie Majors Pool](#)
  - [Selecting a Settlement Date and Security Issuance](#)
  - [Making Multiple Submissions](#)
- 

### Fannie Majors Overview

Fannie Majors are pools of loans that are contributed by more than one lender. Lenders participating in a Fannie Majors pool receive an MBS representing its share of the pool in proportion to the dollar amount of mortgages it contributed to the pool.

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### **Obtaining Fannie Majors Pool Numbers**

The pool number identifies the pools in which a lender's loans are included. Fannie Mae assigns Fannie Majors pool numbers based on loan term, pass-through rate, and the month of issuance. Pool numbers, CUSIP numbers, and pass-through rates are posted on the [Fannie Majors](#) page on Fannie Mae's website and on the various wire services.

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### **Selecting Mortgages to Include in a Fannie Majors Pool**

When deciding which mortgages to include in a Fannie Majors pool, lenders must make sure that:

- the mortgage conforms to the appropriate product type,
- the mortgage has the appropriate seasoning,
- the note rate is within the minimum and maximum range in relation to the pass-through rate, and
- the minimum submission size is satisfied.

To be eligible for a Fannie Majors pool, mortgages may be no older than 12 months as of the security issue date. In addition, for certain Fannie Majors pools identified on the [Fannie Majors](#) page, mortgages may be no older than three months as of the security issue date. For example, for a January 1, 2017 issue date, a loan's first payment date cannot be earlier than November 1, 2016.

As with single-lender, fixed-rate MBS pools, the minimum and maximum allowable interest rate within a Fannie Majors pool is 25 basis points (.25%) and 250 basis points (2.5%) respectively above the pool's pass-through rate. Lenders can use loan-level buyups and buydowns to eliminate excess servicing and, in the case of buydowns, include loans in a higher coupon.

Fannie Majors have a minimum submission requirement of \$1,000 when lenders deliver the loan to Fannie Mae.

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### **Selecting a Settlement Date and Security Issuance**

Lenders may choose their own settlement date for a Fannie Majors pool. If a lender makes several submissions into the same Fannie Majors pool, it may select different settlement dates for each.

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Fannie Mae can issue securities in book-entry form within six business days after the lender submits a complete, error-free pool documentation package via Loan Delivery, as long as Fannie Mae receives:

- the lender's transmission of the loan delivery data by 6:00 p.m. (Eastern time), and
- the transmission of the document custodian's pool certification by 10:30 a.m. (Eastern time) on the day following the lender's Loan Delivery transmission.

Lenders submitting loans via hard copy or magnetic tape should expect longer turnaround times. See [C3-7-06, Settling the Trade](#), for additional information on turnaround times.

If lenders prefer an earlier book-entry than six days, Fannie Mae's Flash MBS is available, and securities can be issued within three to five business days after Fannie Mae receives the lender's Loan Delivery submission. A one-time, one basis point (\$100 per \$1 million) pool processing fee will be drafted from an account the lender has designated for fees and charges related to MBS pools for Flash MBS. If the lender makes multiple submissions into the same Fannie Majors pool, it may select Flash processing for some pieces and regular turnaround times for others.

A lender delivering into Fannie Majors receives securities rounded to the lowest whole dollar amount of the loans it contributed to the pool, unless it requests otherwise. Fannie Mae issues certificates in minimum denominations of \$1,000 with additional increments of one dollar. Only one security denomination can be issued for each account.

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### **Making Multiple Submissions**

A lender may deliver several different pools for inclusion in a multiple pool as long as all of the pools have the same product type, remittance cycle, and loan servicer—although Fannie Mae may permit the use of multiple servicers on a case-by-case basis. Each pool should be submitted separately and must meet the \$1,000 minimum submission requirement.

Fannie Mae will combine the submissions with the same branch seller/servicer number and remittance day into the same pool under the same lender. These loans must be serviced as one pool after issuance. The dollar amount of the lender's securities will be equal to the sum of the issue date principal balances of all the mortgages from each of the lender's pool documentation packages related to the multiple pool, rounded down to the next lowest whole dollar amount.

Lenders may deliver nonstandard loans (as defined in [C3-2-01, Determining Eligibility for Loans Pooled into MBS](#)) into Fannie Majors MBS pools. Each discrete delivery the lender makes under a given Fannie Majors TBA-eligible MBS pool will be subject to the limitations that apply to a single TBA-eligible MBS pool. As such, each discrete delivery is subject to the following limitations:



- The delivered UPB of co-op share loans, high-balance mortgage loans, loans with significant interest rate buydowns, and relocation loans may not exceed 10% individually.
- The delivered UPB of two or more of these nonstandard loans — co-op share loans, loans with significant interest rate buydowns, and relocation loans — may not exceed 15% of that lender’s total delivery. High-balance mortgage loans are not subject to the 15% limitation.

For example, if a lender makes three separate deliveries into a specific Fannie Majors TBA-eligible MBS pool, each of the three deliveries must satisfy the 10% and 15% delivery limitations for nonstandard loans. However, the 15% cumulative limitation does not apply to high-balance loans in each discrete delivery into the Fannie Majors TBA-eligible MBS pool. See [C3-2-01, Determining Eligibility for Loans Pooled into MBS](#) for additional information.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcement</b>                      | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016  |
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011  |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011    |
| <a href="#">Announcement SEL-2010-04</a> | March 29, 2010    |
| <a href="#">Announcement 09-08R</a>      | June 8, 2009      |
| <a href="#">Announcement 08-36</a>       | December 18, 2008 |

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# Chapter C3-7, Delivering and Trading MBS



## Delivering and Trading MBS

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### Introduction

Lenders that sell their MBS rather than hold them as an investment may work with Fannie Mae's Capital Markets Sales Desk to obtain a competitive price. In this chapter, the steps entailed in delivering and trading MBS and the requirements associated with these processes are provided.

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### In This Chapter

This chapter contains the following topics:

|  |      |
|--|------|
| C3-7-01, Establishing an MBS Trading Account (02/23/2016) .....            | 1185 |
| C3-7-02, Initiating an MBS Sale (10/25/2011) .....                         | 1193 |
| C3-7-03, Making Good Delivery (10/30/2009) .....                           | 1195 |
| C3-7-04, Delivering Data and Documents (12/06/2016) .....                  | 1199 |
| C3-7-05, Confirming Presettlement Information (04/01/2009) .....           | 1203 |
| C3-7-06, Settling the Trade (03/31/2011) .....                             | 1206 |
| C3-7-07, Sale of Fannie Mae Securities to Third Parties (02/23/2016) ..... | 1209 |

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## **C3-7-01, Establishing an MBS Trading Account (02/23/2016)**

### **Introduction**

This topic provides information on establishing an MBS trading account, including:

- [Process Used to Establish a Trading Account](#)
- [Requirements and Terms Governing the Trading Account](#)
- [Establishment of Trading Limits and Margin Requirements](#)
- [Offsetting Price Differentials](#)
- [Designated Threshold Amount and Minimum Transfer Amount](#)
- [Default of Lender Under the Terms of Trading Account](#)
- [Consequences of a Default](#)
- [Remedies for the Default of a Lender's Trading Account](#)
- [Suitability and Risk of Loss](#)
- [Transactional Intent of the Lender and Fannie Mae](#)

### **Process Used to Establish a Trading Account**

The table below describes the stages to establish a trading account.

| <b>Stage</b> | <b>Description</b>   |
|--------------|--|
| 1            | To establish a trading account, the lender may call the Capital Markets Sales Desk. See <a href="#">E-1-03, List of Contacts</a> .   |
| 2            | Each lender must provide the following information: <ul style="list-style-type: none"><li>• either a corporate resolution from its board of directors or an officer's certificate to indicate its authority to establish a trading account with the Capital Markets Sales Desk; and</li><li>• the names of the designated individuals who will be authorized to sell securities to, or to buy them from, the Capital Markets Sales Desk and the limit of their authority (if any).</li></ul> |
| 3            | Each lender must provide an address that can be used for all official notices and communications sent to the lender, and wiring instructions for the different types of payments Fannie Mae makes to the lender.   |
| 4            | The lender must continue to provide updates about any changes to its authority to perform under the trading account, the individuals authorized to transact business   |

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| Stage | Description  |
|-------|--|
|       | with the Capital Markets Sales Desk (or their limits of authority), and the lender's address or wiring instructions. |

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### Requirements and Terms Governing the Trading Account

A lender's trading account is governed by the terms of its *Mortgage Selling and Servicing Contract* (MSSC), the provisions of this Guide and any special instructions provided for in a specific trade confirmation or settlement notice.

By initiating trade activity with the Capital Markets Sales Desk, lenders agree to adhere to Fannie Mae's guidelines for selling securities and to SIFMA's *Uniform Practices for the Clearance and Settlement of Mortgage-Backed Securities and Other Related Securities*, including any amendments to either. Should there be a conflict between the requirements in this Guide and the SIFMA provisions, the requirements of this Guide take precedence.

As security for payment of its obligations and liabilities under its trading account, the lender grants Fannie Mae a first priority security interest in any and all of its right, title, and interest in its securities, money, or other property that is held for (or by) Fannie Mae.

If appropriate authorities require the filing of a financing statement to evidence this security interest, the lender must execute and deliver any legal instruments required to protect or perfect Fannie Mae's security interest.

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### Establishment of Trading Limits and Margin Requirements

When Fannie Mae establishes a trading account for a lender, it may establish trading limits, margin requirements, a designated threshold amount, and a minimum transfer amount specific to a lender.

After a trading account is established for a lender, Fannie Mae may:

- amend or cancel any trading limits, margin requirements, designated threshold amounts, or minimum transfer amounts initially imposed on a lender's trading accounts; and
- decline to engage in any specific transaction with the lender.

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### Offsetting Price Differentials

Subject to the applicable designated threshold amount and minimum transfer amount (defined below), a lender and Fannie Mae may elect to exchange variation margin if there is a price differential on the lender's open (unsettled) trades with Fannie Mae.

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A price differential exists if, at any time, with respect to a lender's open trades with the Capital Markets Sales Desk, either party would incur a loss if it canceled the open trades and entered into replacement transactions (i.e., there is a difference between the current market price and the settlement price of the open trades). If a price differential exists, the party that would receive positive income from the cancellation of the open trades and entry into replacement transactions is "in the money," and the party that would incur a cost from the cancellation of the open trades and entry into replacement transactions is "out of the money."

- If there is a *negative price differential* for a lender's open trades with the Capital Markets Sales Desk (i.e., on any trading day, the lender is "out of the money" with regard to the securities it has contracted to purchase or sell to Fannie Mae), then Fannie Mae may request that the lender wire cash to Fannie Mae, subject to the lender's designated threshold amount and minimum transfer amount.
- If there is a *positive price differential* for a lender's open trades with the Capital Markets Sales Desk (i.e., on any trading day, the lender is "in the money" with regard to the securities the lender has contracted to purchase or sell to Fannie Mae), then the lender may request that Fannie Mae wire cash to the lender, subject to Fannie Mae's designated threshold amount and minimum transfer amount.

When calculating the price differential:

- any open trades between the lender and the Capital Markets Sales Desk will be disregarded if they have been assigned, submitted, transferred, or reported to a securities clearing organization (e.g., the Fixed Income Clearing Corporation) for clearing, netting, and/or settlement such that the open trade will be factored into the applicable margin requirements of such securities clearing organization; and
- any outstanding pair-off fees relating to trades between the lender and the Capital Markets Sales Desk will be factored into the calculation of the price differential.

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### **Designated Threshold Amount and Minimum Transfer Amount**

The designated threshold amount represents a level of unsecured exposure an "in the money" party will accept before making a margin call on the "out of the money" party. Fannie Mae's designated threshold amount and a lender's designated threshold amount shall each be \$3,000,000, unless otherwise agreed to by the parties in writing and/or subject to the occurrence of a triggering event as discussed below.

#### **Example**

If there is a positive price differential and a lender is in the money by \$3,100,000, the lender may make a margin call to Fannie Mae for \$100,000. (\$3,100,000 – Fannie Mae’s designated threshold amount of \$3,000,000).

A minimum transfer is a specified amount of money that must be exceeded before a margin call can be made. Fannie Mae’s minimum transfer amount and a lender’s minimum transfer amount shall each be \$50,000, unless otherwise agreed to by the parties in writing and/or subject to the occurrence of a triggering event as discussed below.

Notwithstanding the foregoing, Fannie Mae will not wire cash to a lender in the event of a positive price differential if any of the following “triggering events” has occurred with respect to a lender:

- an event of default under the Lender Contract or any other contract between Fannie Mae and the lender,
- the lender’s failure to meet any of the lender eligibility requirements set forth in Subpart A-4, Maintaining Lender Eligibility,
- a decline in a lender’s adjusted net worth by more than 20% over a quarterly reporting period or by more than 30% over two consecutive quarterly periods,
- the total unpaid principal balance of all outstanding Fannie Mae repurchase requests to a lender exceeds 15% of the lender’s adjusted net worth,
- Fannie Mae comes into possession of information that, in Fannie Mae’s reasonable discretion, could result in an adverse impact, either presently or in the future, on the lender’s counterparty relationship with Fannie Mae or the lender’s financial condition, or
- outstanding contractual fees owed by a lender to Fannie Mae.

Further, upon occurrence of a triggering event for a lender, Fannie Mae, in its sole and absolute discretion, may modify or eliminate the designated threshold amount and minimum transfer amount applicable to such lender without prior notice to the lender.

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### **Default of Lender Under the Terms of Trading Account**

Under the terms of the trading account, certain events could result in the lender being in default. A lender is in default if Fannie Mae determines, at any time, that any of the representations that were made regarding the lender’s ability (or that of a designated authorized individual) to transact business is incorrect or untrue in any material respect, or if the lender:

- initiates a case or proceeding (or has a suit brought against it) under any bankruptcy, insolvency, reorganization, liquidation, dissolution, or similar law;
  - seeks the appointment of a receiver, trustee, custodian, or similar official for itself or any substantial part of its property;
  - executes a general assignment for the benefit of its creditors;
  - admits in writing that it does not have the ability to pay its debts as they come due;
  - is subject to an outstanding, uncontested order of relief or a protective decree issued under the Securities Investor Protection Act; or
  - fails to perform as required. Instances of nonperformance that constitute a default include the failure to:
    - perform any of the obligations set out in a confirmation or settlement notice;
    - perform any obligations with respect to completing a trade (or the admission that it is unable or unwilling to do so);
    - perform obligations under any other agreement or contract it has with Fannie Mae;
    - if notice is sent by Fannie Mae by 10:00 a.m. on a business day, satisfy the price differential on lender’s trades with the Capital Markets Sales Desk by the close of business on that same business day; or
    - if notice is sent by Fannie Mae after 10:00 a.m. on a business day, satisfy the price differential on lender’s trades with the Capital Markets Sales Desk by 12:00 noon on the next business day.
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### **Consequences of a Default**

A default with respect to one transaction will constitute a default for all of the lender’s transactions with the Capital Markets Sales Desk. See [E-1-03, List of Contacts](#).

The lender’s payments, deliveries, and transfers for one transaction may be applied (“netted”) against the lender’s other transactions.

Fannie Mae also may treat a default under the lender’s trading account as a default under the lender’s MSSC.

When that is the case, the provisions for “termination (of a selling or servicing arrangement or the contract) for cause” that are set out in [A2-3.1-01, Lender Breach of Contract](#), will apply.

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## Remedies for the Default of a Lender's Trading Account

The lender will be liable for any losses incurred by Fannie Mae due to the lender's default with the Capital Markets Sales Desk. See [E-1-03, List of Contacts](#). The following table details the remedies that are available to Fannie Mae when it declares a lender to be in default under its trading account.

| <b>If ...</b>   | <b>Then ...</b>   |
|---|---|
| Fannie Mae declares a lender to be in default under its trading account,        | Fannie Mae may require that the settlement for all of the lender's outstanding transactions be accelerated and take place immediately. In addition, Fannie Mae shall have all rights and remedies of a secured party under the Uniform Commercial Code and any other rights available under applicable law.   |
| The lender was committed to buy securities from the Capital Markets Sales Desk, | Fannie Mae may sell the securities at the current market value (or, as an alternative, give the lender credit for the current market value as if a sale had taken place). The lender will then be liable for any losses incurred by Fannie Mae that occur because the current market value is less than the purchase price the lender would have paid had the securities been transferred to it.  |
| The lender was committed to sell securities to the Capital Markets Sales Desk,  | Fannie Mae may purchase securities of the same class and amount as those the lender was committed to sell at the current market value (or, as an alternative, deem itself to have purchased the comparable securities for the purpose of determining the lender's liability). The lender will then be liable for any losses incurred by Fannie Mae that occur because the current market value is greater than the purchase price Fannie Mae would have paid had the lender transferred the securities to the Capital Markets Sales Desk. |

In addition, the lender must pay:

- all reasonable legal and other expenses Fannie Mae incurs in connection with, or as the result of, the lender's default under its trading account, and



- interest on the Fannie Mae losses and expenses for which the lender is liable from the date of default to the date the lender reimburses Fannie Mae.

**Note:** The interest charged will be based upon the prime rate for commercial banks that is published in *The Wall Street Journal*.

If necessary, Fannie Mae may liquidate and apply against the obligations the lender owes as the result of its default, any and all of the lender's securities, money, and other property that is held for (or by) Fannie Mae.

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### **Suitability and Risk of Loss**

The risk of loss when transacting with the Capital Market Sales Desk can be substantial. A lender should carefully consider whether a transaction is suitable in light of its financial condition, its investment objectives, and any legal or regulatory restrictions to which it may be subject. The market value for the securities to be purchased or sold by a lender can vary substantially over the term of a transaction. A lender should carefully consider if it has the operational resources in place to monitor the risks and contractual obligations of a transaction, including the risk that Fannie Mae may request that a lender post margin to satisfy a price differential on the same or the following business day.

By agreeing to a confirmation, the lender is deemed to have represented and warranted that it understands the risks associated with the transaction with the Capital Market Sales Desk, and the lender believes that the transaction is suitable for the lender. Similarly, to the extent that the lender assigns or transfers any of its rights and obligations under any transaction, the lender shall be deemed to represent and warrant as of the date of such assignment that the lender has reasonable grounds to believe that any such assigned transaction is a suitable transaction for the assignee. Fannie Mae and the lender agree that, if any rights and obligations are so assigned by the lender, notwithstanding any consent to such assignment by Fannie Mae, Fannie Mae shall have no obligation to undertake an evaluation of the suitability of the assigned rights and obligations to the assignee.

Before engaging in any transactions with the Capital Market Sales Desk, a lender should consult its own business, legal, tax, risk, accounting, and other advisers and examine the provisions in this Chapter of the Guide to determine whether the risks to the lender are appropriate.

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### **Transactional Intent of the Lender and Fannie Mae**

The lender acknowledges, at all times, that Fannie Mae is not acting as a fiduciary or an advisor with respect to any transaction with the Capital Markets Sales Desk.

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The lender and Fannie Mae also agree that transactions between the lender and the Capital Market Sales Desk are intended to be:

- "forward contracts," "securities contracts," and "master netting agreements," as such terms are defined in the United States Bankruptcy Code, as amended, and of a type set forth in Section 5390(c)(8)(D) or Title 12, as amended;
- "qualified financial contracts," if the lender is an "insured depository institution" under the Federal Deposit Insurance Act, as amended; and
- a "netting contract" as defined in and subject to Title IV of the Federal Deposit Insurance Corporation Improvement Act of 1991, as amended, and each payment entitlement and payment obligation under any transaction shall constitute a "covered contractual payment entitlement" or "covered contractual payment obligation, respectively, as such terms are defined in such Act.

The lender and Fannie Mae also agree that either party's rights to cancel a transaction or exercise any other remedies upon a default is a contractual right to liquidate such transaction as described in Section 555 and 556 of the United States Bankruptcy Code, as amended, and a right to terminate, liquidate, or accelerate as described in Sections 5390(c)(8)(A) and (C) of Title 12 of the United States Code, as amended.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b> |
|---|-------------------|
| <a href="#"><u>Announcement SEL-2016-02</u></a> | February 23, 2016 |
| <a href="#"><u>Announcement SEL-2014-03</u></a> | April 15, 2014    |
| <a href="#"><u>Announcement SEL-2011-11</u></a> | October 25, 2011  |
| <a href="#"><u>Announcement 09-32</u></a>       | October 30, 2009  |



## C3-7-02, Initiating an MBS Sale (10/25/2011)

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### Introduction

This topic describes the steps lenders take to initiate an MBS sale via Fannie Mae's Capital Markets Sales Desk, including:

- [Determining the Trade Type](#)
  - [Checking Market Prices](#)
  - [Selecting a Settlement Date](#)
  - [Selecting a Settlement Method](#)
  - [Requesting and Accepting a Firm Bid/Offer](#)
- 

### Determining the Trade Type

If a lender sells MBS, its trade may be TBA or specified. With a TBA trade, the lender may deliver any MBS meeting eligibility requirements as defined by SIFMA. A specified trade means that a specific MBS is being traded and only that security can be delivered in satisfaction of the trade. TBA trades settle on the SIFMA settlement dates (see [Pool Settlement Dates](#)).

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### Checking Market Prices

See [C3-1-01, General Information About Fannie Mae's MBS Program](#), for information on MBS prices and their determinants. Prices of Fannie Mae MBS are quoted in 32nds of a percent for both immediate and forward delivery issues.

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### Selecting a Settlement Date

The lender must plan its settlement date to be sure it can deliver the securities as scheduled. In particular, the lender must allow sufficient time after loan closing for the processing of the documentation package. Any errors in the package can result in a delay in settlement.

Lenders may settle trades for newly issued securities on any day of the month in which they are issued. However, lenders cannot settle the trade during the first four business days of the month if it involves securities issued in a prior month. When a trade is settled on a "regular" settlement date, it will occur on a date that is predetermined by SIFMA, based on a schedule that changes periodically. When a settlement date falls on a holiday, Fannie Mae will announce an alternative settlement date in advance.

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## Selecting a Settlement Method

The method of funding the sale of a security depends on the settlement method the lender chooses when delivering the pool to Fannie Mae. Lenders that want to use an early funding settlement option such as As Soon As Pooled Sale (for pools) or As Soon As Pooled Plus (for whole loans) must execute a special agreement that provides the specific terms for the type of transaction it is using. Lenders interested in using an early funding settlement option should contact the Capital Market Sales Desk. See [E-1-03, List of Contacts](#).

The standard settlement option for newly originated MBS is called an “original issue” settlement because the security is assigned directly to Fannie Mae when the pools are delivered. To arrange for an original issue settlement, lenders must specify Fannie Mae’s account in the wiring instructions on the *Delivery Schedule* ([Form 2014](#)) it submits when the pool is delivered. Lenders using this option must follow SIFMA’s guidelines and submit the allocation pool prior to settlement.

Existing MBS must be funded through “delivery vs. payment” (or a “delivery against funds” or “existing issue”) settlement option. Under this settlement option, when Fannie Mae receives the security, it credits the lender’s account at the institution that wires the security to the Desk.

If a lender has not sold the securities to an investor before it delivers loans to Fannie Mae and has not elected to use the “original issue” settlement option, Fannie Mae will issue the securities to the lender.

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## Requesting and Accepting a Firm Bid/Offer

When contacting the Desk to request a firm bid/offer, the lender must be prepared to specify the following information:

- MBS product,
- amount of the trade,
- coupon rate,
- settlement date,
- unique characteristics of the pool that will back the security.

Fannie Mae’s Sales Desk will convey a bid/offer for the security to the lender. If the lender accepts the firm bid or firm offer, the Sales Desk will lock in the bid or offer and verify the trade details in a recorded telephone conversation with the lender.

That evening, Fannie Mae will send the lender a written confirmation statement that includes the details of the trade such as the trade number, date, amount, price, the coupon rate, and the settlement date. The confirmation, taken together with the relevant sections of this Guide, constitutes conclusive evidence of the terms between Fannie Mae and the lender with respect to the transaction to which the confirmation relates, unless the lender promptly notifies the Desk of any errors in the confirmation.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2011-11</a> | October 25, 2011 |
| <a href="#">Announcement 09-32</a>       | October 30, 2009 |



## C3-7-03, Making Good Delivery (10/30/2009)

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### Introduction

This topic describes the requirements for making good delivery of MBS, including:

- [Good Delivery Conditions](#)
- [Principal Amount of the Trade](#)
- [Accrued Interest](#)
- [Maximum Number of Pools and Minimum Delivery Amounts](#)
- [Pairing Off](#)

---

### Good Delivery Conditions

Acceptance of a firm bid to sell MBS to the Desk is an enforceable obligation that requires the lender to deliver the security at the parameters agreed upon at the time of the trade and in amount that meets the minimum trade requirements for the commitment. When a lender meets this obligation, it has made good delivery.

However, a good delivery for Fannie Mae's purposes and a good delivery that satisfies SIFMA's guidelines for a TBA trade are not always the same. The guidelines that determine whether a lender has or has not made good delivery for a TBA trade include the following:

- The delivery of a single-lender MBS under a firm bid that specified a Fannie Majors multiple-lender MBS does not constitute good delivery for that trade. The delivery of a Fannie Majors MBS, however, will be considered good delivery for a TBA trade under any firm bid, even if the lender did not specify that the trade would include a Fannie Majors MBS.
- The delivery of a 30-year term MBS against a TBA trade that specifies a 30-year MBS will not be considered as a good delivery unless the final maturity date of the security was greater than 181 months when the security was issued.
- The delivery of an MBS backed by pools that are comprised of more than 10% of any single type of nonstandard loan or more than 15% of any combination of nonstandard loans is not considered a good delivery for a TBA trade. See [C3-2-01, Determining Eligibility for Loans Pooled into MBS](#) for additional information about pooling nonstandard loans.

Failure to effect a good delivery of a security for a TBA trade can severely limit a lender's ability to deal with the Desk and could result in Fannie Mae declaring the lender to be in default. See [C3-7-01, Establishing an MBS Trading Account](#), for more details.

See [C3-7-04, Delivering Data and Documents](#), for specifics on the data and documents required in order to make good delivery.

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### Principal Amount of the Trade

The maximum difference between the principal balance the lender committed to deliver and the amount actually delivered can be plus or minus 0.01% of the trade amount for a TBA trade. If multiple trades are executed against a single pool transmission, the delivery variance applies to each trade.

Lenders that need a higher or lower variance in some situations should contact the Capital Markets Sales Desk to negotiate an alternative variance. Lenders should note, however, that trades that have variances outside of SIFMA's tolerances will not be eligible for TBA trades. Also, no variance is allowed for transactions in which the seller provides the buyer with a pool number and specific original face amount on the date the two parties agree to enter into the transaction. For funding purposes, the principal amount is calculated as follows:

|                                       |
|---------------------------------------|
| $a = d \times b$ , where              |
| $a$ = net principal                   |
| $d$ = current balance of the security |
| $b$ = price (in decimals)             |

### Accrued Interest

Accrued interest is paid up to, but not including, the settlement date. Therefore, if the settlement occurs on the first of the month, the current amount due does not include an accrued interest payment. For funding purposes, the accrued interest amount is calculated based on the following formula:

|  |
|--|
| $c = [d \times e/360 \text{ days}] \times (f - 1 \text{ day})$ , where |
| c = interest   |
| d = current balance of the security                                    |
| e = the pass-through rate  |
| f = the settlement date  |

### Maximum Number of Pools and Minimum Delivery Amounts

The maximum number of pools permitted for delivery into a given trade depends on:

- the MBS pass-through rate,
- the amount of the trade, and
- the number of pools that are needed to reach the minimum delivery amount (which is determined by the applicable trade delivery variance). The current minimum balance for each pool in a group submission must be at least \$25,000.

The limits are described in the following table:

| MBS Pass-Through Rate | Original Trade Amount         | Maximum Number of Pools                              |
|-----------------------|-------------------------------|--|
| < 8%                  | ≤ \$500,000                   | 1  |
|                       | > \$500,000 and < \$1,000,000 | 2  |
|                       | ≥ \$1,000,000                 | 3 pools per each million dollars of the trade amount |
| ≥ 8%                  | ≤ \$500,000                   | 3  |
|                       | > \$500,000 and < \$1,000,000 | 4  |
|                       | ≥ \$1,000,000                 | 5 pools per each million dollars of the trade amount |

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## Pairing Off

If a lender is having difficulty meeting its commitment to deliver a security, the Desk may permit the lender to execute a “pair-off.” The lender should request a pair-off well in advance of the scheduled settlement date to avoid a “failed” delivery.

To request a pair-off, a lender may either:

- request a “firm offer” from the Desk, identifying the trade to be paired off. A firm offer will enable the lender to buy from the Desk (at current market value) an MBS that is comparable to the one the lender agreed to sell to the Desk, or
- arrange a transaction with a third party whereby the lender purchases the MBS from that party and delivers it to the Desk in fulfillment of its commitment.

Pair-offs are not always possible in certain market environments; therefore, a lender should evaluate market conditions before considering their use.

The lender must wire pair-off funds to Fannie Mae on the settlement date. If the lender owes Fannie Mae pair-off funds from two or more related buy and sell transactions that settle on the same day, it should remit a single wire for the net amount due to Fannie Mae. The wire transfer must include the lender’s name, the settlement date, and the word “pair-off.”

Fannie Mae has the right to charge interest on delinquent funds.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>               | <b>Issue Date</b> |
|------------------------------------|-------------------|
| <a href="#">Announcement 09-32</a> | October 30, 2009  |

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## C3-7-04, Delivering Data and Documents (12/06/2016)

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### Introduction

This topic includes specifics on pool data and documentation delivery requirements, including:

- [Required Documents for MBS Pool Loans](#)
  - [General MBS Pool Delivery Requirements](#)
  - [MBS Pool Data Delivery Requirements](#)
  - [MBS Pool Document Delivery Requirements](#)
  - [MBS Pool Document Custodian Responsibilities and Certification](#)
  - [As Soon As Pooled Plus Mortgage Loan Deliveries and Redeliveries as As Soon As Pooled Plus Pools](#)
- 

### Required Documents for MBS Pool Loans

See [E-2-01, Required Custodial Documents](#) for a list of mortgage documents that should be included in the document submission package for all mortgage loans.

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### General MBS Pool Delivery Requirements

A lender must deliver the mortgage document submission package to Fannie Mae's DDC or to an approved document custodian that meets Fannie Mae's eligibility criteria at the same time it transmits the loan delivery data to Fannie Mae and the document custodian. The custodian must complete the required pool certification before Fannie Mae issues the related securities.

The lender must allow sufficient processing time between the time it submits its loan delivery data and the document submission package and the time it wants the securities to be issued in book-entry form.

For additional information on the eligibility criteria for document custodians, see [A3-3-04, Document Custodians](#).

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### MBS Pool Data Delivery Requirements

When a lender transmits its loan delivery data, it must include a *Delivery Schedule* ([Form 2014](#)) for MBS pools. Form 2014 identifies the parties to which the securities are to be issued. If the lender markets and sells the securities before it submits its pool documentation to Fannie Mae, it must provide instructions related to the delivery of the securities on this form. Special instructions for preparing Form 2014 are necessary for MBS delivered using the early funding option As Soon As Pooled Sale.

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The lender enters loan data into Loan Delivery. Data should include the Financial Institution Number (FIN) of the applicable document custodian. When submitting loan delivery data to Fannie Mae, the lender represents and warrants that:

- the data is correct,
- each loan listed is to be transferred to Fannie Mae on the book-entry delivery date of the related securities, and
- the loans will be delivered and serviced in accordance with the terms of the MBS commitment and Fannie Mae's Guides.

For information about specific FIN codes, see [Loan Delivery Data Requirements](#).

Lenders delivering into Fannie Majors must include the Fannie Majors pool and CUSIP number in their deliveries. A lender may submit data for mortgages in the same Fannie Majors at different times and on different days of the month, as long as all of the mortgages submitted are the same product type and have the same remittance cycle and servicer.

Fannie Mae must have received the lender's loan delivery data for a specific MBS pool transaction by the time it receives the document custodian's electronic certification for the pool. The easiest way to ensure that happens is to transmit the loan delivery data electronically to the document custodian and Fannie Mae at the same time, via Loan Delivery.

If the lender fails to deliver the required delivery data for any specific MBS pool transaction to Fannie Mae, Fannie Mae may terminate the related MBS commitment by giving the lender written notice of the termination. Fannie Mae will telephone the lender in advance to inform it that a written termination notification is being sent.

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### **MBS Pool Document Delivery Requirements**

A lender must submit its pool documentation package in sufficient time to allow Fannie Mae to complete its review prior to the book-entry delivery date.

A lender must have a custodial arrangement for each MBS pool transaction it delivers to Fannie Mae. If the seller wishes to use Fannie Mae's DDC, it will need to add the DDC to its profile within the Loan Delivery application. In addition, the seller must submit the FIN code for the DDC in the delivery file. The FIN code allows the data to properly route to the DDC for certification via the Document Certification application. Failure to specify the proper FIN may result in a delay of certification and/or MBS pool securitization. However, if an MBS pool contains one or more ASAP Plus loans, all loans within the pool must be certified by the DDC.

Refer to the section “ASAP Plus Mortgage Loan Deliveries and Redeliveries as ASAP Plus Pools,” below, for additional details.

Once the lender has a *Master Custodial Agreement* ([Form 2003](#)) or a *Designated Custodian Master Custodial Agreement* ([Form 2010](#)), as applicable, on file with Fannie Mae for each of the different document custodians it uses, the lender will not need to advise Fannie Mae about the specific custodial arrangement for specific MBS pools when they are delivered.

When a lender delivers loans into an MBS, it must send documentation on each mortgage to its designated document custodian for certification and retention of physical custody, from that point forward, pending successful completion of the loan acquisition transaction. If Fannie Mae’s DDC is the document custodian, the seller should ensure that the mortgage document submission package is submitted to its overnight carrier (with instructions for first morning delivery) the same day that the seller submits the loan data to Fannie Mae for purchase. Loan data delivered by the seller to Fannie Mae will be certified the next business day provided the documents have been delivered to the DDC via first morning delivery, and there are no discrepancies and no unresolved lien issues. See [E-1-03, List of Contacts](#).

When the DDC receives the mortgage document submission package, it will review the related mortgage documentation to verify that all of the required documents have been received and are in order. Provided there are no document or data related errors or unresolved lien issues, the DDC will then transmit a certification to Fannie Mae via the Document Certification application.

The lender will be notified of any document or data deficiencies via the DDC’s Web portal. The lender should work directly with the DDC to resolve any document issues.

If a data error is identified by the DDC, the lender must submit an MBS correction through the Loan Delivery application. The DDC will review the MBS correction to ensure that the new data values match the related mortgage document. Provided there are no document related errors, the DDC then transmits a certification to Fannie Mae via the Document Certification application. See [E-2-01, Required Custodial Documents](#).

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### **MBS Pool Document Custodian Responsibilities and Certification**

Document custodians must review all documents the lender delivers to ensure that all of the required documentation has been received and conforms with Fannie Mae’s requirements. The document custodian must alert Fannie Mae of any bailee letters or claimed liens of any third parties. (See [C1-2-03, Ownership of Mortgage Loans Prior to Purchase or Securitization and Third-Party Security Interests](#), and [C1-2-04, Bailee Letters](#), for requirements when a document custodian either receives a bailee letter with the mortgage delivery documents or is otherwise aware that a warehouse lender is claiming an interest in the mortgages being delivered.) Fannie Mae will not issue the securities in book-entry form until after it has received the document

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custodian's pool certification; therefore, the lender and the document custodian must work together to establish acceptable time frames for completing the custodian's review.

The certification will state that the custodian has examined and maintains physical custody and control of the required documents for the mortgages in the pool.

For pooled mortgages, if the lender's instructions provide for delivery of cash to a cash custodial account, they generally will not match the mortgage seller's instructions because most MBS transactions involve the delivery of securities instead of cash. For As Soon As Pooled Sale transactions, however, those instructions must match the mortgage seller's instructions.

If Fannie Mae's DDC is the document custodian, it will provide same-day certification for document submission packages received by first morning delivery on any business day if no document discrepancies are found and no unresolved lien issues exist. See [E-2-01, Required Custodial Documents](#).

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### **As Soon As Pooled Plus Mortgage Loan Deliveries and Redeliveries as As Soon As Pooled Plus Pools**

For As Soon As Pooled Plus deliveries, sellers are required to deliver loans through Funding Express. To ensure timely delivery, the seller should ensure that the mortgage document submission package is submitted to its overnight carrier (with instructions for first morning delivery) the same day that they submit the loan data to Fannie Mae for funding. Loan data delivered by the seller to Fannie Mae will be certified the next business day provided the documents have been delivered to the DDC via first morning delivery, and there are no discrepancies and no unresolved lien issues.

When Fannie Mae's DDC receives the mortgage document submission package, it will review the related mortgage documentation to verify that all of the required documents have been received and are in order. As a convenience to Fannie Mae's lenders, the DDC will correct any certification data errors to ensure that the data transmitted to Fannie Mae by the lender matches the data on the mortgage documents.

The lender will be notified of any document deficiencies or corrections to data via the DDC's Web portal. The lender should work directly with the DDC to resolve any document issues. Provided there are no document related errors, the DDC will then transmit a certification to Fannie Mae (along with any data corrections, if applicable). The lender shall be deemed to have ratified any such correction if it does not notify Fannie Mae of its objection to such correction within 24 hours of the lender's receipt of such notice from the DDC.

If sellers opt to redeliver an As Soon As Pooled Plus loan as a portfolio mortgage execution to Fannie Mae, they should redeliver the loan to Fannie Mae via Loan Delivery. When an As Soon

As Pooled Plus loan is redelivered as a portfolio mortgage loan, sellers must include the FIN code upon redelivery. Failure to specify the proper code may result in a delay of certification and/or purchase of the loan.

If sellers opt to redeliver an As Soon As Pooled Plus loan as an MBS execution to Fannie Mae, they should redeliver the loan to Fannie Mae via Loan Delivery.

If an MBS pool contains one or more As Soon As Pooled Plus loans, all loans within the pool must be certified by the DDC. In addition, the seller must transmit all of the loans in the pool with the same FIN code. The seller will need to add the DDC to its profile within the Loan Delivery application.

The FIN code will allow the redelivered data to be properly reconciled against the data that was originally delivered through Funding Express. Failure to specify the proper FIN code may result in a delay of certification and/or purchase of the loan.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 06, 2016 |
| <a href="#">Announcement SEL-2014-11</a> | August 26, 2014   |
| <a href="#">Announcement SEL-2012-13</a> | November 13, 2012 |
| <a href="#">Announcement SEL-2012-06</a> | June 26, 2012     |
| <a href="#">Announcement 08-37</a>       | December 19, 2008 |



## C3-7-05, Confirming Presettlement Information (04/01/2009)

### Introduction

This topic provides the steps entailed and the information the lender must provide to Fannie Mae prior to the security settlement date, including:

- [Basic Requirements for Presettlement](#)
- [Information Required for Presettling Pools of Seasoned Mortgages](#)
- [Information Required for Presettling ARM MBS](#)

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## Basic Requirements for Presettlement

When a lender sells MBS through the Capital Markets Sales Desk, it must call the Desk to verify trade details no later than 3:00 p.m. (Eastern time) two business days before the settlement date. This is called the notification date.

If a lender needs to make any corrections or cancellations, it must call before 12:15 p.m. (Eastern time) on the notification date to ensure that delivery can take place within two business days. If the call is received after this time, the delivery cannot take place until three business days after the notification date.

Fannie Mae will accept a fax transmission of the trade details as long as the lender notifies the Desk in advance about the pending transmission and the transmission is received by 3:00 p.m. (Eastern time) on the notification date. See Capital Markets Operations Collateral Management for fax number information [E-1-03, List of Contacts](#).

After the change or deletion of the payee code has been made, Fannie Mae mails the lender a list of its outstanding payee arrangements.

| ✓ | Requirements  |
|---|---|
|   | MBS pool number and the related CUSIP number  |
|   | Original pool balance (which is the face amount of the security)  |
|   | Pass-through rate (which is the “coupon” rate of interest that will be paid to the investor)  |
|   | Price (which is the dollar amount paid for the MBS)   |
|   | Trade date (which is the date on which the parties agree to the terms of the transaction)   |
|   | Settlement date (which is the date that the parties agreed the transfer of the securities and the payment of the purchase price would take place) |
|   | Issue date (which is the first day of the month in which the securities backed by the pool are issued)  |
|   | Any unique pool specifications (such as a Fannie Majors)  |

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## Information Required for Presettling Pools of Seasoned Mortgages

There may be some instances in which Fannie Mae requires a pool that is seasoned for two or fewer years to be treated as a “seasoned” pool. When this occurs, Fannie Mae will inform the

lender during the oral confirmation of the trade. For any pool that is treated as a “seasoned” pool, the lender must provide not only the information required above, but also the following additional information:

| ✓ | <b>Requirements</b>   |
|---|---|
|   | Weighted-average maturity (which is the weighted-average of the remaining terms of the mortgages underlying the MBS as of the trade date) |
|   | Weighted-average coupon (which is the weighted-average of the note rates of the mortgages underlying the MBS as of the trade date)        |
|   | Latest loan maturity (which is the maturity date of the latest maturing mortgage in the MBS)  |
|   | Geographic concentration of the mortgages in the pool (if a concentration was specified at the time of the trade)                         |

### **Information Required for Presettling ARM MBS**

ARM MBS pools are backed by ARMs of any age. For an ARM MBS pool, the lender must provide not only the information required above (and the information for a seasoned pool above, if the pool is treated as a “seasoned” pool), but also the following additional information:

| ✓ | <b>Requirements</b>   |
|---|---|
|   | Index on which the periodic interest rate adjustments for the underlying mortgages are based  |
|   | Periodic and lifetime interest rate caps for the underlying mortgages   |
|   | Periodic payment caps (if any) for the underlying mortgages   |
|   | MBS margin (which is the portion of the mortgage margin that is used to establish the pass-through rate for the pool on each interest rate change date) |
|   | Interest rate change date (which is the date on which the interest rates for the underlying mortgages will be adjusted)                                 |
|   | Frequency of the interest rate adjustments for the underlying mortgages   |
|   | Applicability and terms of any conversion-to-fixed-rate feature for the underlying mortgages  |





## C3-7-06, Settling the Trade (03/31/2011)

### Introduction

This topic provides information concerning buying an MBS from or selling the MBS to the Sales Desk, including:

- [Turnaround Times for MBS Pool Deliveries](#)
- [Distribution of Securities](#)
- [“Due Bill” for MBS Pool Settlements](#)
- [Multiple Warehouse Lenders](#)
- [Rejection of a Wire Transfer/Change of Wire Transfer Instructions](#)
- [Loan- and Pool-Level Information Available after Pool Closing](#)

### Turnaround Times for MBS Pool Deliveries

The following turnaround times apply to the elapsed time between Fannie Mae’s receipt of the lender’s error-free loan delivery data, Fannie Mae’s receipt of the document custodian’s certification that the lender submitted a complete and accurate pool submission package, and Fannie Mae’s book-entry delivery of the securities.

**Note:** The names of the days of the week are used as an example only.

| If processing type is  | And lender’s error-free transmission is received by: | And custodian’s certification is received by: | Then, book-entry delivery of securities will be by: |
|------------------------|--|---|---|
| Standard               | 6:00 p.m. (ET) on Monday                             | 10:30 a.m. (ET) on Tuesday <sup>a</sup>       | The following Monday (6 business days)              |
| Flash MBS <sup>b</sup> | 6:00 p.m. (ET) on Monday                             | 10:30 a.m. (ET) on Tuesday <sup>a</sup>       | Thursday (4 business days)                          |

<sup>a</sup>If Fannie Mae’s DDC is the document custodian, the pool certification will take place by the close of business on this day—as long as the DDC receives the lender’s pool documentation package by 9:00 a.m. for MBS pools. This timing difference does not delay the book-entry delivery of the securities.

<sup>b</sup>The last day to submit single and Fannie Majors pools with Flash MBS processing is the sixth business day before the end of the month.

If Fannie Mae cannot meet a lender’s specified book-entry date, Fannie Mae will not be responsible for any direct, indirect, or consequential damages that the lender incurs because of the delayed book-entry delivery. In addition, if the lender is using Flash MBS, Fannie Mae will not assess the 1-basis point fee normally charged for this processing type.



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## **Distribution of Securities**

When Fannie Mae accepts an MBS pool submission for securitization, it issues a security backed by the mortgages in the pool and delivers it electronically through the Federal Reserve Book-Entry System to an account in an institution that the lender specifies. The lender's book-entry delivery date may be the same date as settlement, but must not be later than the last day of the month in which the pool issue date occurs.

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## **“Due Bill” for MBS Pool Settlements**

A due bill is a document that the seller of a security issues to the purchaser of the security to enable the purchaser to redeem principal and interest the seller receives after the record date.

If the settlement occurs before the record date, but the delivery and payment on the trade will occur between the record date and a subsequent “payable” date, then the due bill should accompany the securities.

If the delivery and payment occur after the payable date, then a postdated check for the amount of P&I the purchaser is due, which will serve as the due bill until the postdated date of the check, must accompany the securities. When securities are transferred over the Federal Reserve's book-entry system, a Fedwire message is an acceptable substitute for the check. Due bill or Fedwire messages are valid for 60 days.

The purchaser may submit a due bill or Fedwire message to the seller for payment as soon as pool factors are available. As long as the request for payment is presented three or more days before a “payable” date, the seller will pay the purchaser the amount on the “payable” date. If the purchaser requests payment after that, the seller has three days from the date of the due bill or Fedwire message is presented in which to pay the purchaser.

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## **Multiple Warehouse Lenders**

Currently, Fannie Mae can only link one warehouse lender to each document custodian the lender uses for its MBS pool deliveries. Therefore, if a lender that uses only one document custodian, and assembles pools involving more than one warehouse lender (or uses different warehouse lenders for some MBS pools), the lender will need to designate one warehouse lender to represent the interests of the other warehouse lenders it uses.

The other warehouse lenders must execute written agreements that:

- give the designated warehouse lender the authority to represent them for those mortgages in MBS pools in which they have an interest; and

- obligate the designated warehouse lender to take the steps necessary to ensure that they receive securities equal to their interests in the mortgages in the MBS pools, when appropriate.

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### Rejection of a Wire Transfer/Change of Wire Transfer Instructions

If a Fannie Mae wire transfer is rejected by a depository institution or by the Federal Reserve Bank of New York, Fannie Mae will contact the lender for verification of the instructions and request that it update any information that resulted in the rejection.

To change wire transfer instructions, the lender may modify its *Delivery Schedule* ([Form 2014](#)) any time prior to 6:00 p.m. (Eastern time) on the business day preceding the designated book-entry delivery date, except when the lender is using an early funding option. See [C3-7-02, Initiating an MBS Sale](#).

If a change will affect the lender's warehouse lender, the lender should contact the warehouse lender. If the warehouse lender disagrees with the lender's initial wire transfer instructions or any subsequent changes the lender makes to them, the warehouse lender should contact the lender. Fannie Mae will not compensate the lender or warehouse lender for any losses, costs, expenses, or damages it or another party incurs as a result of Fannie Mae's adherence to the lender's instructions.

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### Loan- and Pool-Level Information Available after Pool Closing

The table below summarizes the types and locations of MBS pool-related information that is available after the MBS pool is closed.

| Information Type/Report  | Location   |
|--|--|
| Loan Numbers: The servicer of the MBS mortgages should enter the Fannie Mae loan numbers into its records immediately since they must be used in reporting all subsequent activity related to the mortgages to Fannie Mae. | Loan Delivery, Message Manager, "Fannie Mae Loan Numbers Assigned" report, and the MBS Online Reports (Servicers) at <a href="#">MBS Reporting</a> |
| Final Schedule of Mortgages showing pool-level and loan-level characteristics, pools closed, and a history of its closed pools.  | MBS Online Reports (Servicers)   |
| Guaranty fee buyup and buydown ratio, pool proceeds and other pool-level and loan-level characteristics. A lender may download this  | Message Manager  |

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| Information Type/Report  | Location |
|--|----------|
| report and use it to verify all of the information for closed MBS pools. |          |

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011    |
| <a href="#">Announcement 08-37</a>       | December 19, 2008 |

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## **C3-7-07, Sale of Fannie Mae Securities to Third Parties (02/23/2016)**

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### Introduction

This topic contains information on the sale of Fannie Mae securities to third parties, including:

- [Sale of Fannie Mae Securities to Third Parties Overview](#)
  - [Required Disclosure Materials](#)
  - [Standard Delivery](#)
  - [Alternative Website Delivery](#)
  - [Indemnification Against Losses](#)
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### Sale of Fannie Mae Securities to Third Parties Overview

The lender must provide each purchaser of a security a copy of the most recent Fannie Mae MBS Prospectus when it enters into a contract to sell the security.

If the security purchaser requests an original printed version of the Prospectus, Prospectus Supplement, or Supplement to Prospectus Supplement, the lender must honor the request in a timely manner. Electronic versions of these documents are available at [Mortgage-Backed Securities](#).

Copies of the prospectus and the related prospectus supplement may be obtained by writing to Trust Agreement and Prospectus Requests or by calling the Fannie Mae Delivery and Custody

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Helpline (see [E-1-03, List of Contacts](#)). Typically, the prospectus supplement is available no later than two business days before settlement of the related issuance of certificates.

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### **Required Disclosure Materials**

The lender must provide the required disclosure documentation (described below) to a purchaser or prospective purchaser, as applicable. The lender will have two options to provide this disclosure: the lender must follow either the Standard Delivery option or the Alternative Website Delivery option, each as described below. The lender's sale of securities—including any that Fannie Mae delivers based on the lender's instructions on the *Delivery Schedule* ([Form 2014](#))—also must comply with applicable securities disclosure and settlement requirements, including those set forth below under either the Standard Delivery option or the Alternative Website Delivery option.

With respect to both the Standard Delivery and Alternative Website Delivery options, the required disclosure for a TBA trade consists of the most recent Single-Family MBS Prospectus for Fannie Mae's MBS program.

For a non-TBA trade, the required disclosure consists of the most recent Single-Family MBS Prospectus for Fannie Mae's MBS program and any Prospectus Supplement applicable to the pool delivered by the lender (and any additional Supplement to the Prospectus Supplement).

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### **Standard Delivery**

The lender must provide the required disclosure materials to each purchaser (that is, a party that enters into an agreement to purchase the security) at the time the lender enters into a contract for the purchase and sale of that security or to an offeree (that is, prospective purchaser) that requests the offering documentation.

The required disclosure materials are to be provided in a manner agreed to by the lender and the purchaser of a security. This may include electronic delivery or mailing of a hard copy. The materials are available on Fannie Mae's website. The lender also may obtain them by contacting the Fixed-Income Investor Helpline (see [E-1-03, List of Contacts](#)). On request, Fannie Mae will provide these documents to the lender as electronic read-only files by transmitting the files to the lender's email address or by other electronic means.

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### **Alternative Website Delivery**

Another option to provide the required disclosure documentation is via Fannie Mae's website. Under this option, the lender informs the purchaser or offeree of a security, as applicable, that

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the required disclosure materials are available on Fannie Mae's website. If the lender selects this Alternative Website Delivery option, the lender must first deliver or cause to be delivered the following:

- a Notice of Offering to each offeree of a security that requests the offering documentation (that is, the MBS Prospectus, the Prospectus Supplement for that security, and any applicable Supplement to the Prospectus Supplement); and
- a Notice of Sale to each purchaser of a security at the time the purchaser enters into a contract with the lender for the purchase of the security.

The Notice of Offering means a notice (including an electronic notice) prepared by the lender to offerees of securities. The Notice of Offering must:

- state that the offering documentation is or will be available at [Mortgage-Backed Securities](#) on Fannie Mae's website,
- state that the information about Fannie Mae incorporated by reference into the offering documentation is available at Mortgage-Backed Securities,
- explain how to access the offering documentation and the documents incorporated by reference from the website,
- state that the offeree has the right to request a printed copy of the offering documentation, and
- explain the procedure for requesting a printed copy of the offering documentation.

The Notice of Sale means a notice (including an electronic notice) prepared by the lender to purchasers of securities. The Notice of Sale must:

- state that the sale was made pursuant to the offering documentation,
- state that the offering documentation is or will be available at Mortgage-Backed Securities,
- state that the information about Fannie Mae incorporated by reference into the offering documentation is available at Mortgage-Backed Securities,
- explain how to access the offering documentation and the documents incorporated by reference from Mortgage-Backed Securities,
- state that the offeree has the right to request a printed copy of the offering documentation, and
- explain the procedure for requesting a printed copy of the offering documentation.

Notwithstanding the Standard Delivery and Alternative Website Delivery options, if the purchaser or offeree of a security requests a hardcopy version of the MBS Prospectus, Prospectus Supplement, or Supplement to the Prospectus Supplement, the lender must honor the request in a timely manner.

The information in the MBS Prospectus and the Prospectus Supplement for that security and any Supplement to the Prospectus Supplement is the only information about a pool (or the mortgage loans included in a pool) that a lender may disclose to the public.

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### **Indemnification Against Losses**

Lenders are subject to all indemnification obligations as described in [A2-1-03, Indemnification for Losses](#).

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcement</b>                      | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |

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# Part D, Ensuring Quality Control (QC)



## Overview

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### Introduction

This part discusses the quality control process for lenders and Fannie Mae.

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### [Subpart D1, Lender QC Process](#)

This subpart describes Fannie Mae’s requirements for lender quality control programs and practices.

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### [Subpart D2, Fannie Mae QC Process](#)

This subpart describes the process Fannie Mae uses to ensure that the mortgage loans it purchases or securitizes meet its eligibility and underwriting requirements.

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### In This Part

This part contains the following subparts:

|   |      |
|---|------|
| <a href="#">Subpart D1, Lender QC Process</a> .....     | 1214 |
| <a href="#">Subpart D2, Fannie Mae QC Process</a> ..... | 1249 |

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# Subpart D1, Lender QC Process



## Lender Quality Control Process Overview

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### Introduction

This subpart describes the lender's responsibilities for ensuring that the mortgage loans it sells to Fannie Mae meet Fannie Mae's eligibility and underwriting requirements. It contains information on Fannie Mae's requirements for establishing a quality control (QC) program, including documenting a QC plan, staffing and outsourcing of the QC process, selecting and reviewing mortgage loan files, reporting results, and retaining records.

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### In This Subpart

This subpart contains the following chapters

|  |      |
|--|------|
| D1-1, Lender Quality Control Process . . . . .         | 1215 |
| D1-2, Lender Prefunding QC Mortgage Review . . . . .   | 1224 |
| D1-3, Lender Post-Closing QC Mortgage Review . . . . . | 1229 |

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# Chapter D1-1, Lender Quality Control Process



## Lender Quality Control Program

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### Introduction

This chapter provides information on the required elements of a lender's quality control (QC) program, including requirements for documenting a QC plan, establishing quality standards and a QC process, and for staffing and outsourcing of the QC process.

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### In This Chapter

This chapter contains the following topics:

|  |      |
|--|------|
| <a href="#">D1-1-01, Lender Quality Control Programs, Plans, and Processes (07/29/2014)</a>                          | 1215 |
| <a href="#">D1-1-02, Lender Quality Control Staffing and Outsourcing of the Quality Control Process (12/15/2015)</a> | 1221 |

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## D1-1-01, Lender Quality Control Programs, Plans, and Processes (07/29/2014)

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### Introduction

This topic provides an overview of Fannie Mae's requirements related to the lender's ongoing assessment of its loan origination activities and associated processes. (QC requirements that relate to the lender's servicing activities are described in the *Servicing Guide*.) This topic also contains information on the elements required for a QC program, including:

- [Overview](#)
- [QC Plan Contents](#)
- [Quality Standards and Measures](#)
- [QC File Review Overview](#)
- [Selection of Loans for QC Review](#)
- [Reporting and Remediation](#)

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## Overview

An effective QC program is a key component of the lender's overall control environment. The QC program defines the lender's standards for loan quality, establishes processes designed to achieve those standards, and mitigates risks associated with the lender's origination processes. Fannie Mae requires the lender to develop and implement a QC program that provides a structure for identifying the deficiencies in the loan manufacturing process and for implementing plans to quickly remediate those deficiencies and underlying issues. The lender's QC program must include a documented QC plan that outlines requirements for validating that loans are originated in accordance with its established policies and procedures and

- the loans comply with applicable federal, state, and local laws and regulations;
- the loans comply with the *Selling Guide*, all related contractual terms and agreements, and are in all respects eligible for delivery to Fannie Mae; and
- the QC plan must guard against fraud, negligence, errors, and omissions by officers, employees, contractors (whether or not involved in the origination of the mortgage loans), brokers, borrowers, marketing partners, and others involved in the mortgage process.

Lenders that fail to maintain an effective QC program will be in breach of their contractual obligations with Fannie Mae.

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## QC Plan Contents

The lender's QC program must include a documented QC plan that establishes standards for quality and incorporates systems and processes for achieving those standards. The QC plan, at a minimum, must contain the following information.

| ✓ | QC Plan Requirements   |
|---|--|
|   | Quality standards and measures: a general overview of the lender's QC philosophy, plan objectives, and identification of the specific risks the lender intends to measure, monitor, and manage   |
|   | Procedures: detailed operating and reporting procedures for all employees involved in or affected by the QC process  |
|   | QC file review process: a process for performing prefunding and post-closing QC file reviews, including at a minimum, a process for <ul style="list-style-type: none"><li>• confirming compliance with Fannie Mae's <i>Selling Guide</i>, all related contractual terms and agreements, and that the loans are in all respects eligible for delivery to Fannie Mae</li></ul> |

| ✓ | <b>QC Plan Requirements</b>  |
|---|--|
|   | <ul style="list-style-type: none"> <li>confirming compliance with applicable federal, state, and local laws and regulations</li> </ul>   |
|   | <p>Sample selection process: a process for identifying a representative sample of loans for QC file reviews using both random and discretionary selection processes that includes loans</p> <ul style="list-style-type: none"> <li>originated through each applicable production channel (for example, retail, correspondent, and third-party originators)</li> <li>originated under all mortgage products (for example, fixed-rate, ARM, and special or niche programs)</li> <li>originated using all underwriting methods (manual and each automated underwriting system)</li> </ul>   |
|   | <p>Reporting: written procedures for reporting the results of the QC file reviews, including</p> <ul style="list-style-type: none"> <li>the method of monthly reporting of review findings</li> <li>identifying critical components to be included in the reports</li> <li>distributing summary-level findings to senior management</li> <li>distributing loan-level findings to the business unit(s), specifically to parties within the business unit(s) responsible for resolution</li> <li>requiring a timely response to, and resolution of (or a plan for resolution of), findings identified in the QC review process</li> <li>maintaining accurate and detailed records of the results of the lender's QC reviews</li> </ul> |
|   | <p>Vendor review: a process for reviewing the QC work performed by the lender's third-party vendors</p>  |
|   | <p>File retention: a process for maintaining for three years records of QC findings and reports, loan files reviewed, and all related documentation, including chronicling the location of such records</p>  |
|   | <p>Audit: an audit process to ensure that the lender's QC processes and procedures are followed by the QC staff and that its assessments and conclusions are recorded and consistently applied</p>   |

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## Quality Standards and Measures

The lender is responsible for the development and maintenance of standards for loan quality and for the establishment of processes designed to achieve those standards. To evaluate and measure loan quality standards effectively, the lender must establish a methodology for identifying, categorizing, and measuring defects and trends against an established target defect rate.

At a minimum, the lender must identify any loans with a defect (loans not in compliance with the *Selling Guide* or other related contractual terms and agreements) and establish a methodology by which all loans with identified defects can be categorized based on the severity of the defect. The lender must define the severity levels appropriate to its organization and reporting needs, however, the highest level of severity must be assigned to those loans with defects resulting in the loan not being eligible as delivered to Fannie Mae.

The lender must also establish target defect rates for its organization, reflecting its quality standards and goals. The establishment of a target defect rate is based on the lender's post-closing random QC sample and enables the lender to regularly evaluate and measure progress in meeting its loan quality standards. Different target defect rates may be established for different severity levels; however, at a minimum a target defect rate must be established for the lender's highest level of severity.

A target defect rate must be established that is as reasonably low as possible. Once the targets are set, performance against the targets must be measured at least quarterly and reported to management. The target defect rate(s) must be evaluated and if necessary reset at least annually. The lender must document the rationale for establishing the target rate(s). Fannie Mae may assess how the lender's chosen target defect rate affects Fannie Mae's risk and may provide input on a more appropriate target.

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## QC File Review Overview

As part of its QC program, the lender must establish processes to evaluate and monitor the overall quality of mortgage production through prefunding and post-closing reviews. The purpose of performing a loan file review is to assess loan quality and eligibility and to confirm that the underwriting decision is well justified. Loan file reviews must include, at a minimum, an assessment of

- compliance with Fannie Mae requirements by confirming that
  - the loan meets eligibility and underwriting requirements,
  - the underwriting decision is adequately supported and all documentation required to support the decision is contained in the file, and

- 
- the loan is secured by a property that provides acceptable collateral; and
  - compliance with all federal, state, and local laws and regulations. (For additional information, see [A3-2-01, Compliance With Laws](#).)

When the lender's loan file review identifies discrepancies between the data and/or information that was used in the underwriting decision and the data or information verified through the QC process, the lender must reassess the underwriting decision based on the newly verified information to determine whether the loan remains eligible as delivered to Fannie Mae.

*Example:* the loan would be considered to be ineligible as delivered in a case when the lender's review of the settlement statement reveals that the borrower received cash back at closing in an amount that exceeds the limit for limited cash-out refinances, but the loan was underwritten and delivered to Fannie Mae as a limited cash-out refinance.

If the lender determines that the mortgage loan was not eligible as delivered, the lender must advise Fannie Mae of these findings via the Lender Self-Report Mailbox (see [E-1-03, List of Contacts](#)). For additional information, see [D1-3-06, Lender Post-Closing Quality Control Reporting, Record Retention, and Audit](#); and [D1-3-03, Lender Post-Closing Quality Control Review of Data Integrity](#).

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### **Selection of Loans for QC Review**

The lender's QC process must include mechanisms for monitoring the quality of work performed by employees, contractors, vendors, and other third-parties involved in loan origination, property appraisal, processing, underwriting, appraisal review, and closing functions.

The lender must establish and document a process for identifying a representative sample of loans for QC file reviews for both prefunding and post-closing QC. While utilizing discretionary file selections for prefunding QC is appropriate, the post-closing QC process must include both random and discretionary file selections. The lender must assess and understand the holistic risk inherent in its origination processes when determining the appropriate selection methodology and sample size for its prefunding and post-closing discretionary QC sampling.

When considering elements to target for prefunding or post-closing discretionary reviews, the lender should consider risks inherent in its processes as well as errors or defects identified through prior reviews. For example, if the lender identifies a particular source of business as high-risk, it may decide to conduct reviews on a sample of those mortgage originations. Similarly, reviews may be used to target a specific underwriting component (for example, income calculation, asset verification) that has exhibited defect trends, or to assess areas that

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pose unique or elevated risks for the lender or investor, such as loans with delinquencies shortly after origination.

To be effective, the sampling methodology for discretionary review types must be flexible and fluid enough to target loans with higher potential for risk and to be able to adjust as these risks change over time. Prefunding and post-closing discretionary review selection methodologies must be regularly re-evaluated to ensure their effectiveness, and may change frequently as a result of findings from prior reviews or changes in the lender's product mix, staffing, sources of business, or other risk factors.

When the lender sells mortgage loans originated by a third party to Fannie Mae, the lender's QC process must include additional steps to monitor the quality of third-party originations. At a minimum, the lender's QC selection process must include a representative sample of the mortgage loans received from the third-party originator to ensure that those originations meet the lender's standards for loan quality. Review cycles must be structured to ensure that transactions originated by each third-party originator are reviewed at least once annually.

For information on managing third-party originations, see [A3-3-01, Outsourcing of Mortgage Processing and Third-Party Originations](#); for information on prefunding QC review selections, see [D1-2-01, Lender Prefunding Quality Control Review Process](#); and for information on post-closing QC review selections, see [D1-3-01, Lender Post-Closing Quality Control Review Process](#).

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## Reporting and Remediation

QC reports are a critical component of the QC program. They enable management to evaluate and monitor the quality of the lender's loan origination process and to identify specific loans and/or broad based systemic, procedural, or operational issues that need to be addressed or remedied to reduce the lender's defect rate and improve loan quality. When trends are identified through the review process, the lender must establish an action plan for specific corrective action to be taken, including the expected resolution and the time frames for implementation.

The lender must report on the results of both prefunding and post-closing QC file reviews to senior management on no less than a monthly basis. For information on prefunding reporting requirements, see [D1-2-01, Lender Prefunding Quality Control Review Process](#); for information on post-closing reporting requirements, see [D1-3-06, Lender Post-Closing Quality Control Reporting, Record Retention, and Audit](#).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014    |
| <a href="#">Announcement SEL-2013-05</a> | July 30, 2013    |
| <a href="#">Announcement SEL-2012-01</a> | January 31, 2012 |
| <a href="#">Announcement SEL-2010-03</a> | March 29, 2010   |



## D1-1-02, Lender Quality Control Staffing and Outsourcing of the Quality Control Process (12/15/2015)

### Introduction

This topic contains information on lender QC staff and outsourcing, including:

- [Requirements for QC Operations Reporting Structure and Staffing](#)
- [Outsourcing of the QC File Review Process](#)

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### Requirements for QC Operations Reporting Structure and Staffing

To preserve the integrity of the process, all post-closing QC employees (including those related to establishing, monitoring, and enforcing procedures) must be independent of the production, underwriting, and closing departments, except in situations when the size of the lender's organization is insufficient to support adequate resources to allow for separation of these functions. In these cases, the lender's QC plan must include the rationale for the lack of separation as well as the controls that have been established to mitigate the potential risks associated with the lack of separation of these functions.

Lenders must establish minimum requirements for the skill set and expertise of the staff performing the QC file reviews by documenting minimum job qualifications. Lenders are responsible for ensuring that all individuals conducting QC reviews are adequately trained and have sufficient experience levels relative to the reviews being conducted, including manual underwriting and/or loans processed through any automated underwriting systems utilized by the lender. Lenders are also responsible for ensuring that the reviewers conducting more complex



or specialized reviews (for example, appraisals, self-employed borrowers) have the requisite knowledge and experience to do so.

Detailed policies and procedures for the QC file review process must be provided to all employees who will be involved with the QC file reviews.

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### **Outsourcing of the QC File Review Process**

The lender is responsible for developing and maintaining loan quality standards and developing a QC plan to achieve those standards. Fannie Mae holds the lender fully accountable for its overall QC program and for ensuring that QC loan file reviews comply with Fannie Mae's requirements, regardless of whether the work is performed by the lender itself or by an outsourced QC service provider. The lender's contract for services is not a substitute for the lender establishing and maintaining its own QC plan.

The lender must ensure that the QC vendor conducts its reviews in accordance with the lender's QC plan. The QC vendor must have written policies and procedures detailing its review methodologies, including selections, identification of defects and trends, and reporting those results to the lender. The lender must ensure that the vendor's review staff possesses the qualifications and experience required to provide quality reviews and meaningful analysis, and that the vendor's policies and procedures align with the lender's QC policies and procedures and meet Fannie Mae's requirements.

The lender must fully incorporate the results of the vendor's reviews into its QC reporting and remediation processes. The lender must have procedures to associate the appropriate severity levels to the identified defects, and to implement corrective actions within the lender's organization, the same as it would for defects identified by the lender's own QC staff.

The lender's QC plan must include processes for reviewing the vendor's work to ensure that the lender's requirements and guidelines are applied consistently and that the review results accurately reflect the quality of the lender's loan originations. The lender must perform a monthly review of a minimum of 10% of the post-closing QC sample reviewed by the vendor to validate the accuracy and completeness of the vendor's work. The 10% sample must include loans for which the vendor identified defects and for which no defects were identified. This review must be performed by the lender itself, and may not be contracted out.

Reports reflecting the final results of the vendor QC reviews must be produced on a monthly basis. Although Fannie Mae does not specify an exact format, the reports must be useful to management in evaluating and monitoring the quality of the outsourced QC service provider. The reports, at a minimum, must include

- a description of the sample selected for review,



- concurrence rates, and
- discrepancies identified by the lender.

The management reports must focus on inaccuracies uncovered in the current month's review as well as broad trends that are revealed by the vendor QC review process, identifying specific corrective action that is needed.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b> |
|---|-------------------|
| <a href="#"><u>Announcement SEL-2015-13</u></a> | December 15, 2015 |
| <a href="#"><u>Announcement SEL-2014-10</u></a> | July 29, 2014     |
| <a href="#"><u>Announcement SEL-2013-05</u></a> | July 30, 2013     |
| <a href="#"><u>Announcement SEL-2010-03</u></a> | March 29, 2010    |

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# Chapter D1-2, Lender Prefunding QC Mortgage Review



## Lender Prefunding Quality Control Mortgage Review

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### Introduction

This chapter explains the requirements for a lender's prefunding QC review process. It addresses the timing of file reviews and the process for selecting loans, verifying data and documents, and reporting QC results.

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### In This Chapter

This chapter contains the following section:

[D1-2-01, Lender Prefunding Quality Control Review Process \(12/06/2016\)](#) . . . . . 1224

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## D1-2-01, Lender Prefunding Quality Control Review Process (12/06/2016)

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### Introduction

This topic contains information on the lender's prefunding QC process and loan file reviews, including:

- [Overview](#)
  - [Timing of Loan File Reviews](#)
  - [Loan Selection Process](#)
  - [Verification of Data and Documents](#)
  - [Reporting](#)
- 

### Overview

The lender must maintain and implement a written prefunding QC plan that outlines requirements for reviewing a sample of its loans prior to closing or, in the case of loans acquired

from a delegated third party, prior to acquisition. The lender must have documented procedures that include, at a minimum, the following elements:

- timing of the prefunding QC reviews,
- loan selection process,
- verification of data and documents, and
- reporting.

The lender's prefunding QC process should operate independent of the lender's production department, if practical. At a minimum, prefunding QC must be conducted by individuals who have no involvement in the processing and underwriting decision of the loan being reviewed.

The lender's prefunding QC plan must be designed in a manner that supports its ability to identify and address defects prior to closing a loan. The results of prefunding loan file reviews provide important and timely feedback to the origination staff to allow the lender to identify loans with defects (such as analysis or calculation errors, inaccurate data, or inadequate documentation) prior to closing and prevent the lender from delivering ineligible loans to Fannie Mae.

The lender's prefunding QC plan must contain requirements for full reviews of loan files and analysis of data and documents prior to funding. As a supplement to the required full file reviews, the lender may choose to make targeted loan selections designed to focus solely on a specific element of the loan or underwriting component (for example, income and employment, assets, credit, or property). These targeted reviews may be completed without performing a full file QC review.

Fannie Mae encourages lenders to implement independent control points throughout the production lifecycle, such as internal and third-party data and analytical tools. Fannie Mae's own research indicates that these tools can be effective aids in identifying errors and inconsistencies early in the origination process. However, the isolated use of such tools is not a substitute for full file reviews that are a critical component of a comprehensive prefunding QC process.

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### **Timing of Loan File Reviews**

Prefunding QC reviews must be conducted early enough in the origination process to allow adequate time to make loan selections, complete the reviews, and properly inform the loan production organization so that corrections and/or revisions can be made prior to loan closing. Fannie Mae requires reviews to be done when there is sufficient documentation in the file

to perform the required review of data and documents described in Verification of Data and Documents, below.

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### **Loan Selection Process**

The lender must establish and document a process for selecting loans for its prefunding QC reviews. The process must take into account the lender's assessment of the risks inherent in its origination processes, business sources and volume, and product mix, and must be reviewed regularly to ensure that the sample selected, including sample size, is appropriate.

Loans selected for prefunding QC reviews must target areas that the lender identifies as having a higher potential for errors, misrepresentation, or fraud. Targeted areas may include the following:

- loans with characteristics or circumstances related to errors or defects identified in prior prefunding and post-closing review results;
  - loans with complex income calculations (for example, rental income, self-employed, and short history of receipt of income);
  - loans requiring the use of non-standard processing or underwriting guidelines (for example, delayed financing, multiple financed properties, assets used as income, or manual reserve calculations);
  - loans secured by properties located in areas with high delinquency rates or areas experiencing rapid increases or decreases in property values;
  - loans with multiple layers of credit risk, such as high LTV ratios, low credit scores, or high DTI ratios;
  - loans originated or processed through various business sources, a particular branch office, staff person, contractor, third-party originator, or appraiser;
  - loans originated or processed by newly hired loan officers, processors, appraisers, or other personnel or third parties involved in the loan origination process; and
  - loans for which the feedback or results from third-party tools indicate potential areas of concern.
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### **Verification of Data and Documents**

The prefunding QC process must include a review of, at a minimum, the following data and documents to ensure the documents are present and complete, and that the data relied upon in making the underwriting decision is accurate:

- data entered into an automated underwriting system;
- borrower(s)' Social Security number(s);
- income calculations and supporting documentation;
- employment documentation, including verbal verification of employment;
- assets needed to close or meet reserve requirements;
- appraisal, if applicable; and
- documentation of adequate mortgage insurance coverage.

For loans with income or assets validated by the DU validation service, the lender is not required to re-calculate the validated income or assets as part of its prefunding QC review.

For all loans, including those with validated income, employment, or assets, the lender must continue to ensure the information it enters in DU is appropriate based on its review and investigation of any inconsistent or contradictory information in the loan file and the vendor report.

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## **Reporting**

Lenders must establish and implement a process to report defects identified in the prefunding reviews. The process must include

- monthly reporting to senior management,
- communicating to the parties responsible for resolving the defects, and
- documenting the resolution of the defects.

At a minimum, the reports must

- describe the sample selection,
- include defect trending information, and
- summarize the results into a summary report of all prefunding QC findings.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                            | <b>Issue Date</b> |
|---|-------------------|
| <a href="#"><u>Announcement SEL-2016-09</u></a> | December 6, 2016  |
| <a href="#"><u>Announcement SEL-2016-08</u></a> | October 24, 2016  |
| <a href="#"><u>Announcement SEL-2014-10</u></a> | July 29, 2014     |
| <a href="#"><u>Announcement SEL-2013-05</u></a> | July 30, 2013     |
| <a href="#"><u>Announcement SEL-2010-03</u></a> | March 29, 2010    |

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# Chapter D1-3, Lender Post-Closing QC Mortgage Review



## Lender Post-Closing Quality Control Mortgage Review

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### Introduction

This chapter explains the requirements for a lender's post-closing QC review process. It addresses the timing of file reviews and the process for selecting loans, verifying data and documents, and reporting QC results. It also describes the process for monitoring and assessing the work performed by appraisers.

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### In This Chapter

This chapter contains the following topics:

|  |      |
|--|------|
| D1-3-01, Lender Post-Closing Quality Control Review Process (10/24/2016) . . . . .   | 1230 |
| D1-3-02, Lender Post-Closing Quality Control Review of Approval Conditions, Underwriting Decisions, and Documentation (12/06/2016) . . . . . | 1234 |
| D1-3-03, Lender Post-Closing Quality Control Review of Data Integrity (07/30/2013) . . . . .   | 1239 |
| D1-3-04, Lender Post-Closing Quality Control Review of Appraisers and Appraisals (12/15/2015) . . . . .                                      | 1241 |
| D1-3-05, Lender Post-Closing Quality Control Review of Closing Documents (06/30/2015) . . . . .  | 1244 |
| D1-3-06, Lender Post-Closing Quality Control Reporting, Record Retention, and Audit (02/23/2016) . . . . .                                   | 1245 |

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## **D1-3-01, Lender Post-Closing Quality Control Review Process (10/24/2016)**

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### **Introduction**

This topic contains information on the lender's post-closing QC mortgage review process and selecting mortgage loans for the post-closing QC reviews, including:

- [Loan File Review Process](#)
  - [Timing of QC Review Process](#)
  - [Loan Selection Process](#)
  - [Random Mortgage Selections and Statistical Sampling](#)
  - [Discretionary Mortgage Selections](#)
- 

### **Loan File Review Process**

The lender's written QC plan must include processes for evaluating and monitoring the overall quality of the lender's mortgage production and its reverification procedures.

The post-closing mortgage loan file review process must include a review of the loan to assess the accuracy and integrity of the information used to support the lending decision, the documentation of any defects identified through the review, and an assessment as to whether or not the loan complies with the *Selling Guide*, all related contractual terms and agreements, and is in all respects eligible for delivery to Fannie Mae.

At a minimum, the review must include an evaluation of

- the accuracy and completeness of the loan application;
- the existence and accuracy of the underwriting documents, including reverifications of underwriting documents, and a data integrity review;
- the underwriting decision to confirm it is supported;
- the output from any third-party data analysis tools;
- the data entered into DU, if applicable;
- the appraisal, if applicable;



- the property eligibility;
  - the project eligibility, if applicable;
  - compliance with the mortgage insurer's guidelines, and documentation of adequate mortgage insurance coverage;
  - the existence and accuracy of legal, transaction documentation (for example, sales contract), and closing documentation; and
  - compliance with all federal, state, and local laws and regulations. (For additional information, see [A3-2-01, Compliance With Laws.](#))
- 

### Timing of QC Review Process

Mortgage loans must be selected for post-closing QC reviews on at least a monthly basis. The entire QC process (selection, review, rebuttal, and reporting) must be completed within 120 days from the month of the loan closing. The required timelines for each component are

- 30 days for loan file selection,
- 60 days for QC review and rebuttal, and
- 30 days for reporting.

For example, selections for post-closing QC reviews of loans originated during the month of May must be made by the last day of June. Reviews must be completed by the end of August, and the final results of the reviews must be reported to senior management not later than the end of September.

**Note:** Lenders must notify Fannie Mae via the Lender Self-Report Mailbox within 30 days if their QC cycle is in arrears more than one 30-day cycle.

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### Loan Selection Process

Mortgage loans must be selected for post-closing QC reviews on at least a monthly basis. Lenders must select loans through both a random and a discretionary selection process. The lender's written QC plan must include the following information regarding its mortgage loan sampling process:

- 
- the types and frequency of selections, and
  - a defined process for selecting mortgage loans for QC review.

See [D1-1-01, Lender Quality Control Programs, Plans, and Processes](#), for additional information.

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### **Random Mortgage Selections and Statistical Sampling**

The lender must select for its post-closing QC review a minimum of 10% of the mortgage loans that it originates or acquires from a third party using a random selection methodology (unless a statistical sampling methodology is used). If 10% is less than one loan, then at least one loan must be selected. The mortgages selected must be representative of the lender's overall book of business, including

- all of the different types of mortgage loans that the lender offers,
- mortgage loans originated by each branch office and by third-party originators, and
- manually underwritten loans as well as loans that were processed through automated underwriting system(s) utilized by the lender.

If the lender uses a statistical sampling for its selection process instead of the standard 10% random selection process, it must document the methodology and provide, upon request, a detailed written justification of the methodology, including the following information:

- method for making a statistical selection;
- variables used in the selection model and how they are defined (for example, population size, precision rate, percentage of defect rate, and confidence level); and
- the results of periodic evaluations of the process and variables, and establishment of time periods for the evaluations.

Fannie Mae may require adjustments to the statistical methodology based upon its review.

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### **Discretionary Mortgage Selections**

Discretionary QC samples are a required element for post-closing QC plans. These selections supplement (but do not replace) a lender's random (or statistical) sample. The purpose of a discretionary sample is to look for or highlight areas that may pose unique or elevated levels of risk for the lender or to confirm that a particular control or process is working as intended.

The lender must establish a process for selecting loans for its discretionary post-closing QC selections. The process must take into account the lender's assessment of the risks inherent in its origination processes, business sources and volume, and product mix, and must be reviewed regularly and, when necessary, adjusted to ensure that the sample selected, including sample size, is appropriate.

Loans selected for post-closing discretionary QC reviews must target areas that the lender identifies as having a higher potential for errors, misrepresentation, or fraud. Targeted areas may include the following:

- loans with characteristics related to errors or defects identified in prior prefunding and post-closing review results;
- loans with complex income calculations (for example, rental income, self-employed, short history of receipt of income);
- loans requiring the use of non-standard processing or underwriting guidelines (for example, delayed financing, multiple financed properties, assets used as income, or manual reserve calculations);
- loans secured by properties located in areas with high delinquency rates or areas experiencing rapid increases or decreases in property values;
- loans with multiple layers of credit risk, such as high LTV ratios, low credit scores, or high DTI ratios;
- loans originated or processed through various business sources, a particular branch office, staff person, contractor, third-party originator, or appraiser;
- loans originated or processed by newly hired loan officers, processors, appraisers, or other personnel or third parties involved in the loan origination process;
- loans that may be subject to concerns about delinquency rates or patterns identified in other reviews; and
- loans for which the feedback or results from third-party tools indicates potential areas of concern.

**Note:** Fannie Mae requires the lender to sample loans that have a high risk for fraud as part of its QC process. This includes loans that are early payment defaults. (See [A3-4-03, Preventing, Detecting, and Reporting Mortgage Fraud.](#))

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016  |
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2013-05</a> | July 30, 2013     |
| <a href="#">Announcement SEL-2012-01</a> | January 31, 2012  |
| <a href="#">Announcement SEL-2010-03</a> | March 29, 2010    |



## D1-3-02, Lender Post-Closing Quality Control Review of Approval Conditions, Underwriting Decisions, and Documentation (12/06/2016)

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### Introduction

This topic contains information on the lender's post-closing QC review of underwriting documents, including:

- [Overview](#)
- [Review of Underwriting Decision and Approval Conditions](#)
- [Review of DU Findings and Conditions](#)
- [General Requirements for Reverifications](#)
- [Use of IRS Form 4506-T in the Lender's QC Plan](#)
- [Reverification of Borrower Income, Employment, and Asset Information](#)
- [Reverification of Borrower's Credit History](#)
- [Verification of Owner-Occupancy](#)

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### Overview

The lender must verify the accuracy and integrity of the information used to support the lending decision for any mortgage loans selected for a QC review. All reverification documentation must be retained either in the underwriting file or in the lender's QC records. The lender's QC plan must document where the reverifications will be maintained.

When the reverifications are performed by an outsource vendor, it is acceptable for the reverification documentation to be maintained with the vendor rather than in the underwriting or QC files. In such cases, the vendor must provide the lender with the results of the reverification findings, which must be accessible to the lender along with the reverification documentation for at least three years from the date of the review and must be provided to Fannie Mae upon request.

When information obtained through the reverification process differs from the information utilized in the underwriting of the loan, the lender must re-underwrite the loan to verify that the loan remains eligible as delivered to Fannie Mae.

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### **Review of Underwriting Decision and Approval Conditions**

The lender must confirm that the mortgage loan was underwritten in accordance with Fannie Mae's requirements and that adequate support for the underwriting decision is contained in the loan file.

The lender must confirm that all loan approval conditions required by the underwriter were satisfied and that the information on the closing documents, including the settlement statement, is consistent with the underwriting decision and the final terms of the mortgage loan.

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### **Review of DU Findings and Conditions**

For loans underwritten through DU, the lender must confirm that all DU Verification Messages/Approval Conditions that appear in the DU Underwriting Findings report were satisfactorily resolved and adequately supported by appropriate documentation. If DU returned an Ineligible recommendation, the reviewer must confirm that the loan was eligible for delivery to Fannie Mae.

For additional information on circumstances under which an Ineligible recommendation may be acceptable, see Chapter B3-2, Desktop Underwriter (DU).

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### **General Requirements for Reverifications**

When conducting the required post-closing QC reviews on loans selected through the random selection process, the reverifications or reviews noted below must be performed for all selected loans.

As part of its discretionary loan selection process, the lender may choose to make targeted loan selections designed to focus solely on a specific element of the loan, such as product, business source, or underwriting component (for example, income and employment, assets, credit, or property).

When conducting the required discretionary post-closing QC reviews, the lender must consider the purpose of the targeted selection when determining whether certain reverifications are necessary. For example, if the purpose of the targeted selection is to focus specifically on income calculations, reverification of assets or a review of the appraisal is not within the scope of the review and is not required to be completed; however, reverifications of income and employment are required. If the purpose of the targeted selection is to review loans originated through a new source of business, then all areas of the loan are in the scope of the review and all reverifications noted below must be performed. The lender must assess the purpose of the targeted loan selection and conduct the reverifications or reviews noted below as appropriate.

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### **Use of IRS Form 4506-T in the Lender's QC Plan**

Fannie Mae requires lenders to have the execution of IRS Form 4506-T with the IRS (or designee) in their written QC plan. For all loans reviewed through the random selection process (and for loans selected through the discretionary selection process, as applicable) the post-closing QC review must include the lender's execution of the IRS Form 4506-T with the IRS (or designee). Transcripts must be obtained for all income types used in the underwriting process (personal and business, if applicable). If tax returns were required in the underwriting of the loan, the lender must obtain transcripts for the same tax years as documented by the borrower's tax returns. The lender must reconcile the transcript information received from the IRS with the income documents in the loan file. See [B3-3.1-06, Requirements and Uses of IRS Form 4506-T](#), for detailed information.

The following exceptions apply:

- Lenders that obtain the appropriate IRS transcripts during their pre-closing process (processing and underwriting) may use the same documents in their post-closing QC process without ordering new transcripts.
  - Execution of the IRS Form 4506-T for an individual borrower is not required when all of that borrower's income was validated by DU.
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### **Reverification of Borrower Income, Employment, and Asset Information**

For all loans selected via the random selection process (and for loans selected through the discretionary selection process, as applicable) the post-closing QC review must include reverification of the borrower's income, employment, and asset information.

The lender must reverify the borrower's income and employment information directly with the source of the original documentation. The reverification should be in writing; however a verbal reverification is acceptable provided the lender documents the conversation in writing, stating the name, title or position, and contact information of the interviewee. The reverification

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documentation must be maintained in the underwriting file. If the employer does not provide verification of a borrower's income, the loan file must be documented to state the date the information was requested, but that it was not obtained. Reverification procedures may be supplemented with alternative information sources available on the Internet, maintained by state or local licensing authorities, and other third parties.

The following exceptions apply:

- If, during origination, the lender verified retirement and disability Social Security income by obtaining proof of current receipt (that is, bank statements showing direct deposit of the income into the borrower's account), then the lender is not required to reverify the income with the Social Security Administration (SSA). If, however, verification of this income at origination was with a copy of the SSA award letter, then reverification directly with the SSA is required.
- If income or employment for an individual borrower was validated by DU, reverification of the validated income and employment (and recalculation of the validated income) is not required.
- If assets were validated by DU, reverification and recalculation of the validated assets is not required.

Fannie Mae recognizes that reverification of asset information directly from the borrower's financial institution may not be possible in all instances. Fannie Mae requires that the lender attempt to reverify the borrower's assets (including, if necessary, incurring any fee that the financial institution may charge to provide a reverification of assets) and reconcile the information from the financial institution with information in the underwriting file. If the reverification of asset information cannot be obtained from the financial institution, the lender should document its attempt in its QC records.

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### **Reverification of Borrower's Credit History**

For all loans selected via the random selection process (and for loans selected through the discretionary selection process, as applicable) the post-closing QC review must include reverification of the borrower's credit history.

If a borrower's credit was evaluated by using a traditional credit report, the lender must reverify the borrower's credit history by obtaining a new tri-merge credit report. The new report does not need to include trended credit data even if reflected on the credit report used for underwriting purposes. Lenders are not required to analyze trended credit data in the new credit report.

If a borrower's credit history was evaluated by using nontraditional credit or a nontraditional mortgage credit report, the lender must reverify each of the credit references on that report. If the

lender obtained written references from creditors, the lender’s QC review process must include reverification of each of the credit references.

The liability information obtained on the new credit report must be reconciled against the credit report or references used at the time of underwriting the loan to identify any discrepancies or the existence of any debt that may not have been taken into account when the loan was underwritten. The lender must also review any “potential red flag” messages appearing in the DU Underwriting Findings report or alerts created by sources other than DU associated with the credit report to ensure all messages have been addressed and documented, and that the loan is eligible for sale to Fannie Mae.

### Verification of Owner-Occupancy

For all loans secured by a principal residence that are selected via the random selection process (and for loans selected through the discretionary selection process, as applicable) the post-closing QC review must include verification of owner-occupancy. The lender must review the property insurance policy and other documentation in the file (for example, appraisal, income tax returns or transcripts) to confirm that there are no indicators that the property is not the borrower’s principal residence.

### Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

| <b>Announcements and Release Notes</b>   | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-09</a> | December 6, 2016  |
| <a href="#">Announcement SEL-2016-08</a> | October 24, 2016  |
| <a href="#">Announcement SEL-2016-04</a> | May 31, 2016      |
| <a href="#">Announcement SEL-2015-13</a> | December 15, 2015 |
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014     |
| <a href="#">Announcement SEL-2013-05</a> | July 30, 2013     |
| <a href="#">Announcement SEL-2013-04</a> | May 28, 2013      |
| <a href="#">Announcement SEL-2012-07</a> | August 21, 2012   |
| <a href="#">DU Version 9.0</a>           | July 24, 2012     |
| <a href="#">Announcement SEL-2012-01</a> | January 31, 2012  |
| <a href="#">Announcement SEL-2010-03</a> | March 29, 2010    |





## D1-3-03, Lender Post-Closing Quality Control Review of Data Integrity (07/30/2013)

### Introduction

This topic contains information on the lender's post-closing QC review of data integrity, including:

- [Verification of Data Integrity](#)
- [Review of Potential Red Flag and Alert Messages](#)
- [Review of Social Security Number](#)

### Verification of Data Integrity

The lender must review the final terms of the loan to ensure they align with data on which the underwriting was based. When a lender's loan file review identifies discrepancies between the data that was used in the underwriting decision and the data verified through the QC process, the lender must reassess the underwriting decision based on the newly verified information to determine whether the loan remains eligible as delivered to Fannie Mae.

For mortgages processed through DU, the lender must ensure that all data submitted to DU is true, correct, and complete. The lender must verify that the loan file contains documentation that supports all data submitted to DU to process the mortgage loan. The lender must ensure that all of the borrower's liabilities were included in DU's analysis.

When there are inconsistencies between the data and/or information submitted to DU (or used for manual underwriting) and the source documents, the lender must

| Step | Description   |
|------|---|
| 1    | Determine whether discrepancies are within the tolerances permitted by this Guide (see <a href="#">B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report</a> , and <a href="#">B3-6-02, Debt-to-Income Ratios</a> ).   |
| 2    | For loans underwritten through DU, if discrepancies are outside the DU allowed tolerances, resubmit the mortgage loan to DU using the correct data. If the lender is unable to resubmit the loan to DU, the lender must manually perform a comprehensive risk assessment using the documentation required by DU, to determine if the loan meets the <i>Selling Guide</i> requirements for manually underwritten loans. The DU limited waiver of representations and warranties is |

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| Step | Description   |
|------|---|
|      | <p>invalidated when loans that exceed DU tolerances are not resubmitted to DU. For additional information, see <a href="#">B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report</a>.</p> <p><b>Note:</b> DU-only products are not eligible for a manual comprehensive risk assessment.</p> <p>For manually underwritten loans, if discrepancies are outside of the allowed tolerances, the lender must manually perform a comprehensive risk assessment to determine if the loan meets <i>Selling Guide</i> requirements. For additional information, see <a href="#">B3-6-02, Debt-to-Income Ratios</a>.</p> |
| 3    | Make a determination as to whether or not the loan, with the correct data taken into consideration, remains eligible as delivered to Fannie Mae, either through the receipt of a DU recommendation of Approve/Eligible, or through manually underwriting the loan, if appropriate.  |
| 4    | If the lender determines that the mortgage loan was eligible as delivered, the lender must document the underwriting file to reflect its decision.  |
| 5    | If the lender determines that the mortgage loan was not eligible as delivered, the lender must advise Fannie Mae of these findings via the Lender Self-Report Mailbox (see <a href="#">E-1-03, List of Contacts</a> ). For additional information, see <a href="#">D1-3-06, Lender Post-Closing Quality Control Reporting, Record Retention, and Audit</a> .  |

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### Review of Potential Red Flag and Alert Messages

The lender's loan file review process must include a review of any "potential red flag" messages appearing in the DU Underwriting Findings report or alerts created by sources other than DU, such as those associated with credit reports or Social Security verification systems, to ensure that all messages have been addressed and documented, and that the mortgage loan is eligible as delivered to Fannie Mae.

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### Review of Social Security Number

As part of the lender's loan file review process, the lender must ensure that the borrower(s)' Social Security number on loans selected for review is consistent in all file documentation and any requirements for validation of the Social Security number were satisfied prior to closing. For additional information, see [B2-2-01, General Borrower Eligibility Requirements](#).

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcement                             | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2013-05</a> | July 30, 2013    |
| <a href="#">Announcement SEL-2012-01</a> | January 31, 2012 |
| <a href="#">Announcement SEL-2010-03</a> | March 29, 2010   |
| <a href="#">Announcement SEL-2010-01</a> | March 2, 2010    |



## D1-3-04, Lender Post-Closing Quality Control Review of Appraisers and Appraisals (12/15/2015)

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### Introduction

This topic contains information on the lender's post-closing QC review of appraisers and appraisals, including:

- [Overview](#)
- [Oversight of Appraisers](#)
- [Verification of Appraisals by Field Review](#)
- [Appraisal Field Review Forms](#)
- [Verification of Appraisals by Desk Review](#)
- [Reporting](#)

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### Overview

The lender must continually evaluate the quality of its appraisals through the normal underwriting review of all appraisal reports, and by utilizing field reviews and desk reviews as part of the QC process. (See Chapter B4-1, Appraisal Guidelines, for additional information regarding appraisal policies, guidelines, and requirements.) The lender should also utilize third-party tools and information (such as analytical tools, public record databases, and automated valuation models) to help identify areas of inaccuracy and/or inconsistencies that may be indicators of appraisal deficiencies.

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## Oversight of Appraisers

The lender's QC plan must include requirements for monitoring and assessing the overall quality of work performed by an appraiser, including a process for loan-level QC reviews of origination appraisals. Fannie Mae holds the lender fully accountable for the quality of the QC appraisal reviews regardless of whether the work is performed by the lender itself or by an outsourced QC service provider.

The lender must also develop and maintain a documented process to monitor the appraisers it uses. The process, at a minimum, must include an annual review of an appraiser's state licensing or certification status and a procedure for suspending or terminating business with individual appraisers. Additionally, the lender must have a procedure for referring appraisers to the applicable state appraiser licensing and regulatory board.

See [B4-1.3-12, Quality Assurance](#), for information concerning Fannie Mae's right to refuse to accept appraisals prepared by specific appraisers.

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## Verification of Appraisals by Field Review

The lender must obtain an appraisal field review to evaluate the appraisal for 10% of the mortgage loans selected for QC review in the random sample. The calculation of the 10% field review requirement need only be based on loans that have an appraisal.

When identifying the 10% sample on which to conduct a field review, the lender may use a random or targeted sampling approach that allows for higher-risk transactions (or appraisals) to be selected. The field review must be prepared by an appropriately licensed or certified appraiser who is not affiliated with the original appraiser or appraisal firm.

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## Appraisal Field Review Forms

Fannie Mae requires the use of the following forms when completing a field review:

- *One-Unit Residential Appraisal Field Review Report* ([Form 2000](#))
  - *Two- to Four-Unit Residential Appraisal Field Review Report* ([Form 2000A](#))
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## Verification of Appraisals by Desk Review

The lender must complete a desk review to evaluate the appraisal for the remaining 90% of mortgage loans the lender has selected for QC review as part of its random sample. It is

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acceptable for the desk review to be completed by an individual who is not a licensed or certified appraiser; however, the appraisal reviewer must be competent in the application of basic appraisal theory for

- assessing market risk;
- determining if a property meets eligibility requirements, including the LTV, CLTV, and HCLTV ratios; and
- prescribing corrective actions in the underwriting process when defects are identified.

Fannie Mae permits lenders to use automated valuation models as a tool in the completion of the valuation assessment.

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## Reporting

The lender must review the results of the field review or desk review to determine whether any defects are identified. If the lender determines that the mortgage loan was not eligible as delivered, the lender must advise Fannie Mae of these findings via the Lender Self-Report Mailbox (see [E-1-03, List of Contacts](#). For additional information, see [D1-3-06, Lender Post-Closing Quality Control Reporting, Record Retention, and Audit](#).

Example: The lender delivered a two-unit property loan to Fannie Mae and, after reviewing the appraisal, the lender determines that the property is a mixed-use property. Because mixed-use properties are limited to one-unit dwellings, the loan is ineligible as delivered to Fannie Mae and the lender must self-report the loan.


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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2015-13</a> | December 15, 2015 |
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014     |
| <a href="#">Announcement SEL-2013-05</a> | July 30, 2013     |
| <a href="#">Announcement SEL-2010-16</a> | December 1, 2010  |
| <a href="#">Announcement SEL-2010-03</a> | March 29, 2010    |

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## **D1-3-05, Lender Post-Closing Quality Control Review of Closing Documents (06/30/2015)**

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### **Introduction**

This topic contains information on the lender's post-closing QC review of the transaction and closing documents.

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### **Review of Transaction and Closing Documents**

The lender must review each transaction and closing document for completeness, accuracy, and compliance with all underwriting and eligibility requirements, and to ensure adherence to the loan transaction. The following list reflects the most common documents that must be included in the post-closing document review. The list is not intended to be all-inclusive, and lenders must exercise judgment when determining other documents to include in the review process.

- *Uniform Residential Loan Application* (Form 1003 or 1003(S))
- Signed sales contract and any applicable addenda
- Recorded security instrument and any applicable riders or addenda
- Mortgage loan note
- Assignment of the mortgage loan
- Mortgage insurance certificate or policy
- VA loan guaranty certificate, RD loan note guarantee, FHA mortgage insurance certificate, or HUD Indian loan guarantee certificate, as applicable
- Title evidence
- Plat or survey, as applicable
- Final Truth in Lending disclosure, as applicable
- Settlement statement
- Evidence of property and, if applicable, flood insurance
- Other closing documents, as applicable

**Note:** If recorded documents are not available when the post-closing QC review is performed due to timing requirements for the reviews and the length of time the jurisdictions need for recording, the lender should review a copy of the document sent for recordation. The lender must also have a process to review the recorded documents when received to ensure their accuracy, and remediate any errors.

If errors are discovered in the post-closing review process, lenders must

- determine the significance of the errors;
- promptly correct the document(s) or obtain corrected document(s) from the vendor (for example, mortgage or property insurer or title company); and
- provide corrected documents to the document custodian, if applicable.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015    |
| <a href="#">Announcement SEL-2013-05</a> | July 30, 2013    |
| <a href="#">Announcement SEL-2012-01</a> | January 31, 2012 |
| <a href="#">Announcement SEL-2011-03</a> | March 31, 2011   |
| <a href="#">Announcement SEL-2010-10</a> | August 12, 2010  |
| <a href="#">Announcement SEL-2010-03</a> | March 29, 2010   |



## **D1-3-06, Lender Post-Closing Quality Control Reporting, Record Retention, and Audit (02/23/2016)**

### Introduction

This topic contains information about the post-closing QC process pertaining to the following:

- [Lender's Internal QC Reporting](#)
- [Lender's Responsibilities for Self-Reporting to Fannie Mae](#)
- [Record Retention and Response to Fannie Mae Requests](#)
- [Audit Review of the QC Process](#)

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## **Lender's Internal QC Reporting**

The final results of the QC reviews must be reported to the lender's senior management within 30 days after the month in which the QC review is completed. For example, selections for post-closing reviews of loans originated during the month of May must be made by the last day of June. Reviews must be completed by the end of August and the results of the reviews must be reported to senior management not later than the end of September.

Although Fannie Mae does not specify an exact format for reports, the lender must design reports that are useful to management for evaluating and monitoring the quality of the lender's mortgage loan production. The management reports must cover QC results at a high level by focusing on defects and broad trends that are revealed by the review process, as well as identifying mortgage loans or items that need specific corrective action.

Reporting needs are unique to each lender; however, at a minimum, post-closing QC reports must be produced monthly and

- reflect the final defect rate for the results of the current review period (taking into account responses and resolution of the initial QC findings);
- include trending information (issues and top defects);
- distinguish between defects related to compliance with federal, state, or local laws and regulations and underwriting and eligibility defects;
- report on each type of review (random and discretionary) and provide results using consistent methodology and terminology across review types;
- include intended corrective actions; and
- summarize the results of each individual review type into a comprehensive, summary report of all QC findings.

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## **Lender's Responsibilities for Self-Reporting to Fannie Mae**

The lender must notify Fannie Mae within 30 days of confirmation that one or more defects identified through the QC file review process results in the loan being ineligible as delivered to Fannie Mae. Notification must be made via the Lender Self-Report Mailbox (see [E-1-03, List of Contacts](#)).

When making the self-report to Fannie Mae, the lender must provide Fannie Mae with a written report of its findings and copies of the relevant documentation that support the reason for the finding. For example, if tax return transcripts reveal that qualifying income was inaccurate such



that the borrower was not qualified for the loan on the terms and pricing offered, the lender should provide copies of the original income documentation and the tax return transcripts with its notification to Fannie Mae.

For information on the lender's responsibility to self-report any misrepresentation, fraud, or other possible breach of a selling warranty or compliance with laws, see [A2-2-01, Contractual Representations and Warranties](#), [A3-2-01, Compliance With Laws](#), and [A3-4-03, Preventing, Detecting, and Reporting Mortgage Fraud](#).

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### **Record Retention and Response to Fannie Mae Requests**

The lender must retain all written and electronic records that are created as part of a QC review process for a minimum of three years. These records include documentation of QC reports, QC review findings, as well as documentation related to any corrective actions. The lenders must provide Fannie Mae with a copy of its records upon request.

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### **Audit Review of the QC Process**

The lender must have an audit process to ensure that its QC process and procedures are followed by the QC staff, and that assessments and conclusions are recorded and consistently applied. The findings must be accurately recorded and consistent with the defects noted in the lender's system of record.

Results of the QC audit must be distributed to senior management. Management must distribute the results to the appropriate areas within the organization and an action plan must be established for remediation or changes to policies or processes, if appropriate. The lender must provide a copy of the QC audits and the audit of the QC process to Fannie Mae upon request.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

| <b>Announcements</b>                     | <b>Issue Date</b> |
|--|-------------------|
| <a href="#">Announcement SEL-2016-02</a> | February 23, 2016 |
| <a href="#">Announcement SEL-2014-10</a> | July 29, 2014     |
| <a href="#">Announcement SEL-2013-05</a> | July 30, 2013     |
| <a href="#">Announcement SEL-2012-01</a> | January 31, 2012  |
| <a href="#">Announcement SEL-2010-03</a> | March 29, 2010    |



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# Subpart D2, Fannie Mae QC Process



## Fannie Mae QC Process

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### Introduction

Fannie Mae's Loan Quality Center reviews a sample of the mortgage loans purchased or securitized by Fannie Mae to ensure that they meet its underwriting and eligibility requirements. This subpart describes Fannie Mae's policies and practices with respect to the selection, review, and reporting of results; and the lender's responsibilities for participating in this process. Fannie Mae also reviews servicing files with the primary focus of confirming that the mortgage loan has been serviced in accordance with the *Servicing Guide* and Lender Contract. See the *Servicing Guide* for a description of the servicing QC process.

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### In This Subpart

This subpart contains the following chapters:

[D2-1, General Information on Fannie Mae QC Process](#) ..... 1250

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# Chapter D2-1, General Information on Fannie Mae QC Process



## Overview

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### Introduction

This chapter provides general information on the Fannie Mae QC reviews that focus on underwriting and eligibility requirements.

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### In This Chapter

This chapter contains the following topics:

|  |      |
|--|------|
| D2-1-01, General Information on Fannie Mae QC Reviews (11/03/2015) .....                                 | 1250 |
| D2-1-02, Fannie Mae QC File Request and Submission Requirements (05/26/2015) .....                       | 1252 |
| D2-1-03, Outcomes of Fannie Mae QC Reviews (11/03/2015) .....  | 1254 |
| D2-1-04, Identifying and Remediating Origination Defects Under the Remedies Framework (08/30/2016) ..... | 1257 |

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## D2-1-01, General Information on Fannie Mae QC Reviews (11/03/2015)

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### Introduction

This topic contains general information on Fannie Mae's QC reviews, including:

- [Fannie Mae's QC Policy](#)
  - [Fannie Mae QC Reports](#)
- 

### Fannie Mae's QC Policy

Fannie Mae has QC policies and procedures in place for its review of performing and non-performing mortgage loans. Fannie Mae uses a statistically valid approach in selecting a random

sample of new mortgage loan deliveries for review. The random sample is augmented with targeted, discretionary sampling, which aids in the measurement of the overall quality of loan deliveries. The QC process evaluates loan files on a comprehensive basis with the primary focus of confirming that mortgage loans meet Fannie Mae's underwriting and eligibility requirements. The satisfactory conclusion of QC reviews may also result in mortgage loans being eligible for relief from enforcement for breaches of certain representations and warranties. See [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#), for additional information.

The QC process also provides lenders with data and feedback about the quality of their loan origination process. The goal is to engage lenders in frequent, meaningful exchanges of information about trends in the quality of delivered loans and to inform lenders about significant underwriting deficiencies identified through the review process. Together, Fannie Mae and its lenders should share a commitment to improving the quality of loan originations.

Fannie Mae's QC policies are administered by its Loan Quality Center. The selection process may change at any time to address risk concerns.

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### **Fannie Mae QC Reports**

Fannie Mae provides lenders with ongoing feedback about their overall QC performance. The feedback identifies defect types, reporting on frequent or common defects, and describes quality trend analyses and significant underwriting deficiencies identified through the QC loan file review process. This information is provided through a variety of methods that range from regular electronic transmissions to more formal periodic discussions.

The detailed loan-level reports that lenders receive identify significant defects, findings, and loans with no identified defects.

Fannie Mae's quality control process provides lenders with a holistic view of loan quality by identifying loans with significant defects as well as loans that had findings that do not affect the overall eligibility. Fannie Mae believes that providing this additional feedback supplies lenders with an important source of information that can lead to improving loan quality in the future. At times this reporting may contain nonpublic personal information (NPI). Fannie Mae shares this NPI with lenders in compliance with permitted purposes under applicable privacy laws. See [A3-4-01, Confidentiality of Information](#), for additional information.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015 |
| <a href="#">Announcement SEL-2014-07</a> | June 24, 2014    |
| <a href="#">Announcement SEL-2013-03</a> | April 09, 2013   |



## D2-1-02, Fannie Mae QC File Request and Submission Requirements (05/26/2015)

### Introduction

This topic contains information on Fannie Mae QC requests for files, including:

- [Notification of a QC Review](#)
- [Document Submission Requirements](#)
- [File Delivery Timeline](#)

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### Notification of a QC Review

Lenders are notified which mortgage loans Fannie Mae has selected for QC review via an email sent by Fannie Mae's Quality Assurance System (QAS). Therefore, lenders are required to register for QAS to obtain access to it.

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### Document Submission Requirements

Lenders must maintain a complete mortgage loan file, including all documents used to support the underwriting decision. Upon Fannie Mae's request, lenders must provide electronic copies of the complete mortgage loan file, as described in the request.

The Loan Quality Center (LQC) supports two methods of electronic loan file delivery – the LQC File Transfer (LQC FT) Portal and a Lender Direct Business-to-Business (B2B) process

(generally for lenders with higher volumes of loan file selections). Lenders should contact the Loan Quality Center for assistance in determining which electronic option best aligns with their business needs and operations, and to initiate the on-boarding process, if they have not already done so. See the following resources for additional information:

- [LQC FT Portal](#);
- [E-1-03, List of Contacts](#), for the Loan Quality Center; and
- [Quality Assurance System](#), for information about QAS.

Note that lenders should not upload loan files to QAS, but must use either the LQC FT Portal or the Lender Direct B2B process to ensure receipt. All loan files submitted electronically will be viewable to lenders in QAS upon confirmation.

Loan files sent electronically must include clear, complete “copies” of any required paper documents. Lenders should remove all duplicate documents before sending in the file. The requested files must include the applicable documentation listed in the *Post-Closing Loan File Document Checklist* ([Form 1032](#)). For information concerning the required contents of a mortgage loan file, see [A2-5.1-02, Individual Mortgage Loan Files](#). (Completion and submission of Form 1032 is optional.) Lenders must follow the electronic submission naming protocol to associate the Fannie Mae loan number with the electronic file.

Lenders that are unable to submit loan files in one of the supported formats should contact the Loan Quality Center to determine if an alternate format may be used as an interim submission method. To avoid non-compliant loan files, lenders should not submit loan files using an alternate method without approval from the Loan Quality Center to ensure that Fannie Mae can access and review the loan file documentation and that the lender receives credit for the loan file submission. Loan files submitted using an alternate method (for example, paper files) without prior approval from the Loan Quality Center may not be accepted.

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### **File Delivery Timeline**

Lenders must send the requested documentation for an underwriting or servicing review within 30 days after Fannie Mae notifies the lender that it has selected a mortgage loan for review. Fannie Mae, in its sole discretion, may request the documentation in a shorter or longer period of time based upon circumstances at the time.

Fannie Mae will make every effort to work with lenders when extenuating circumstances prevent them from delivering documentation in a timely manner. However, if a lender delays in providing the requested information, Fannie Mae, in its sole discretion, may require

indemnification or repurchase (depending on the circumstances of the individual case) of these mortgage loans. When a lender has a pattern of extensive delays or unresponsiveness, Fannie Mae may consider this a breach of contract and consider other actions against the lender, up to and including termination.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date        |
|--|-------------------|
| <a href="#">Announcement SEL-2015-06</a> | May 26, 2015      |
| <a href="#">Announcement SEL-2014-13</a> | November 10, 2014 |
| <a href="#">Announcement SEL-2013-03</a> | April 9, 2013     |
| <a href="#">Announcement SEL-2010-03</a> | March 29, 2010    |



## D2-1-03, Outcomes of Fannie Mae QC Reviews (11/03/2015)

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### Introduction

This topic describes the possible outcomes of Fannie Mae QC reviews, including:

- [Definition of Origination Defects Under the Remedies Framework](#)
- [Criteria for Determining Significant Defects Under the Remedies Framework](#)
- [Breach of Mortgage Insurance Policy](#)

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### Definition of Origination Defects Under the Remedies Framework

Upon completion of a full-file quality control review for loans covered by the remedies framework, Fannie Mae will designate any defect uncovered during that review as one of the following:

- A “finding” is one or more defects that, when considered with other loan features, does not necessitate a change in the price of the loan or result in the loan being unacceptable even if the



true and accurate facts about the loan had been known at the time Fannie Mae purchased or securitized the loan.

- A “price-adjusted loan (PAL)” has one or more defects that, when considered with other loan features and based on the facts of the loan as purchased or securitized by Fannie Mae, result in a loan that was otherwise eligible for delivery had the correct data been delivered and LLPA been paid to Fannie Mae by the lender.
- A “significant defect” is one or more defects that either necessitates a change to the price on which the loan was acquired or result in the loan being unacceptable for purchase had the true and accurate information about the loan been known at time of purchase. Loans with findings and PALS are not loans with significant defects.

See [A2-3.2-03, Remedies Framework](#), for additional information about the remedies framework.

### Criteria for Determining Significant Defects Under the Remedies Framework

In determining whether there is a significant defect on a loan covered by the remedies framework, Fannie Mae must give due consideration to the severity of the defect. In addition, the defect must relate to one of the following:

| Significant Defect Criteria Related To                               | Examples  |
|--|---|
| the underwriting of the borrower’s creditworthiness and capacity     | the borrower’s income, credit, liabilities, and assets  |
| the borrower’s eligibility and qualification                         | <ul style="list-style-type: none"> <li>• area median income</li> <li>• first-time home-buyer status</li> <li>• status as lawfully present in the United States</li> </ul> |
| the underwriting criteria related to property or project eligibility | <ul style="list-style-type: none"> <li>• residential use</li> <li>• condo eligibility</li> </ul>  |
| the property appraisal or the physical condition of the property     |   |
| a life-of-loan representation and warranty                           | as described in <a href="#">A2-2.1-06, Life-of-Loan Representations and Warranties</a>  |
| loan and product terms and criteria                                  | the criteria provided in the <i>Eligibility Matrix</i> , such as  |

| Significant Defect Criteria Related To   | Examples   |
|--|--|
|  | <ul style="list-style-type: none"> <li>• LTV ratio, occupancy, credit score, loan purpose, etc.</li> </ul> <p>and terms such as</p> <ul style="list-style-type: none"> <li>• ineligible transaction types</li> <li>• products that may require special lender approval as a prerequisite for delivery</li> <li>• limitations on cash out to borrowers that determines the type of refinance</li> <li>• any negotiated exception or variance</li> </ul> |
| requirements applicable at the time of loan purchase   | <ul style="list-style-type: none"> <li>• no defaults</li> <li>• all taxes and insurance premiums have been paid or escrows established</li> <li>• no modification, encumbrance, subordination, or release of mortgage</li> </ul>   |
| the warranties and obligations of the lender regarding the FHFA Suspended Counterparty Program   |  |
| the existence, sufficiency, or enforceability of any required insurance or guaranty  |  |
| the form and/or execution of Fannie Mae required loan documents, that without which make the loan ineligible for sale or limit the enforceability of the required loan terms | <ul style="list-style-type: none"> <li>• the Uniform Residential Loan Application</li> <li>• power of attorney</li> <li>• a Texas 50(a)(6) mortgage</li> <li>• nonstandard and special purpose documents such as living trusts</li> </ul>  |

### Breach of Mortgage Insurance Policy

In the event the defect identified by Fannie Mae also turns out to be a breach of any provision of any mortgage insurance policy issued with respect to a loan, the lender is not released from any breach of the Lender Contract that may result if the mortgage insurance company insuring

the loan rescinds, cancels, denies, or curtails the mortgage insurance benefit due to the same or similar acts or omissions that make up the defect.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015 |
| <a href="#">Announcement SEL-2015-07</a> | June 30, 2015    |
| <a href="#">Announcement SEL-2014-07</a> | June 24, 2014    |
| <a href="#">Announcement SEL-2013-03</a> | April 09, 2013   |



## D2-1-04, Identifying and Remediating Origination Defects Under the Remedies Framework (08/30/2016)

### Introduction

This topic describes the process that Fannie Mae will follow to identify defects and allow corrections and remedies for loans covered by the remedies framework, including:

- [Definitions of Remedy and Correction](#)
- [Overview of Process](#)

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### Definitions of Remedy and Correction

The actions that constitute a remedy or a correction for loans covered by the remedies framework are described below.

A “remedy” is an action elected by Fannie Mae to resolve a significant defect pursuant to the Lender Contract in effect at the time of loan purchase. (See [A2-3.2-03, Remedies Framework](#), for additional information.)

A “correction” is an action taken by a lender (typically through delivery of documentation or information to Fannie Mae) that demonstrates that a significant defect

- did not, in fact, exist at the time of loan purchase or securitization; or

- 
- has been corrected in the time frame and manner specified in the Lender Contract such that the defect is no longer considered by Fannie Mae to be a significant defect.

One example of a correction is a “de minimis correction,” which is a minor amount not to exceed \$500 (or such higher amount as the lender and Fannie Mae may agree) that, when remitted, refunded, or otherwise provided, corrects or otherwise resolves an identified significant defect. However, a “de minimis correction” cannot be made

- when the correction would result in a specific required minimum borrower contribution not being met, or
- to correct a violation of Fannie Mae’s Charter requirements.

Another example of a correction is the acquisition of required insurance.

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## Overview of Process

The steps that Fannie Mae and lenders will follow for mortgage loans covered by the remedies framework to identify, correct, appeal, and remedy defects are described below.

### Step 1—Identification of Findings, PALs, and Significant Defects

After a full-file quality control review is completed, Fannie Mae will designate any defect(s) as a finding, a PAL, or a significant defect. As a reminder, the scope of the full-file quality control review remains the same for performing loans and non-performing loans.

**Note:** Fannie Mae also checks mortgage loans for data discrepancies (which could be independent of a full-file quality control review) that may result in the assessment of an LLPA.

- If Fannie Mae designates a defect as a finding, a correction or remedy will not be required. However, a data update may be required.
- If Fannie Mae designates a defect as resulting in a PAL, the lender must pay the applicable LLPA that should have been paid when the mortgage loan was purchased by Fannie Mae had the true and accurate facts about the mortgage loan been known at the time of purchase.
  - Fannie Mae may not demand repurchase of a PAL and the lender may not voluntarily repurchase a PAL.
- If Fannie Mae identifies a significant defect, Fannie Mae will require repurchase of the mortgage loan or may offer the lender a repurchase alternative.

## Step 2—Correcting Certain Significant Defects

During the appeal and impasse processes, a lender has the right to provide a correction of any significant defect in the specified time frame and in the manner required by the Lender Contract. Any additional documentation or information that the lender provides is subject to the same standard of quality control review as the initial mortgage file documentation.

In the event that the Lender Contract does not specify the time frame and manner required for the correction of a particular significant defect, Fannie Mae shall determine if the significant defect has been corrected. There may be times when the determination of whether or not a defect has been corrected cannot be determined by Fannie Mae, but rather needs to be determined by the purchaser of an acquired property, its title insurer or the investor of the purchaser's mortgage loan. For example, the determination of whether there has been a correction of a certain title defect may hinge on whether the purchaser of the acquired property is willing to pay full market value for the subject property, given the title defect and the steps taken to attempt to correct the title defect.

The documentation submitted to correct a significant defect must be based on information or data that either:

- was available at the time of underwriting (and no later than the note date ), or
- covers the time of underwriting so long as such evidence meets the applicable documentation requirements set forth in the Lender Contract.

**Note:** Lenders have the ability to correct defects during the appeal and impasse processes related to property, flood, or mortgage insurance.

If the lender does not repurchase the loan or perform any repurchase alternative in accordance with the Lender Contract, the lender continues to have the obligation to correct any significant defect in accordance with the Lender Contract.

## Step 3—Fannie Mae Review of Lender Response and Mortgage Loan Reassessment

During the appeal and impasse processes, Fannie Mae will conduct a mortgage loan reassessment by reviewing any corrections submitted by the lender in accordance with the applicable Lender Contract in order to determine whether a significant defect still exists.

If, following the reassessment, Fannie Mae determines that

- the lender submitted documentation and/or information or took all necessary steps to correct all significant defects in accordance with the Lender Contract, Fannie Mae will rescind or close out, as applicable, the demand.

- 
- the lender corrected some, but not all, of the significant defects that had been identified on a mortgage loan, Fannie Mae will reaffirm the demand and the lender must comply with the demand on a timely basis.
  - all significant defects were corrected but any remaining defects now cause the mortgage loan to be a PAL, or the loan is now determined to be a PAL, the lender must pay Fannie Mae the LLPA that should have been paid when the mortgage loan was purchased by Fannie Mae had the true and accurate facts about the mortgage loan been known at the time of purchase.
  - it cannot determine if all significant defects were corrected because the decision is up to the purchaser of the acquired property, Fannie Mae may defer its determination until the subject property has been placed on the market in order to obtain feedback on the marketability of the title of the subject property.

At any time during the appeals process, a lender has the right to propose a repurchase alternative following the identification of a significant defect. Fannie Mae will in good faith consider and respond to the lender's proposed repurchase alternative.

Fannie Mae may offer or decline to offer the lender certain repurchase alternatives based on the lender's counterparty status to the extent there are future obligations required as part of the repurchase alternative. Other factors to be considered by Fannie Mae may include, but are not limited to, the failure to maintain a quality loan origination process and the lender's ability and willingness to comply with other provisions of the Lender Contract.

#### **Step 4—Range of Possible Outcomes**

As described in [A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility](#), certain loans may be eligible for enforcement relief under Version 2 of the framework based on the satisfactory conclusion of a full-file quality control review. The designation of a defect and the loan's status as corrected or remedied will determine whether a loan is eligible for enforcement relief, as detailed below.

**Finding:** If the loan has had a full-file quality control review completed with only findings discovered, the loan is eligible for enforcement relief subject to any life-of-loan representations and warranties. If a loan has not had a full-file quality control review, it may still receive relief through other provisions under the framework.

**PAL:** If the PAL has had a full-file quality control review completed without the identification of any significant defects, the loan will receive enforcement relief subject to any life-of-loan representations and warranties, when the lender pays the LLPA. Loans that have not had a full-file quality control review, will not receive representation and warranty enforcement relief, even upon the payment of an LLPA, but may still receive relief through other provisions under the framework.

A lender may appeal a PAL designation. The appeals process for a PAL will result in one of the following outcomes:

- rescission of the request for the payment of the LLPA, or
- payment of the LLPA.

**Significant Defect:** If the loan with a significant defect has had a full-file quality control review, it will receive enforcement relief if

- all significant defects have been corrected; or
- a repurchase alternative has been offered and accepted, and fully executed and completed by the lender in compliance with any related terms, including the expiration of all applicable time frames.

The appeal process for mortgage loans with significant defects may result in a range of outcomes, including:

- rescission or close out, as appropriate, of the demand because all significant defects have been corrected;
- a deferred demand in the event that Fannie Mae cannot determine whether or not there has been a correction because the purchaser of the subject property or its title company or investor is the real party in interest to make the decision as to whether a title defect has been corrected;
- agreement on a repurchase alternative; or
- the lender fulfills the demand.

If a repurchase alternative is offered on a loan with a significant defect, the lender can conclude that a full-file quality control review has been completed. However, if a repurchase alternative is offered on a loan where a lender self-reports a defect, the lender cannot conclude that a full-file quality control review has occurred nor is representation and warranty relief granted.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

| Announcements                            | Issue Date       |
|--|------------------|
| <a href="#">Announcement SEL-2016-07</a> | August 30, 2016  |
| <a href="#">Announcement SEL-2015-12</a> | November 3, 2015 |





# Part E, Quick Reference Materials



## Quick Reference Materials

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### Introduction

This part provides reference materials to support this Guide.

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### In This Part

This part contains the following chapters:

|   |      |
|---|------|
| E-1, <i>Selling Guide</i> Resources ..... | 1264 |
| E-2, Exhibits .....                       | 1281 |
| E-3, Glossary .....                       | 1322 |

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# Chapter E-1, *Selling Guide* Resources



## Selling Guide Resources

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### Introduction

This chapter provides resources to support this Guide.

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### In This Chapter

This chapter contains the following resources:

|   |      |
|---|------|
| E-1-01, References to Fannie Mae's Website (12/15/2015) ..... | 1264 |
| E-1-02, Acronyms and Abbreviations (01/31/2017) .....         | 1268 |
| E-1-03, List of Contacts (01/31/2017) .....                   | 1272 |
| E-1-04, List of Lender Contracts (12/06/2016) .....           | 1278 |

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## E-1-01, References to Fannie Mae's Website (12/15/2015)

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### Introduction

The following table contains a list of documents and Web pages that are referenced in this Guide or that lenders may find helpful. Lenders must obtain the documents listed below from Fannie Mae's website (or any successor site).

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| Name                                       | Location  |
|--|---|
| Area Median Incomes                        | <a href="https://www.fanniemae.com/singlefamily/originating-underwriting">https://www.fanniemae.com/singlefamily/originating-underwriting</a>   |
| <i>Appraiser Independence Requirements</i> | <a href="https://www.fanniemae.com/content/fact_sheet/appraiser-independence-requirements.pdf">https://www.fanniemae.com/content/fact_sheet/appraiser-independence-requirements.pdf</a> |

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| Name   | Location  |
|--|---|
| <i>Approved Mortgage Insurers and Related Identifiers</i>  | <a href="https://www.fanniemae.com/content/tool/approved-mortgage-insurers-related-identifiers.pdf">https://www.fanniemae.com/content/tool/approved-mortgage-insurers-related-identifiers.pdf</a>                               |
| <i>Becoming a Landlord: Rewards, Risks, and Responsibilities</i>   | <a href="https://www.fanniemae.com/content/tool/landlord-guidance.pdf">https://www.fanniemae.com/content/tool/landlord-guidance.pdf</a>   |
| Cash Remittance System   | <a href="https://www.fanniemae.com/singlefamily/cash-remittance-system">https://www.fanniemae.com/singlefamily/cash-remittance-system</a>   |
| <i>Community Seconds Checklist</i>   | <a href="https://www.fanniemae.com/content/fact_sheet/community-seconds-checklist.pdf">https://www.fanniemae.com/content/fact_sheet/community-seconds-checklist.pdf</a>   |
| <i>Co-op Share Loan Documentation Requirements</i>   | <a href="https://www.fanniemae.com/content/eligibility_information/coop-share-loan-documentation-requirements.pdf">https://www.fanniemae.com/content/eligibility_information/coop-share-loan-documentation-requirements.pdf</a> |
| Condo, Co-op, and Planned Unit Development (PUD) Eligibility   | <a href="https://www.fanniemae.com/singlefamily/project-eligibility">https://www.fanniemae.com/singlefamily/project-eligibility</a>   |
| Condo Project Manager (CPM)  | <a href="https://www.fanniemae.com/singlefamily/condo-project-manager">https://www.fanniemae.com/singlefamily/condo-project-manager</a>   |
| Credit Information Providers   | <a href="https://www.fanniemae.com/singlefamily/credit-information-providers">https://www.fanniemae.com/singlefamily/credit-information-providers</a>   |
| Desktop Underwriter Job Aids   | <a href="https://www.fanniemae.com/content/job-aid/desktop-underwriter/topic/du_welcome.htm">https://www.fanniemae.com/content/job-aid/desktop-underwriter/topic/du_welcome.htm</a>   |
| <i>Desktop Underwriter Potential Red Flag Messages</i>   | <a href="https://www.fanniemae.com/content/tool/du-potential-red-flag-message-matrix.pdf">https://www.fanniemae.com/content/tool/du-potential-red-flag-message-matrix.pdf</a>   |
| Desktop Underwriter Training and Education   | <a href="https://www.fanniemae.com/singlefamily/desktop-underwriter">https://www.fanniemae.com/singlefamily/desktop-underwriter</a>   |
| <i>Early Funding Options</i>   | <a href="https://www.fanniemae.com/content/fact_sheet/early-funding-options-overview.pdf">https://www.fanniemae.com/content/fact_sheet/early-funding-options-overview.pdf</a>   |
| <i>Eligibility Matrix</i>  | <a href="https://www.fanniemae.com/content/eligibility_information/eligibility-matrix.pdf">https://www.fanniemae.com/content/eligibility_information/eligibility-matrix.pdf</a>   |
| <i>Fannie Mae Implementation Guide for Loan Delivery Data</i><br><br>Appendix A: Fannie Mae XML Data Requirements (Referred to in this Guide as “Loan Delivery Data Requirements”) | <a href="https://www.fanniemae.com/content/technology_requirements/uldd-implementation-guide-appendix-a.pdf">https://www.fanniemae.com/content/technology_requirements/uldd-implementation-guide-appendix-a.pdf</a>             |

| Name   | Location  |
|--|---|
| <i>Fannie Mae Requirements for Document Custodians</i> (RDC guide)             | <a href="https://www.fanniemae.com/content/eligibility_information/document-custodians-requirements.pdf">https://www.fanniemae.com/content/eligibility_information/document-custodians-requirements.pdf</a>     |
| <i>Guide to Delivering eMortgage Loans to Fannie Mae</i>                       | <a href="https://www.fanniemae.com/content/technology_requirements/emortgage-delivery-guide.pdf">https://www.fanniemae.com/content/technology_requirements/emortgage-delivery-guide.pdf</a>                     |
| <i>High-balance Loan Feature</i>   | <a href="https://www.fanniemae.com/content/fact_sheet/high-balance-loan-matrix.pdf">https://www.fanniemae.com/content/fact_sheet/high-balance-loan-matrix.pdf</a>   |
| Home Counselor Online  | <a href="https://www.fanniemae.com/singlefamily/home-counselor-online">https://www.fanniemae.com/singlefamily/home-counselor-online</a>   |
| <i>Homeownership Education Policies FAQs</i>                                   | <a href="https://www.fanniemae.com/content/faq/home-buyer-education-policies-faqs.pdf">https://www.fanniemae.com/content/faq/home-buyer-education-policies-faqs.pdf</a>   |
| <i>Learn More About Fannie Majors – Pooling Loans Into Multiple-Lender MBS</i> | <a href="https://www.fanniemae.com/content/fact_sheet/fannie-majors-pooling-loans-multiple-lender-mbs.pdf">https://www.fanniemae.com/content/fact_sheet/fannie-majors-pooling-loans-multiple-lender-mbs.pdf</a> |
| Legal Documents  | <a href="https://www.fanniemae.com/singlefamily/legal-documents">https://www.fanniemae.com/singlefamily/legal-documents</a>   |
| Lender Approval Process  | <a href="https://www.fanniemae.com/singlefamily/doing-business">https://www.fanniemae.com/singlefamily/doing-business</a>   |
| <i>Loan Limits for Conventional Mortgages</i>                                  | <a href="https://www.fanniemae.com/singlefamily/loan-limits">https://www.fanniemae.com/singlefamily/loan-limits</a>   |
| <i>Loan-Level Price Adjustment (LLPA) Matrix</i>                               | <a href="https://www.fanniemae.com/content/pricing/llpa-matrix.pdf">https://www.fanniemae.com/content/pricing/llpa-matrix.pdf</a>   |
| Mortgage-Backed Securities   | <a href="http://www.fanniemae.com/portal/funding-the-market/mbs/index.html">http://www.fanniemae.com/portal/funding-the-market/mbs/index.html</a>   |
| Mortgage Fraud Prevention  | <a href="https://www.fanniemae.com/singlefamily/mortgage-fraud-prevention">https://www.fanniemae.com/singlefamily/mortgage-fraud-prevention</a>   |
| Mortgage Products  | <a href="https://www.fanniemae.com/singlefamily/mortgage-products">https://www.fanniemae.com/singlefamily/mortgage-products</a>   |
| Notes  | <a href="https://www.fanniemae.com/singlefamily/notes">https://www.fanniemae.com/singlefamily/notes</a>   |
| <i>Pool Prefix Glossary</i>  | <a href="http://www.fanniemae.com/resources/file/mbs/pdf/pool-prefix-glossary.pdf">http://www.fanniemae.com/resources/file/mbs/pdf/pool-prefix-glossary.pdf</a>   |
| Pool Settlement Calendars  | <a href="https://www.fanniemae.com/singlefamily/loan-delivery">https://www.fanniemae.com/singlefamily/loan-delivery</a>   |

| Name   | Location  |
|--|---|
| Pricing & Execution  | <a href="https://www.fanniemae.com/singlefamily/pricing-execution">https://www.fanniemae.com/singlefamily/pricing-execution</a>   |
| Pricing & Execution Training   | <a href="https://www.fanniemae.com/singlefamily/pricing-execution-training">https://www.fanniemae.com/singlefamily/pricing-execution-training</a>                               |
| <i>Project Eligibility Review Service (PERS) Overview</i>  | <a href="https://www.fanniemae.com/content/fact_sheet/pers-overview.pdf">https://www.fanniemae.com/content/fact_sheet/pers-overview.pdf</a>                                     |
| Quality Assurance System (QAS)   | <a href="https://www.fanniemae.com/singlefamily/quality-assurance-system">https://www.fanniemae.com/singlefamily/quality-assurance-system</a>                                   |
| <i>Refi Plus™ Mortgages Only Loan-Level Price Adjustment (LLPA) Matrix</i>                             | <a href="https://www.fanniemae.com/content/pricing/llpa-matrix-refi-plus.pdf">https://www.fanniemae.com/content/pricing/llpa-matrix-refi-plus.pdf</a>                           |
| Requests for Extensions of a Conditional and Final Project Approval (section of <i>PERS Overview</i> ) | <a href="https://www.fanniemae.com/content/fact_sheet/pers-overview.pdf">https://www.fanniemae.com/content/fact_sheet/pers-overview.pdf</a>                                     |
| Riders & Addenda   | <a href="https://www.fanniemae.com/singlefamily/riders-addenda">https://www.fanniemae.com/singlefamily/riders-addenda</a>   |
| Security Instruments: Standard and Negotiated  | <a href="https://www.fanniemae.com/singlefamily/security-instruments">https://www.fanniemae.com/singlefamily/security-instruments</a>   |
| <i>Seller/Servicer-Initiated Post-Purchase Adjustments</i>   | <a href="https://www.fanniemae.com/content/job_aid/post-purchase-adjustments.pdf">https://www.fanniemae.com/content/job_aid/post-purchase-adjustments.pdf</a>                   |
| <i>Servicing Guide</i>   | <a href="https://www.fanniemae.com/content/guide/servicing/index.html">https://www.fanniemae.com/content/guide/servicing/index.html</a>   |
| Single-Family <i>Selling and Servicing Guide</i> Forms   | <a href="https://www.fanniemae.com/singlefamily/selling-servicing-guide-forms">https://www.fanniemae.com/singlefamily/selling-servicing-guide-forms</a>                         |
| Single-Family MBS Prospectuses & Related Documents   | <a href="http://www.fanniemae.com/portal/funding-the-market/mbs/single-family/index.html">http://www.fanniemae.com/portal/funding-the-market/mbs/single-family/index.html</a>   |
| Single-Family MBS Trust Agreements   | <a href="http://www.fanniemae.com/portal/jsp/mbs/documents/mbs/trustindentures/index.html">http://www.fanniemae.com/portal/jsp/mbs/documents/mbs/trustindentures/index.html</a> |
| <i>Special Feature Codes</i>   | <a href="https://www.fanniemae.com/content/list/special-feature-codes.pdf">https://www.fanniemae.com/content/list/special-feature-codes.pdf</a>                                 |
| Special Purpose Legal Documents  | <a href="https://www.fanniemae.com/singlefamily/special-purpose-documents">https://www.fanniemae.com/singlefamily/special-purpose-documents</a>                                 |
| <i>Standard ARM Plan Matrix</i>  | <a href="https://www.fanniemae.com/content/eligibility_information/arm-matrix.pdf">https://www.fanniemae.com/content/eligibility_information/arm-matrix.pdf</a>                 |
| Technology Applications  | See <i>Technology Requirements</i>  |

| Name  | Location  |
|---|---|
| Technology Integration  | <a href="https://www.fanniemae.com/singlefamily/technology-integration">https://www.fanniemae.com/singlefamily/technology-integration</a>   |
| Technology Manager – Registration and Account Management                    | <a href="https://www.fanniemae.com/singlefamily/technology-manager">https://www.fanniemae.com/singlefamily/technology-manager</a>   |
| <i>Technology Requirements</i>  | <a href="https://www.fanniemae.com/content/technology_requirements/technology-requirements.pdf">https://www.fanniemae.com/content/technology_requirements/technology-requirements.pdf</a> |
| <i>Tips for Entering Data and FAQs Lender Record Information (Form 582)</i> | <a href="https://www.fanniemae.com/content/fact_sheet/form-582-entering-data-tips.pdf">https://www.fanniemae.com/content/fact_sheet/form-582-entering-data-tips.pdf</a>                   |
| Trademarks  | <a href="http://www.fanniemae.com/portal/trademarks.html">http://www.fanniemae.com/portal/trademarks.html</a>   |
| Uniform Appraisal Dataset   | <a href="https://www.fanniemae.com/singlefamily/uniform-appraisal-dataset">https://www.fanniemae.com/singlefamily/uniform-appraisal-dataset</a>   |
| <i>Uniform Appraisal Dataset Specification</i>                              | <a href="https://www.fanniemae.com/content/technology_requirements/uad-specification.pdf">https://www.fanniemae.com/content/technology_requirements/uad-specification.pdf</a>             |
| Uniform Collateral Data Portal (UCDP)                                       | <a href="https://www.fanniemae.com/singlefamily/uniform-collateral-data-portal">https://www.fanniemae.com/singlefamily/uniform-collateral-data-portal</a>                                 |
| Uniform Loan Delivery Dataset (ULDD)  | <a href="https://www.fanniemae.com/singlefamily/uniform-loan-delivery-dataset-uldd">https://www.fanniemae.com/singlefamily/uniform-loan-delivery-dataset-uldd</a>                         |
| <i>ULDD Quick Guides</i>  | <a href="https://www.fanniemae.com/singlefamily/uniform-loan-delivery-dataset-uldd">https://www.fanniemae.com/singlefamily/uniform-loan-delivery-dataset-uldd</a>                         |



## E-1-02, Acronyms and Abbreviations (01/31/2017)

### Introduction

This topic contains definitions of acronyms and abbreviations used throughout this Guide.

### Acronyms and Abbreviations

The table below provides a list of acronyms and abbreviations.

| <b>Acronym or Abbreviation</b> | <b>Definition</b>                                       |
|--------------------------------|---|
| ACH                            | Automated Clearing House                                |
| ALTA                           | American Land Title Association                         |
| AMC                            | appraisal management companies                          |
| AMI                            | area median incomes                                     |
| APR                            | annual percentage rate                                  |
| ARM                            | adjustable-rate mortgage                                |
| ASAP Plus                      | As Soon As Pooled Plus                                  |
| ASAP Sale                      | As Soon As Pooled Sale                                  |
| ASF                            | American Securitization Forum                           |
| ATR                            | ability to repay  |
| AVM                            | automated valuation model                               |
| BPO                            | broker price opinion                                    |
| bps                            | basis points  |
| CLTV                           | combined loan-to-value                                  |
| CMT                            | Constant Maturity Treasury                              |
| COFI                           | Cost of Funds Index                                     |
| condo                          | unit in a condominium project                           |
| co-op                          | unit in a cooperative project                           |
| CPI                            | Consumer Price Index                                    |
| CPIRT                          | Construction-to-Permanent Investor Reporting            |
| CPM                            | Condo Project Manager                                   |
| C-to-P                         | construction-to-permanent mortgage loan                 |
| CU                             | Collateral Underwriter                                  |
| CUSIP                          | Committee on Uniform Security Identification Procedures |
| DO                             | Desktop Originator                                      |
| DTI                            | Debt-to-income ratio                                    |
| DU                             | Desktop Underwriter                                     |
| EDI                            | Electronic Data Interface                               |
| FAIR                           | Fair Access to Insurance Requirement                    |

| <b>Acronym or Abbreviation</b> | <b>Definition</b>                                |
|--------------------------------|--|
| FDIC                           | Federal Deposit Insurance Corporation            |
| FEMA                           | Federal Emergency Management Agency              |
| FHA                            | Federal Housing Administration                   |
| FHFA                           | Federal Housing Finance Agency                   |
| FHLBB                          | Federal Home Loan Bank Board                     |
| FHLMC                          | Federal Home Loan Mortgage Corporation           |
| FRM                            | fixed-rate mortgage                              |
| GAAP                           | generally accepted accounting principles         |
| GSE                            | government-sponsored enterprise                  |
| HCLTV                          | home equity combined loan-to-value               |
| HELOC                          | home equity line of credit                       |
| HFA                            | Housing Finance Agency                           |
| HOA                            | homeowners' association                          |
| HOEPA                          | Home Ownership and Equity Protection Act of 1994 |
| HUD                            | Department of Housing and Urban Development      |
| IDR                            | Independent Dispute Resolution                   |
| IRS                            | Internal Revenue Service                         |
| LIBOR                          | London Interbank Offered Rate                    |
| LLC                            | limited liability company                        |
| LLPA                           | loan-level price adjustment                      |
| LOS                            | Loan Origination System                          |
| LPI                            | last paid installment                            |
| LQC                            | Loan Quality Center                              |
| LTV                            | loan-to-value                                    |
| MBS                            | mortgage-backed security                         |
| MERS                           | Mortgage Electronic Registration Systems, Inc.   |
| MI                             | mortgage insurance                               |
| MIC                            | mortgage insurance certificate                   |
| MIN                            | MERS identification number                       |



| <b>Acronym or Abbreviation</b> | <b>Definition</b>  |
|--------------------------------|--|
| MSA                            | metropolitan statistical area                                |
| MSSC                           | Mortgage Selling and Servicing Contract                      |
| MUD                            | municipal utility district                                   |
| NCLTN                          | National Community Land Trust Network                        |
| NCUA                           | National Credit Union Administration                         |
| NPI                            | Nonpublic personal information                               |
| OFAC                           | Office of Foreign Assets Control                             |
| P&I                            | principal and interest                                       |
| PAL                            | price-adjusted loan  |
| PERS                           | Project Eligibility Review Service                           |
| PITI                           | principal, interest, taxes, and insurance                    |
| PITIA                          | principal, interest, taxes, insurance, and other assessments |
| PIW                            | property inspection waiver                                   |
| PUD                            | planned unit development                                     |
| QAS                            | Quality Assurance System                                     |
| RD                             | Rural Development  |
| REIT                           | real estate investment trust                                 |
| REMIC                          | Real Estate Mortgage Investment Conduit                      |
| REO                            | real estate owned  |
| RHS                            | Rural Housing Service  |
| RPM                            | rapid payment method   |
| SEC                            | Securities and Exchange Commission                           |
| SFC                            | special feature code   |
| SFHA                           | Special Flood Hazard Area                                    |
| SIFMA                          | Securities Industry and Financial Markets Association        |
| SMBS                           | stripped mortgage-backed security                            |
| TBA                            | to be announced  |
| TILA                           | Truth in Lending Act   |
| T&I                            | taxes and insurance  |

| Acronym or Abbreviation | Definition   |
|-------------------------|--|
| UCC                     | Uniform Commercial Code                              |
| UETA                    | Uniform Electronic Transactions Act                  |
| UPB                     | unpaid principal balance                             |
| USPAP                   | Uniform Standards of Professional Appraisal Practice |
| VA                      | U.S. Department of Veterans Affairs                  |



## E-1-03, List of Contacts (01/31/2017)

### Introduction

This topic contains contact information for Fannie Mae and other resources referenced in this Guide.

| Name                       | Contact Information  | Purpose   |
|----------------------------|--|---|
| Asset Acquisitions         | Email is the preferred method:<br><a href="mailto:fanniemaeresourceteam@fanniemaecom">fanniemaeresourceteam@fanniemaecom</a><br><br>800-2FANNIE (800-232-6643) | To request whole loan post purchase adjustments                                   |
| Capital Markets Operations | 202-243-5423   | For verifying MBS trade information   |
| Trade Confirmations        | Fax: 240-699-3890  |   |
| Allocations                | 202-752-5384<br>Fax: 202-752-3439  |   |
| Capital Markets Sales Desk | 800-752-0257 (Whole Loan and MBS)<br>866-944-3863 (Early Funding)<br>202-752-6621 (Washington, DC direct)<br>202-752-7875 (Structured Transaction Group)       | For trading MBS, selling whole loans, hedging pipelines, obtaining best execution |

| Name  | Contact Information   | Purpose   |
|---|---|---|
|   |   | information, and other related inquiries  |
| Certification Service Center Hotline                | Fax: 800-535-0554<br><br>800-422-3662   | For faxing bailee letters<br><br>To confirm receipt of bailee letter  |
| Changes in Lender Organization                      | <a href="mailto:organization_change@fanniemae.com">organization_change@fanniemae.com</a>  | To send Fannie Mae advance written notice of any contemplated major changes in the lender's organization.   |
| Custodian Oversight and Monitoring                  | <a href="mailto:thirdparty_custody@fanniemae.com">thirdparty_custody@fanniemae.com</a><br><br>Fannie Mae<br>Mailstop 5H-3W/06<br>13150 Worldgate Drive<br>Herndon, VA 20170 | For inquiries about document custody  |
| Customer Support (Single-Family Technology Support) | 800-2FANNIE (800-232-6643)<br><br>800-917-9291 (Uniform Collateral Data Portal)   | For subscription inquiries; technical, billing, reporting, and registration inquiries for licensed users of Fannie Mae technology products and services                     |
| Delivery and Custody Helpline                       | 800-2FANNIE (800-232-6643)  | For information related to document custody activities, bailee letter information, certification of MBS pools and whole loans, and eligibility and operational requirements |
| Fannie Mae Assignment Address                       | Fannie Mae<br>Mail Drawer: Assignments<br>3900 Wisconsin Avenue, NW<br>Washington, DC 20016   | For assignments   |

| Name                                   | Contact Information   | Purpose   |
|--|---|---|
|  | or<br>Fannie Mae<br>Mail Drawer: Assignments<br>13150 Worldgate Drive<br>Herndon, VA 20170  |   |
| Fannie Mae Credit Portfolio Management | 14221 Dallas Parkway, Suite 1000<br>Dallas, Texas 75254<br>800-2FANNIE (800-232-6643)   | For information related to servicing mortgage loans.  |
| Fannie Mae Ethics                      | <a href="mailto:fm_ethics@fanniemae.com">fm_ethics@fanniemae.com</a><br>888-363-8442  | For reporting non-compliance, compliance failures, or sanctions related to anti-money laundering requirements.  |
| Fannie Mae Washington, DC Office       | Fannie Mae<br>3900 Wisconsin Avenue, NW<br>Washington, DC 20016<br>800-2FANNIE (800-232-6643)                                     | Fannie Mae's main corporate office  |
| Fannie Mae Websites                    | <a href="https://www.fanniemae.com/singlefamily/index">https://www.fanniemae.com/singlefamily/index</a>                           | For information about Fannie Mae's single-family mortgage business solutions and doing business with Fannie Mae |
|  | <a href="http://www.fanniemae.com/portal/index.html">http://www.fanniemae.com/portal/index.html</a>                               | Corporate website   |
| Fixed-Income Investor Helpline         | 800-2FANNIE (800-232-6643)  | For information related to fixed-income securities, including MBS, debentures, and preferred stock              |
| Fannie Mae Regional Offices            | 1075 Peachtree Street NE<br>Suite 1600<br>Atlanta, GA 30309<br><br>One South Wacker Drive<br>Suite 1400<br>Chicago, IL 60606-4667 |   |

| Name                                   | Contact Information   | Purpose   |
|--|---|---|
|  | International Plaza II<br>14221 Dallas Parkway<br>Suite 1000<br>Dallas, TX 75254-2916<br><br>135 North Los Robles Avenue<br>Suite 400<br>Pasadena, CA 91101-1707<br><br>1835 Market Street<br>Suite 2300<br>Philadelphia, PA 19103-2909<br><br>To contact Fannie Mae:<br>800-2FANNIE (800-232-6643) |   |
| Homestyle Renovation Mailbox           | <a href="mailto:fanniemae_x_homestyle@fanniemae.com">fanniemae_x_homestyle@fanniemae.com</a>  | To submit HomeStyle Renovation recourse removal requests and documents  |
| Lender Eligibility and Compliance Unit | Fannie Mae<br>Lender Eligibility and Compliance Unit<br>One South Wacker, Suite 1400<br>Chicago, IL 60606<br><br><a href="mailto:audited_financial@fanniemae.com">audited_financial@fanniemae.com</a>   | For submission of financial reports   |
| Lender Self-Report Mailbox             | <a href="mailto:Self_Report@fanniemae.com">Self_Report@fanniemae.com</a>  | To self-report loan-level issues that may result in the loan being ineligible as delivered to Fannie Mae or possible breaches of selling warranties |
| Loan Quality Center (LQC)              | <a href="mailto:inventory_management_group@fanniemae.com">inventory_management_group@fanniemae.com</a>  | For quality control review and document submission guideline questions  |

| Name                                | Contact Information  | Purpose  |
|-------------------------------------|--|--|
|                                     | Fannie Mae<br>Loan Quality Center<br>14221 Dallas Parkway, Suite 1000<br>Dallas, TX 75254-2916   | Use this mailing address for pre-approved exceptions during the electronic document submission registration process                              |
| LQC File Receipt and Assignment     | <a href="mailto:lqc_fra@fanniemae.com">lqc_fra@fanniemae.com</a>   | For inquiries regarding alternate document submission methods  |
| Mortgage Fraud Reporting            | <a href="https://fims.secure.force.com/MorgageFraudReport/">https://fims.secure.force.com/MorgageFraudReport/</a><br><br>800-2FANNIE (800-232-6643)  | To report suspected fraudulent mortgage activities and suspicious activity related to loans sold to Fannie Mae or Fannie Mae business activities |
| Mortgage Record Change Form Address | Fannie Mae<br>Attn: Government Claims Manager<br>14221 Dallas Parkway, Suite 1000<br>Dallas, Texas 75254-2916<br><br>or<br><br>P.O. Box 650043<br>Dallas, TX 75265-0043  | The Fannie Mae address that must be completed on the Mortgage Record Change Form (HUD Form 92080)  |
| New Loan Submissions                | Loan documents for whole mortgage loans and MBS:<br><br>BNY Mellon Corporate Trust<br>Document Custody<br>500 Ross Street<br>Suite 625<br>Pittsburgh, PA 15262<br><br>Loan documents for As Soon As Pooled Plus loans and MBS:<br><br>BNY Mellon Corporate Trust<br>Document Custody | For mailing whole loan document packages and MBS pool packages   |

| Name   | Contact Information   | Purpose   |
|--|---|---|
|  | 2322 French Settlement Road<br>Suite 100<br>Dallas, TX 75212  |   |
| Privacy Office   | <a href="mailto:privacy_workinggroup@fanniemae.com">privacy_workinggroup@fanniemae.com</a>  | To request permission to use Fannie Mae's name or to provide written notice of a data breach                                      |
| Project Eligibility Review Service (PERS) Project Submission | <a href="mailto:pers_projects@fanniemae.com">pers_projects@fanniemae.com</a>  | To submit a complete PERS package via email, including all relevant supporting documentation                                      |
| Project Standards Team                                       | <a href="mailto:project_standards@fanniemae.com">project_standards@fanniemae.com</a>  | For project standards questions   |
| Quality Assurance System                                     | <a href="mailto:qas_requests@fanniemae.com">qas_requests@fanniemae.com</a>  | For tracking the status of loans selected for quality assurance underwriting review   |
| Registration and Account Management                          | Registration and Account Management on Fannie Mae's website:<br><br><a href="https://www.fanniemae.com/singlefamily/technology-manager">https://www.fanniemae.com/singlefamily/technology-manager</a><br><br><a href="mailto:Technology_Registration@fanniemae.com">Technology_Registration@fanniemae.com</a> | To obtain the Software Subscription Agreement and other technology registration forms   |
| Servicing Solutions Center                                   | <a href="mailto:servicing_solutions@fanniemae.com">servicing_solutions@fanniemae.com</a>  | For general servicer questions: case specific; servicing-related; loss mitigation; Home Affordable Modification-related questions |
| Single-Family Lender Approval                                | <a href="https://www.fanniemae.com/singlefamily/doing-business">https://www.fanniemae.com/singlefamily/doing-business</a><br><br><a href="mailto:sellerservicer_application@fanniemae.com">sellerservicer_application@fanniemae.com</a>   | For application to become a Fannie Mae-approved lender and obtain an MSSC   |

| Name   | Contact Information  | Purpose  |
|--|--|--|
| Triparty Wiring Instructions                             | Fannie Mae<br>Mailstop 5H-4W/07<br>13150 Worldgate Drive<br>Herndon VA 20170   | For mailing <i>Triparty Wiring Instruction Agreements</i>                    |
| Trust Agreement and Prospectus Requests                  | <a href="http://www.fanniemae.com/portal/jsp/mbs/documents/mbs/trustindentures/index.html">http://www.fanniemae.com/portal/jsp/mbs/documents/mbs/trustindentures/index.html</a><br><br>800-2FANNIE (800-232-6643)<br><br>Fannie Mae<br>Attn: Fixed Income Investor Marketing<br>3900 Wisconsin Avenue, NW<br>Mailstop 2H-3S/17<br>Washington, DC 20016 | To obtain the Trust Agreement, Prospectus, and related Prospectus Supplement |
| U.S. Department of Education Federal Student Aid website | <a href="https://studentaid.ed.gov/sa/types/loans/interest-rates">https://studentaid.ed.gov/sa/types/loans/interest-rates</a>  | To obtain current prevailing student loan interest rates                     |



## E-1-04, List of Lender Contracts (12/06/2016)

### Introduction

The following list summarizes the major contracts lenders must have in order to do business with Fannie Mae. It is intended to assist lenders in knowing the Fannie Mae contractual requirements that exist, but is not inclusive of all contracts that may be required.

### Lender Contracts

The following table summarizes the major contracts lenders must have in order to do business with Fannie Mae:

| Contract Name   | Purpose  | How to Obtain it   |
|---|--|--|
| <i>Mortgage Selling and Servicing Contract</i> (MSSC) (and Addenda) | For all lenders that sell loans to Fannie Mae or service loans on Fannie Mae's behalf. | <a href="#">How to Become a Fannie Mae Seller/Servicer</a> |



| Contract Name   | Purpose   | How to Obtain it  |
|---|---|---|
|   | The MSSC may include special approvals for lenders to deliver certain types of mortgage loans (for example, second mortgages, eMortgages, HomeStyle, and co-op share loans).  |   |
| Master Agreement  | For lenders that sell mortgage loans to Fannie Mae (1) for MBS, or (2) with variances to Fannie Mae’s guidelines, including special products.                                 | Lead Fannie Mae regional office (see <a href="#">E-1-03, List of Contacts</a> ) |
| <i>Software Subscription Agreement</i> (and applicable Schedules)           | Required for lenders to obtain access to any of Fannie Mae’s technology applications. Lenders must also sign one or more schedules to obtain access to specific applications. | <a href="#">Technology Registration Forms</a>                                   |
| <i>Single-Family Servicing Applications Order Form/Schedule</i>             | Completed the first time the lender applies for a single-family servicing application and is incorporated into the lender’s Software Subscription Agreement.                  | <a href="#">Technology Registration Forms</a>                                   |
| <i>Single-Family Shipping and Delivery Applications Order Form/Schedule</i> | Completed the first time the lender applies for a single-family shipping and delivery application and is incorporated into the lender’s Software Subscription Agreement.      | <a href="#">Technology Registration Forms</a>                                   |
| Desktop Underwriter Order Form/Schedule                                     | Completed the first time the lender applies for access to Desktop Underwriter and is incorporated into the lender’s <i>Software Subscription Agreement</i> .                  | Lead Fannie Mae regional office (see <a href="#">E-1-03, List of Contacts</a> ) |

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| <b>Contract Name</b>   | <b>Purpose</b>   | <b>How to Obtain it</b>  |
|--|--|--|
| <i>Technology Manager Administration Registration Form (Lender)</i>  | Used to designate the lender's Corporate Administrator and User Administrator.                             | <a href="mailto:technology_registration@fanniemae.com">technology_registration@fanniemae.com</a><br>or the Customer Contact Center at 1-877-722-6757 |
| Early Funding Contracts <ul style="list-style-type: none"><li>• As Soon As Pooled Sale Agreement</li><li>• As Soon As Pooled Plus Funding Agreements</li></ul> | Outlines contractual terms for delivering whole loans or pools to Fannie Mae using Early Funding products. | Capital Markets Sales Desk<br>(see <a href="#">E-1-03, List of Contacts</a> )  |

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## Chapter E-2, Exhibits



### Exhibits

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#### Introduction

This chapter contains the exhibits referenced within this Guide.

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#### In This Chapter

This chapter contains the exhibits referenced within this Guide.

|  |      |
|--|------|
| E-2-01, Required Custodial Documents (12/15/2015) .....  | 1281 |
| E-2-02, Suggested Format for Phase I Environmental Hazard Assessments (06/28/2011) . .                       | 1284 |
| E-2-03, Master Agreement Terms and Conditions (01/27/2015) .....   | 1293 |
| E-2-04, Revocable Trust Rider (Sample Language) (01/17/2013) .....   | 1300 |
| E-2-05, Signature Requirements for Mortgages to Inter Vivos Revocable Trusts<br>(02/23/2016) .....           | 1301 |
| E-2-06, Servicing Execution Tool — Mortgage Loan Servicing Purchase and Sale<br>Agreement (02/23/2016) ..... | 1304 |

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### E-2-01, Required Custodial Documents (12/15/2015)

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#### Introduction

This exhibit contains information on the custodial documents required for all mortgages.

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#### Required Custodial Documents

Custodial documents are the legal documents pertaining to a mortgage that Fannie Mae's DDC or a lender-designated document custodian, takes into physical possession when Fannie Mae purchases or securitizes a mortgage.

The following mortgage documents (when applicable) are required for all mortgages.

| Requirement       | Description   |
|-------------------|---|
| Cover letter      | <p>A document that contains the following:</p> <ul style="list-style-type: none"> <li>• lender name and contact information;</li> <li>• lender loan number;</li> <li>• property address; and</li> <li>• a list of the documents that are being included in the submission package (documents listed below).</li> </ul>  |
| Note              | <p>The original note endorsed “in blank” and without recourse and there is no break in the chain of endorsements.</p> <p>If the delivery involves a new refinance mortgage that represents the refinancing of a Fannie Mae-owned or Fannie Mae-securitized balloon mortgage that had a conditional refinancing option, the lender may substitute for the original note a certified copy of the executed state-specific version of the <i>Balloon Loan Refinancing Instrument</i> (<a href="#">Form 3269</a>) that was sent to the land records office for recordation, if the property is in a state where Fannie Mae permits that form of documentation. <sup>a</sup></p>  |
| Modifications     | <p>Originals of any instruments that modify the terms and conditions of the mortgage note (such as a modification agreement or an ARM addendum). <sup>a</sup></p>   |
| Repair rider      | <p>A Repair Rider or Addendum if a set-aside for repairs is required.</p>   |
| Power of attorney | <p>A copy of the applicable power of attorney, if an attorney-in-fact signed the mortgage note (or any other acceptable alternative for the mortgage note) on a borrower’s behalf. If applicable law requires an original power of attorney for enforcement or foreclosure purposes, the document custodian must hold the original rather than a copy. If applicable law requires recordation of the power of attorney, it must be recorded. The name(s) on the power of attorney must match the name(s) on the note and must be dated such that it was valid at the time the note was executed. The power of attorney must be notarized. If a power of attorney is used because the lender determines such use is required by applicable law, the lender must include a written statement that explains the circumstances.</p> |
| Name affidavit    | <p>A name affidavit, if the borrower signed under an “also known as (AKA) name” or used a signature that significantly differs from the typed name.</p>   |

| Requirement             | Description   |
|-------------------------|---|
| Mortgage assignment     | <p>The original unrecorded assignment of the mortgage to Fannie Mae from the servicer.</p> <p><b>Note:</b> An assignment is not required for a MERS-registered mortgage. The MIN, however, should be added to the upper right-hand corner of the note and must be part of the electronic data delivery. The MIN must be registered prior to delivery.</p>   |
| Co-op                   | <p>All applicable documentation required by Fannie Mae for a co-op share loan in the jurisdiction in which the co-op project is located. (Contact a lead Fannie Mae regional office (see <a href="#">E-1-03, List of Contacts</a>) for specific documentary requirements.)</p>  |
| New York CEMA           | <p>For a New York mortgage transaction that uses Form 3172, the executed and original Consolidated Note, the executed and recorded original of the CEMA and all exhibits to it (or a certified copy if the original is not yet available),<sup>a</sup> and all required mortgage assignments. (Delivery of the original notes listed on the CEMA’s Exhibit A (the “Gap Note” and other prior notes) to the document custodian is not required, but the lender must maintain possession of all the Exhibit A original notes. For more information about use of the CEMA, refer to the instructions that are part of the form.)</p> |
| Indian guarantee        | <p>The Indian Loan Guarantee Certificate (HUD Form 53039), for a HUD Section 184 mortgage.</p>  |
| Participation loans     | <p>Two originals of the executed <i>Participation Certificate</i> (<a href="#">Form 638</a>), for a delivery of a participation interest in a group of participation pool mortgages.</p>  |
| Facsimile signatures    | <p>Facsimile signature language, as applicable. If a mortgage (or deed of trust) note is endorsed by facsimile signature, a certified copy of the endorsing entity’s corporate resolution, which must specify the names and titles of the individual officers whose facsimile signatures are valid. If the endorsing entity’s policy delegates facsimile signature authority by title, a list of the officer titles with the authority is acceptable. For additional information concerning requirements for the use of facsimile signatures, see <a href="#">B8-3-04, Note Endorsement</a>.</p>                                  |
| Notes signed by trustee | <p>If the loan indicates that it is a part of a trust, it must be signed by the borrower as both the individual and trustee. The signatures can be on two separate lines or on one line, clearly indicating signature as trustee and individual.</p>  |

<sup>a</sup>When the lender delivers either a certified copy of the executed state-specific version of Form 3269, or the executed *Consolidation, Extension, and Modification Agreement* ([Form 3172](#)) (CEMA) that was sent to the land records office for

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recording, the lender must track the document that was sent for recording to make sure that the recorded document is returned from the recorder's office as soon as possible.

The document package must be sent via overnight mail, express delivery (first delivery time), on the same day the lender submits the loan data to Loan Delivery. Clearly label As Soon As Pooled loan packages with "ASAP." Do not staple one document to another and do not include any mortgages, deeds of trust, title insurance policies, or appraisals.

Loan packages must be assembled in the following manner:

- Cover letter;
- Form 1068, Form 1069, or Form 2005, if available;
- All loans together in one continuous stack (no staples, paperclips, binder clips, or folders);
- Loans must be in the exact order in which they were transmitted to Loan Delivery;
- Each loan's documents should be placed in the following order:
  - Loan modification agreement (if applicable),
  - Note,
  - Allonge (if note is not blank endorsed),
  - Assignment, and
  - Other ancillary documents (power of attorney, CEMA documents, co-op documents, etc.)



## **E-2-02, Suggested Format for Phase I Environmental Hazard Assessments (06/28/2011)**

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### **Introduction**

This exhibit provides the suggested format for Phase I environmental hazard assessments.

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### **I. PROPERTY LOG**

Project Name:

Property Address:

Developer/Sponsor Name:

Developer/Sponsor Address:

Developer/Sponsor Telephone:

Lender Name:

Lender's Underwriter's Name:

Environmental Consultant:

Consultant's Firm Name:

Consultant's Firm Address:

Consultant's Telephone:

Date Phase I Assessment Completed:

Date Phase II Assessment Completed:

## II. SUMMARY OF PHASE I ASSESSMENT RESULTS/RECOMMENDATIONS

1. Check applicable result for each hazard, indicating for each "Fail" whether (1) there is a possible remedy or (2) whether a Phase II assessment is needed.

|  | <i>Hazard</i>             | <i>Pass</i> | <i>Fail</i> | <i>Possible Remedy</i> |
|--|---------------------------|-------------|-------------|------------------------|
|  | Waste Sites               |             |             |                        |
|  | PCBs                      |             |             |                        |
|  | Radon                     |             |             |                        |
|  | Underground Storage Tanks |             |             |                        |
|  | Asbestos                  |             |             |                        |
|  | Other (List)              |             |             |                        |
|  | _____                     |             |             |                        |
|  | _____                     |             |             |                        |

2. Attach a brief explanation for each hazard that needs a Phase II assessment. List all data deficiencies, test results, etc., that require further assessment.

3. Attach a brief explanation for each failed hazard that could be corrected by taking remedial actions. Explain what actions are required and how they should be performed.

4. Underwriter's Comments (Attach Phase I Information Checklist):

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

### III. INFORMATION CHECKLIST: INFORMATION SOURCES

Check the information sources used to perform the various aspects of the Phase I environmental hazard assessment.

#### 1. Overall Property Description

|  |                               |  |  |
|--|-------------------------------|--|--|
|  | Building Specifications       |  | Lists of Commercial Tenants<br>Previously On-Site  |
|  | Historical Aerial Photos      |  | Verification of Public Water and Sewer   |
|  | Current Aerial Photos         |  | Interviews with Local Fire, Health,<br>Land Use, or Environmental<br>Enforcement Officials |
|  | Title History                 |  |  |
|  | Site Survey                   |  |  |
|  | Neighborhood Zoning Maps      |  |  |
|  | Neighborhood Land Use<br>Maps |  |  |
|  | Other (List)                  |  |  |

#### 2. Waste Sites

|  |   |
|--|---|
|  | Comprehensive Environmental Response, Compensation, and Liability<br>Information System (CERCLIS) lists or similar state lists of contaminated<br>properties (covering any properties that are within a one-mile radius of the<br>subject property) |
|  | State Environmental Protection Agency (EPA) site lists of contaminated<br>properties (covering any properties that are within a one-mile radius of the<br>subject property)   |
|  | Site Soil and Groundwater Test Results  |
|  | Other (List)  |

#### 3. Polychlorinated Biphenyls (PCBs)

|  |  |
|--|--|
|  | Utility Transformer Records                |
|  | Site Survey of Transformers                |
|  | Site Soil and Groundwater PCB Test Results |



|  |  |
|--|--|
|  | Other (List)   |
| <b>4. Radon</b>  |  |
|  | Water Utility Records  |
|  | Gas Utility Records  |
|  | On-Site Radon Test Results   |
|  | Other (List)   |
| <b>5. Underground Storage Tanks</b>  |  |
|  | Oil, Motor Fuel, and Waste Oil Systems Reports   |
|  | Site Soil and Groundwater Tests  |
|  | Site Tank Survey   |
|  | Comprehensive Environmental Response, Compensation, and Liability Information System (CERCLIS) lists or similar state lists of contaminated properties (covering any properties that are within a one-mile radius of the subject property) |
|  | Other (List)   |
| <b>6. Asbestos (Required only if subject property is the conversion of an existing building)</b> |  |
|  | Dated Building Construction/Rehabilitation Specifications  |
|  | Engineer's/Consultant's Asbestos Report  |
|  | Other (List)   |

**IV. INFORMATION CHECKLIST: EVALUATION OF SPECIFIC HAZARDS**

Answer all applicable questions by marking the appropriate box—"Y" for Yes, "N" for No, or "DK" for Don't Know:

**A. Waste Sites**

|   | Y | N | DK |
|---|---|---|----|
| 1. Are there results of physical testing (including on-site sampling of soil and groundwater that meets all regulatory standards and sound industry practice) to show that the property is free of waste contamination and is being operated in an environmentally safe manner? |   |   |    |

|   |  |  |  |
|---|--|--|--|
| 2. Are there any obvious high-risk neighbors in adjacent properties engaged in producing, storing, or transporting hazardous waste, chemicals, or substances? |  |  |  |
|---|--|--|--|

Note: If the answer to question 1 is “yes” and the answer to question 2 is “no,” stop here because, for underwriting purposes, the property will be acceptable from the standpoint of waste site contamination. Otherwise, answer the questions below.

|  |  |  |  |
|--|--|--|--|
| 3. Was the site ever used for research, industrial, or military purposes during the last 30 years? |  |  |  |
|--|--|--|--|

|  |  |  |  |
|--|--|--|--|
| 4. Has any of the site space ever been leased to commercial tenants who are likely to have used, transported, or disposed of toxic chemicals (such as a dry cleaner, print shop, service station, etc.)? |  |  |  |
|--|--|--|--|

|   |  |  |  |
|---|--|--|--|
| 5. Is water for the building provided by either a private company or a well situated on the property? |  |  |  |
|---|--|--|--|

|  |  |  |  |
|--|--|--|--|
| 6. Does the property or any site within one mile of the property appear on any state or federal list of hazardous waste sites? |  |  |  |
|--|--|--|--|

|  |  |  |  |
|--|--|--|--|
| 7. Is there any documented or visible evidence of the handling of dangerous waste on the subject property or on neighboring sites (such as stressed vegetation, stained soil, open or leaking containers, foul fumes or smells, oily ponds, etc.)? |  |  |  |
|--|--|--|--|

Note: If the answer to any of the questions from 2 through 7 is “yes” or “don’t know,” then the property either fails or needs a Phase II assessment conducted. If the answers to all of the questions 2 through 7 are “no,” the property, for underwriting purposes, will be acceptable from the standpoint of waste site contamination.

|                            |  |  |  |
|----------------------------|--|--|--|
| 8. Underwriter’s Comments: |  |  |  |
|----------------------------|--|--|--|

|   |  |  |  |
|---|--|--|--|
| 9. Phase I Assessment Results (check one)                   |  |  |  |
| ___ Pass ___ Fail ___ Possible Remedy ___ Phase II Required |  |  |  |

|   |  |  |  |
|---|--|--|--|
| 10. Underwriter’s Signature and Date: _____ |  |  |  |
|---|--|--|--|

**B. Polychlorinated Biphenyls (PCBs)**

|  | Y | N | DK |
|--|---|---|----|
| 1. Are there any transformers or capacitors that contain PCBs anywhere on the property?                        |   |   |    |
| 2. Is there any visible or documented evidence of soil or groundwater contamination from PCBs on the property? |   |   |    |

Note: If the answers to the above questions are “no,” stop here because, for underwriting purposes, the property will be acceptable from the standpoint of PCB contamination. If the answer to a question is “don’t know,” stop here since a Phase II assessment is required. Otherwise, answer the questions below.

|  |  |  |  |
|--|--|--|--|
| 3. If the answer to question 1 above is “yes,” are any of the capacitors or transformers inside residential buildings?                                     |  |  |  |
| 4. If the answer to question 1 above is “yes,” are any of the transformers or capacitors not clearly marked, not well maintained, or not secure?           |  |  |  |
| 5. If the answer to question 1 above is “yes,” is there any evidence of leakage on or around the transformers or capacitors?                               |  |  |  |
| 6. If the answer to question 2 above is “yes,” have PCB concentrations of 50 parts per million or greater been found in contaminated soils or groundwater? |  |  |  |

Note: If the answers to questions 3 through 6 are all “no,” the property, for underwriting purposes, will be acceptable from the standpoint of PCB contamination. Otherwise, the property either fails or needs a Phase II assessment.

7. Underwriter’s Comments:

|  |  |  |
|--|--|--|
|  |  |  |
|--|--|--|

8. Phase I Assessment Results (check one)  
 Pass  Fail  Possible Remedy  Phase II Required

9. Underwriter’s Signature and Date:

---

**C. Radon**

|  | Y | N | DK |
|--|---|---|----|
| 1. Is there any evidence that nearby structures have elevated indoor levels of radon or radon progeny?   |   |   |    |
| 2. Have local water supplies been found to have elevated levels of radon or radium?  |   |   |    |
| 3. Is the property located on or near sites that are currently, or were formerly, used for uranium, thorium, or radium extraction or for phosphate processing? |   |   |    |

Note: If the answers to the above questions are all “yes,” a Phase II assessment is required. If the answers to questions 2 and 3 are “no,” the property, for underwriting purposes, will be acceptable from the standpoint of radon contamination. If the subject property is a conversion of an existing building, go to question 4.

|  |  |  |  |
|--|--|--|--|
| 4. Were the results of an EPA-approved short-term radon test that was performed in the basement of each of the subject buildings within the last six months at or below four picocuries per liter? |  |  |  |
|--|--|--|--|

Note: If the answer to this question is “no” or “don’t know,” a Phase II assessment is required.

|                            |  |  |  |
|----------------------------|--|--|--|
| 5. Underwriter’s Comments: |  |  |  |
|----------------------------|--|--|--|

|   |  |  |  |
|---|--|--|--|
| 6. Phase I Assessment Results (check one)   |  |  |  |
| <input type="checkbox"/> Pass <input type="checkbox"/> Fail <input type="checkbox"/> Possible Remedy <input type="checkbox"/> Phase II Required |  |  |  |

|                                      |  |  |  |
|--------------------------------------|--|--|--|
| 7. Underwriter’s Signature and Date: |  |  |  |
|--------------------------------------|--|--|--|

**D. Underground Storage Tanks**

|   | Y | N | DK |
|---|---|---|----|
| 1. Is there a current site survey performed by a qualified engineer that indicates the property is free of any underground storage tanks?               |   |   |    |
| 2. Is there any visible or documented evidence of oil or groundwater contamination on the property?   |   |   |    |
| 3. Are there any petroleum storage and/or delivery facilities (including gas stations) or chemical manufacturing plants located on adjacent properties? |   |   |    |

Note: If the answer to question 1 is “yes,” and the answers to questions 2 and 3 are “no,” stop here because, for underwriting purposes, the property will be acceptable from the standpoint of underground storage tank contamination. If the answers to questions 2 or 3 are “yes” or “don’t know,” also stop because the property either fails or needs a Phase II assessment. Otherwise, answer the questions below.

|   |  |  |  |
|---|--|--|--|
| 4. Are there any active underground tank facilities on-site that are used for activities such as motor fuel, waste oil, or fuel oil storage?  |  |  |  |
| 5. If the answer to question 4 is “yes,” have these facilities been maintained in accordance with sound industry standards (such as those in the American Petroleum Institute’s Bulletins 1621 and 1623 or the National Fire Protection Association’s Bulletins 329, 70, 77, etc.)? |  |  |  |

Note: If the answer to question 4 is “no,” go to question 8 below. If the answer to question 4 is “don’t know,” stop here because the property either fails or needs a Phase II assessment. If

the answer to question 5 is “no” or “don’t know,” stop here because the property either fails or needs a Phase II assessment. If the answers to questions 4 and 5 are “yes,” answer the questions below.

|   |  |  |  |
|---|--|--|--|
| 6. If the answer to question 4 is “yes,” are any of the tanks more than 10 years old? |  |  |  |
|---|--|--|--|

|  |  |  |  |
|--|--|--|--|
| 7. If the answer to question 6 is “yes,” have any of the tanks that are more than 10 years old been tested for leaks within the last year using a test approved by the American Petroleum Institute? |  |  |  |
|--|--|--|--|

Note: If the answer to question 6 is “no,” answer the questions below. If the answer to question 6 is “don’t know,” stop here because the property either fails or needs a Phase II assessment. If the answer to question 7 is “no,” answer the questions below. Otherwise, stop here because the property either fails or needs a Phase II assessment.

|   |  |  |  |
|---|--|--|--|
| 8. Are there any deactivated underground storage tanks on the property? |  |  |  |
|---|--|--|--|

|  |  |  |  |
|--|--|--|--|
| 9. If the answer to question 8 is “yes,” were all of the tanks deactivated in accordance with sound industry practices (such as under the American Petroleum Institute’s Bulletins 1604 and 2202 or the National Fire Protection Association’s Bulletin 30)? |  |  |  |
|--|--|--|--|

Note: If the answer to question 8 is “no” or if the answer to question 9 is “yes,” the property, for underwriting purposes, will be acceptable from the standpoint of underground storage tank contamination. If the answer to question 8 is “don’t know,” or if the answer to question 9 is “no” or “don’t know,” the property either fails or needs a Phase II assessment.

|                             |  |  |  |
|-----------------------------|--|--|--|
| 10. Underwriter’s Comments: |  |  |  |
|-----------------------------|--|--|--|

|   |  |  |  |
|---|--|--|--|
| 11. Phase I Assessment Results (check one)  |  |  |  |
| <input type="checkbox"/> Pass <input type="checkbox"/> Fail <input type="checkbox"/> Possible Remedy <input type="checkbox"/> Phase II Required |  |  |  |

|                                       |  |  |  |
|---------------------------------------|--|--|--|
| 12. Underwriter’s Signature and Date: |  |  |  |
|---------------------------------------|--|--|--|

**E. Asbestos**

(Required only if the project is a conversion of an existing building)

All asbestos-related assessments, testing, remedial action, and maintenance programs must be in compliance with the Environmental Protection Agency’s document “Guidance for Controlling Asbestos-Containing Materials in Buildings” (EPA 560/5024, 1985)

|  |   |   |    |
|--|---|---|----|
|  | Y | N | DK |
|--|---|---|----|

|   |  |  |  |
|---|--|--|--|
| 1. Was the building constructed prior to 1979?  |  |  |  |
| 2. Does a site walk-through reveal any visible evidence of asbestos?  |  |  |  |
| 3. Is there any documented evidence of asbestos?  |  |  |  |
| Note: If the answer to all of the above questions is “no,” stop here because, for underwriting purposes, the property will be acceptable from the standpoint of asbestos contamination. If the answer to any of the above questions is “yes” or “don’t know,” answer the questions below. |  |  |  |
| 4. Is there an asbestos survey by a certified, independent firm that was performed since 1979?  |  |  |  |
| Note: If the answer to question 4 is “yes,” answer the question below. Otherwise, stop because a Phase II assessment is required.   |  |  |  |
| 5. Did the survey find the building to be free of both treated and untreated asbestos-containing material?  |  |  |  |
| Note: If the answer to question 5 is “yes,” stop here because, for underwriting purposes, the property will be acceptable from the standpoint of asbestos contamination. If the answer to question 5 is “no” or “don’t know,” the property either fails or needs a Phase II assessment.   |  |  |  |
| 6. Underwriter’s Comments:  |  |  |  |
| 7. Phase I Assessment Results (check one)   |  |  |  |
| ___ Pass ___ Fail ___ Possible Remedy ___ Phase II Required   |  |  |  |
| 8. Underwriter’s Signature and Date:  |  |  |  |

**F. Additional Hazards**

(Required only if the project is a conversion of an existing building)

|   | Y | N | DK |
|---|---|---|----|
| 1. Is there any visible or documented evidence of peeling lead paint on the floors, walls, or ceilings of either the unit living areas or the common areas?   |   |   |    |
| Note: If the answer to question 1 is “no,” the property, for underwriting purposes, will be acceptable from the standpoint of lead paint contamination; however, answer the questions below related to other hazards. If the answer to question 1 is “yes” or “don’t know,” the property fails. However, answer the remaining questions since the project may be eligible if remedial actions to remove or cover all peeling lead paint are taken before the lender requests Fannie Mae's project approval. |   |   |    |

|  |  |  |  |
|--|--|--|--|
| 2. Do the unit living areas or common areas contain urea-formaldehyde foam insulation that was installed less than a year ago?   |  |  |  |
| 3. If the answer to question 2 is “yes” or “don’t know,” did the current heating, ventilation, and air conditioning system meet the standards of the American Society of Heating, Refrigerating, and Air Conditioning Engineers when it was installed?   |  |  |  |
| <p>Note: If the answer to question 2 is “no” or the answer to question 3 is “yes,” the property, for underwriting purposes, will be acceptable from the standpoint of urea-formaldehyde foam insulation contamination. However, answer the remaining questions. If the answer to question 3 is “no” or “don’t know,” the property fails. However, answer the remaining questions since the project may be eligible if the lender can demonstrate that the ventilation system meets the American Society of Heating, Refrigerating, and Air Conditioning Engineer’s standards before it requests Fannie Mae’s project approval.</p> |  |  |  |
| 4. Does the local utility providing the drinking water meet current EPA requirements for lead concentration?   |  |  |  |
| 5. Underwriter’s Comments:   |  |  |  |
| <p>6. Phase I Assessment Results (check one)<br/> <input type="checkbox"/> Pass <input type="checkbox"/> Fail <input type="checkbox"/> Possible Remedy <input type="checkbox"/> Phase II Required</p>  |  |  |  |
| 7. Underwriter’s Signature and Date:   |  |  |  |

 **E-2-03, Master Agreement Terms and Conditions (01/27/2015)**

**Introduction**

This exhibit contains information on Master Agreement terms and conditions. The Master Agreement is an “umbrella” document that supplements the general guidelines and requirements of Fannie Mae’s *Selling Guide* and *Servicing Guide* and sets out the additional terms under which Fannie Mae will do business with a lender.

**PART I. GENERAL PROVISIONS**

The Master Agreement supplements the Fannie Mae *Selling Guide* and *Servicing Guide*, as amended from time to time (the “Guides”). The lender must enter into a Master Agreement

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with Fannie Mae in order to sell (1) any Mortgage under Fannie Mae's MBS program or (2) any Mortgages containing variances to Fannie Mae's guidelines, including any special products, whether such Mortgages are sold under Fannie Mae's Negotiated Transactions for cash or under Fannie Mae's MBS program.

For purposes of the Master Agreement and these Master Agreement Terms and Conditions, the terms "sell," "sale," or "sold" include both the sale of Mortgages in cash transactions and delivery of Mortgages in MBS transactions. References in these Master Agreement Terms and Conditions to the "Master Agreement" refer to the then-current Master Agreement between Fannie Mae and the lender.

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### **A. Eligibility Requirements**

The lender and Fannie Mae agree that, except as provided in the Master Agreement, all Mortgages shall meet the applicable requirements of the Guides, including but not limited to the loan eligibility and underwriting requirements.

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### **B. Representations And Warranties**

The lender represents and warrants that all Mortgages sold to Fannie Mae conform to the requirements of the *Mortgage Selling and Servicing Contract* between Fannie Mae and the lender (the "MSSC") and the Guides, as applicable, except as modified by the (1) Master Agreement, and (2) terms of any Contracts entered into pursuant to the Master Agreement. Any MBS pool purchase contract (the "MBS Contract"), including all applicable MBS pricing confirmation(s) in the case of MBS transactions under conversion Master Agreements (as described in Part III.A below), and cash commitments in the case of cash transactions that are entered into pursuant to the Master Agreement, are referred to in these Master Agreement Terms and Conditions and in the Master Agreement as "Contract(s)." A breach of any underwriting or eligibility requirements as set forth in the Guides, Master Agreement, or any related Contract shall be deemed to be a breach of warranty by the lender, as provided in this Guide.

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### **C. Lender's Authority**

If the lender is a federally insured institution or an affiliate or subsidiary of a federally insured institution, the lender represents and warrants that the sale to, and if applicable, servicing for, Fannie Mae of the Mortgages sold to Fannie Mae pursuant to any Master Agreement has either been (1) specifically approved by the board of directors of the lender and such approval is reflected in the minutes of the meetings of such board of directors, or (2) approved by an officer of the lender who was duly authorized by the lender's board of directors to enter into such types of transactions and such authorization is reflected in the minutes of such board of directors'



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meetings. In addition, such lender represents and warrants that any (1) Master Agreement, (2) related Master Conversions (as described in Part III.A below), (3) Contracts, and (4) related amendments, together with the Guides and MSSC, constitute the “written agreement” governing the lender’s sale to, and servicing for, Fannie Mae of the Mortgages sold pursuant to the Master Agreement, and that the lender (or any successor thereto) shall continuously maintain all components of such “written agreement” as an official record.

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#### **D. Amendments**

The Master Agreement and all related Contracts may only be amended by written agreement executed by both Fannie Mae and the lender.

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#### **E. No Assignment of Agreement**

The lender may not assign the Master Agreement or any related Contracts or any rights or obligations under any of such agreements.

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#### **F. Breach And Termination**

The lender’s right to sell, and Fannie Mae’s obligation to purchase, Mortgages under any related Contract may be terminated by Fannie Mae prior to the expiration date of the Master Agreement or, in the case of any Master Conversion, the expiration date of the Master Conversion, if the lender has breached the (1) MSSC, (2) Guides, or (3) any of the provisions of the Master Agreement or any related Contract. If any mandatory delivery amount, as adjusted by any delivery tolerance, is not sold to Fannie Mae prior to the expiration date of the applicable Master Conversion, in the case of a conversion Master Agreement, and the expiration date of the entire Master Agreement, in the case of a non-conversion Master Agreement, the lender shall be in breach of the Master Agreement.

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#### **G. Confidentiality**

The form, terms, and provisions of the Master Agreement, and related Contracts, as well as all information regarding the negotiation of the form, terms, and provisions of the Master Agreement, are confidential. The lender shall not disclose or disseminate, directly or indirectly, the form, terms, or provisions of the Master Agreement or related Contracts, or such other information regarding the negotiation of the Master Agreement or related Contract, to any party other than the lender’s employees or agents who need to know the same in order to perform their duties for the lender and who are legally obligated not to further disclose or disseminate such form, terms, provisions and information upon receipt of such. Notwithstanding the prior

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sentence, the lender may disclose or disseminate such form, terms, provisions, and information if it is required to do so by law (including a subpoena or judicial or governmental requirement or order) and will give Fannie Mae prior written notice of such requirement and of the information required to be disseminated or disclosed. The obligations of the lender regarding confidentiality shall survive termination of the Master Agreement and any related Contracts.

If the lender requests that an affiliate be permitted to sell Mortgages under the lender's Master Agreement, the lender will be deemed to have consented to Fannie Mae's disclosure to such affiliate of the Master Agreement and related Contracts and commitment terms affecting any Mortgages sold under the Master Agreement, unless the lender specifically instructs Fannie Mae otherwise in writing.

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## **PART II. VARIANCES AND SPECIAL PRODUCTS, SPECIAL REQUIREMENTS, AND SPECIAL FEATURE CODES**

This Part II describes the provisions of the "Variances" and "Special Requirements" Sections of the Master Agreement, as applicable. These Sections contain variances, special products, and special requirements negotiated between Fannie Mae and the lender. All terms and conditions set forth in the "Variances" and "Special Requirements" Sections apply to the related Master Agreement, and to any related Contracts, and may not be applied to any other commitment, agreement, or contract without Fannie Mae's express written approval. If any Mortgage contains more than one of the variances, requirements, or features described in the "Variances" and "Special Requirements" sections, the variance, special requirement, or special product feature requiring the most conservative credit criteria (for example, the lowest maximum LTV or the highest credit score) shall control and apply to such Mortgage. In addition, if such variances, special requirements or special products are subject to delivery limitations, either as a maximum dollar or a percentage amount, then (1) the unpaid principal balance of such Mortgages shall apply toward fulfillment of the delivery limitation applicable to each variance, special requirement, or special product, and (2) the lender's compliance with such delivery limitations will be determined at the end of the applicable Delivery Term, unless otherwise specified in the variance. Furthermore, unless otherwise provided, any stated percentage limitation applicable to Mortgages is an amount calculated based on the aggregate unpaid principal balance at the time of Fannie Mae's purchase of the Mortgages, not on the number of Mortgages.

The lender must, at the time of sale of the Mortgages to Fannie Mae, identify on the Loan Schedule or Schedule of Mortgages, as applicable, all Mortgages with all special feature codes that are required by the Guides, and Master Agreement.

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## **PART III. DELIVERY OF MORTGAGES**

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## A. Conversion Versus Non-Conversion Master Agreements

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|------------------------------|---|
| Conversion Master Agreements | <p>Fannie Mae, in its discretion, may require the lender to sell Mortgages under a Master Agreement that requires periodic conversions ("Master Conversion") to provide for a mandatory delivery amount during a specified period of time (the "Conversion Period"). Contemporaneously with the execution of a conversion Master Agreement, and as a condition to the sale of any Mortgages under the conversion Master Agreement, the lender and Fannie Mae shall agree on the terms of a Master Conversion, including pricing terms for each applicable MBS Contract under the Master Agreement ("MBS Pricing Confirmation"). Each Master Conversion entered into under the Master Agreement constitutes an agreement by (1) the lender to sell Mortgages to, and service such Mortgages for, Fannie Mae (or assign such servicing concurrently with such sale in accordance with Fannie Mae's guidelines), and (2) Fannie Mae to purchase the Mortgages and, in the case of MBS transactions, to issue its Guaranteed Mortgage Pass-Through Securities (the "Securities") backed by such Mortgages to the lender or its designee(s). The volume under each Master Conversion must be sold to Fannie Mae on a mandatory basis only, and may be satisfied by any combination of cash or MBS transactions.</p> <p>In order for the Master Conversion to be effective for the sale of Mortgages under any MBS Contract, an MBS Pricing Confirmation for each such related MBS Contract must provide for the lender's sale during the Conversion Period of a specified volume of Mortgages in accordance with the terms, including guaranty fee, set forth in such MBS Pricing Confirmation. The first Master Conversion and the first MBS Pricing Confirmation(s) for all applicable MBS Contract(s) will be effective as of the execution and return by the lender of the Master Agreement.</p> |
| MBS Pricing Confirmations    | <p>Each MBS Pricing Confirmation provides all pricing information (including guaranty fee, buyup/buydown provisions and other provisions related to price), effective until the pricing changes. At the beginning of each Conversion Period, Fannie Mae and the lender may agree to change the pricing for MBS Contracts by a new MBS Pricing Confirmation.</p>   |

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|----------------------------------|---|
| Conversion Procedures            | Prior to the expiration of the Conversion Period for each Master Conversion, in order for the lender to sell any additional Mortgages during the next Conversion Period, the lender and Fannie Mae must agree on the terms of a new Master Conversion and MBS Pricing Confirmation for the applicable MBS Contract (if any terms relating to pricing under such Contract have changed from the previous MBS Pricing Confirmation). The final Conversion Period of the applicable Delivery Term (as described in Part B below) will expire on the expiration date of the Delivery Term as set forth in Exhibit 1 of the Master Agreement.  |
| Non-conversion Master Agreements | Unless otherwise agreed to by the lender and Fannie Mae, in the case of non-conversion Master Agreements, the volume may be sold either on a mandatory basis, on a partially mandatory and partially optional basis, or as otherwise specified in the Master Agreement. A non-conversion Master Agreement includes, among other things, pricing terms for each applicable MBS Contract under the Master Agreement. Execution of a non-conversion Master Agreement constitutes an agreement by (1) the lender to sell eligible Mortgages to, and service such Mortgages for, Fannie Mae (or assign such servicing concurrently with such sale in accordance with Fannie Mae’s guidelines), and (2) Fannie Mae to purchase the Mortgages and, in the case of MBS transactions, to issue its Guaranteed Mortgage Pass-Through Securities (the “Securities”) backed by such Mortgages to the lender or its designee(s). Mandatory and optional deliveries under a Master Agreement may be satisfied by any combination of cash or MBS transactions. |

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## B. Delivery Term

The Master Agreement incorporates the concept of a “Delivery Term.” A “Delivery Term” is the period of time between the stated effective date and the stated expiration date of the Master Agreement. At the end of a Delivery Term, the parties may negotiate new terms, including a new “Estimated Dollar Amount for Delivery Term” for a conversion Master Agreement, or new “Agreed Amount” for a non-conversion Master Agreement, for a new Delivery Term and that the Master Agreement will be amended to reflect these new terms. Each successive Delivery Term will be numbered chronologically, beginning with “First.”

In a conversion Master Agreement, any reference to a “Master Conversion” or an “MBS Pricing Confirmation” shall generally apply to any such documents entered into between the parties

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during the applicable Delivery Term and, specifically, to the document currently in effect, if the context requires.

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### **C. Back-End Buyout**

If an applicable mandatory delivery amount is not sold to Fannie Mae by the expiration of the applicable Delivery Term, then the lender may be subject to payment of a back-end buyout fee. In the case of a conversion Master Agreement, the applicable mandatory delivery amount for purposes of the back-end buyout fee will be the sum of all Mandatory Delivery Amounts as stated in the applicable Master Conversions. The unsold and uncommitted portion of the mandatory delivery amount shall be the difference between (1) the mandatory delivery amount (without taking into account any delivery tolerance) and (2) a sum equal to the aggregate outstanding principal balance of Mortgages (for each Mortgage, as of the time of sale of the Mortgage) that the lender has sold to Fannie Mae during the applicable Delivery Term under all of the applicable Master Conversions, in the case of a conversion Master Agreement, and under the entire Master Agreement, in the case of a non-conversion Master Agreement, plus the principal balance of Mortgages that the lender is still obligated to sell (and subsequently sells) under any existing and unexpired mandatory delivery commitments.

At Fannie Mae's option, Fannie Mae may draft the fee from the lender's designated account immediately following the expiration date for the applicable Delivery Term of the Master Agreement. If, however, Fannie Mae postpones or declines to enforce payment of this fee, such action will not imply a waiver of its right to collect this or a similar fee at a subsequent time. Furthermore, Fannie Mae expressly reserves all of its other rights and remedies (1) provided by law, (2) under any agreement(s) between the parties, and (3) under the applicable delivery program, and the receipt of any back-end buyout fee shall not affect or impair any such rights and remedies.

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## **PART IV. MORTGAGES SUBMITTED TO DESKTOP UNDERWRITER**

For loan casefiles underwritten through DU, when DU returns a recommendation of Approve/Ineligible, Refer with Caution, or Out of Scope, but such Mortgage would otherwise be eligible for sale pursuant to the terms of one or more of the specific variances, special requirements, or special products set forth in the Master Agreement, the lender may sell such Mortgage, subject to all applicable requirements, restrictions, stipulations, and limitations specified in the Master Agreement and the *Selling Guide*, which may include the purchase price or guaranty fee and any applicable loan-level price adjustment or similar charge specified in the Master Agreement or posted in the [LLPA Matrix](#) on Fannie Mae's website.

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## **E-2-04, Revocable Trust Rider (Sample Language) (01/17/2013)**

### **Introduction**

This rider may be used for California mortgages. It may need to be modified to reflect the requirements of other specific states.

### **DEFINITIONS USED IN THIS RIDER**

(A) “Revocable Trust.” The \_\_\_\_\_ [Complete Legal Name of Trust] Trust created under trust instrument dated \_\_\_\_\_, \_\_\_\_\_.

(B) “Revocable Trust Trustees.” \_\_\_\_\_ trustee(s) of the Revocable Trust.

(C) “Revocable Trust Settlor(s).” \_\_\_\_\_ settlor(s) of the Revocable Trust signing below.

(D) “Lender.” \_\_\_\_\_.

(E) “Security Instrument.” The Deed of Trust and any riders thereto of the same date as this Rider given to secure the Note to the Lender of the same date and covering the Property (as defined below).

(F) “Property.” The property described in the Security Instrument and located at \_\_\_\_\_ [Property Address].

THIS REVOCABLE TRUST RIDER is made this \_\_\_\_\_ day of \_\_\_\_\_, and is incorporated into and shall be deemed to amend and supplement the Security Instrument. **ADDITIONAL COVENANTS.** In addition to the covenants and agreements made in the Security Instrument, the Revocable Trust Trustee(s), the Revocable Trust Settlor(s), and the Lender further covenant and agree as follows: **ADDITIONAL BORROWER(S)** The term “Borrower” when used in the Security Instrument shall refer to the Revocable Trust Trustee(s), the Revocable Trust Settlor(s), and the Revocable Trust, jointly and severally. Each party signing this Rider below (whether by accepting and agreeing to the terms and covenants contained herein and agreeing to be bound thereby, or both) covenants and agrees that, whether or not such party is named as “Borrower” on the first page of the Security Instrument, each covenant and agreement and undertaking of the “Borrower” in the Security Instrument shall be such party’s covenant and agreement

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and undertaking as “Borrower” and shall be enforceable by the Lender as if such party were named as “Borrower” in the Security Instrument. BY SIGNING BELOW, the Revocable Trust Trustee(s) accepts and agrees to the terms and covenants contained in this Revocable Trust Rider. \_\_\_\_\_, Trustee of the \_\_\_\_\_  
\_\_\_\_\_ [Complete Legal Name of Trust] Trust under trust instrument dated \_\_\_\_\_, \_\_\_\_\_. \_\_\_\_\_, Trustee of the \_\_\_\_\_ [Complete Legal Name of Trust] Trust under trust instrument dated \_\_\_\_\_, \_\_\_\_\_. BY SIGNING BELOW, the undersigned Revocable Trust Settlor(s) acknowledges all of the terms and covenants contained in this Revocable Trust Rider and agrees to be bound thereby.

\_\_\_\_\_ (Seal) — Revocable Trust Settlor

\_\_\_\_\_ (Seal) — Revocable Trust Settlor

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## E-2-05, Signature Requirements for Mortgages to Inter Vivos Revocable Trusts (02/23/2016)

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### Introduction

This exhibit describes signature requirements for mortgages to *inter vivos* revocable trusts, including:

- [Signature Requirements](#)
  - [Use of a Signature Addendum to Note for Mortgages to Inter Vivos Revocable Trusts](#)
  - [Form of Signature Required on Mortgage Note for an Institutional Trustee and for an Individual Trustee Who Is Not Both a Settlor and a Credit Applicant](#)
  - [Form of Signature Required on Mortgage Note for an Individual Trustee Who Is Both a Settlor and a Credit Applicant](#)
  - [Form of Signature Required on Security Instrument for All Trustees](#)
  - [Form of Settlor/Credit Applicant’s Signature Acknowledgment Required on Security Instrument](#)
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### Signature Requirements

The forms of signature shown below are appropriate for California mortgages. Under California law, the term “settlor” refers to the individual(s) establishing the trust; therefore, Fannie Mae uses this terminology in the signature forms and in their related instructions. Fannie Mae has



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also used the term “credit applicant” to refer to an individual whose income and assets are used to qualify for the mortgage. A lender that originates mortgages to *inter vivos* revocable trusts secured by properties in a state other than California is responsible for making any modifications (including the use of different terminology, if appropriate) needed to conform these signature forms to those that are customary for that state and will be held fully accountable for the use of any invalid signature form(s).

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### **Use of a Signature Addendum to Note for Mortgages to Inter Vivos Revocable Trusts**

Fannie Mae prefers that all signatures appear on the note itself; however, in certain situations the lender may decide that using a separate attachment for some of the signatures on the note is warranted. (An example is if there is not room for all of the signatures on the note itself.) In these situations, the lender may use a separate attachment or addendum (sometimes referred to as an allonge) for the borrower signatures, so long as the following requirements are met:

- All individual borrower(s) must sign the note itself; lenders may use a signature addendum for trustee signatures.
- The form and content of the signature addendum used must comply with all applicable state, local and federal laws governing the use of an allonge and result in an enforceable and proper signature on the note.
- The addendum must be permanently affixed to the related note and must clearly identify the note by referencing at least the name of the borrower, the date of the note, the amount of the note, and the address of the security property.
- The note must clearly and accurately reference the attached signature addendum.
- Fannie Mae’s status as a “holder in due course” must not be impaired.

The lender must indemnify Fannie Mae (as described in [A2-1-03, Indemnification for Losses](#)), for any losses incurred by Fannie Mae as a result of the use of a signature addendum.

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### **Form of Signature Required on Mortgage Note for an Institutional Trustee and for an Individual Trustee Who Is Not Both a Settlor and a Credit Applicant**

Each institutional trustee of the *inter vivos* revocable trust and each individual trustee of the *inter vivos* revocable trust who is not both a settlor and a credit applicant must sign the promissory note (and any necessary addendum), using a signature block substantially similar to the following, inserted in the Borrower’s Signature lines:



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\_\_\_\_\_, as Trustee of the \_\_\_\_\_  
[Complete Legal Name of Trust] Trust under trust instrument dated  
\_\_\_\_\_, \_\_\_\_\_.

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### **Form of Signature Required on Mortgage Note for an Individual Trustee Who Is Both a Settlor and a Credit Applicant**

Each individual trustee of the *inter vivos* revocable trust who is both a settlor and a credit applicant must sign the promissory note (and any necessary addendum), using a signature block substantially similar to the following, inserted in the Borrower's Signature lines:

\_\_\_\_\_, individually and as Trustee  
of the \_\_\_\_\_ [Complete Legal Name of Trust] Trust under trust instrument  
dated \_\_\_\_\_, \_\_\_\_\_.

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### **Form of Signature Required on Security Instrument for All Trustees**

Each trustee of the *inter vivos* revocable trust must sign the security instrument (and any necessary rider), using a signature block substantially similar to the following, inserted in the Borrower's Signature lines:

\_\_\_\_\_, as Trustee of the \_\_\_\_\_  
[Complete Legal Name of Trust] Trust under trust instrument dated  
\_\_\_\_\_, \_\_\_\_\_.

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### **Form of Settlor/Credit Applicant's Signature Acknowledgment Required on Security Instrument**

The following must be added to the security instrument (and any necessary rider) following the Borrower's Signature lines (and then must be signed by each settlor of the *inter vivos* revocable trust who is a credit applicant):

BY SIGNING BELOW, the undersigned, Settlor(s) of  
the \_\_\_\_\_ [Complete Legal Name of Trust] Trust under trust  
instrument dated \_\_\_\_\_, \_\_\_\_\_, acknowledges all of the terms  
and covenants contained in this Security Instrument and any rider(s) thereto and  
agrees to be bound thereby. \_\_\_\_\_ (Seal) Trust  
Settlor.

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## **E-2-06, Servicing Execution Tool — Mortgage Loan Servicing Purchase and Sale Agreement (02/23/2016)**

### **Introduction**

This **SERVICING EXECUTION TOOL - MORTGAGE LOAN SERVICING PURCHASE AND SALE AGREEMENT** (this “**Agreement**”), is by and between a seller that sells the Mortgage Loan (as defined below) to Fannie Mae (“**Seller**”), and a servicer approved by Fannie Mae to service the Mortgage Loan sold to Fannie Mae (“**Servicer**”).

### **RECITALS**

**WHEREAS**, Seller commits and sells a mortgage loan which conforms to all applicable requirements in the Guides (as defined below) pursuant to Fannie Mae’s whole loan committing application;

**WHEREAS**, pursuant to the whole loan committing application, Seller may release and sell the Servicing Rights (as defined below) to approved loan servicers concurrently with the sale of the Mortgage Loan to Fannie Mae via the Servicing Execution Tool (“**SET**”), which allows such servicers to bid on the applicable Servicing Rights through an on-line auction;

**WHEREAS**, pursuant to the whole loan committing application and the Purchase Documents (as defined below), Seller will sell the Mortgage Loan to Fannie Mae;

**WHEREAS**, concurrent with such sale and pursuant to SET, Seller will sell and transfer, and Servicer will purchase and accept, the Servicing Rights to the Mortgage Loan;

**WHEREAS**, Seller and Servicer agree that each such sale and transfer of Servicing Rights to the Mortgage Loan will be governed by the terms of this Agreement and, through their agreements with Fannie Mae to participate in SET and their access to and use of SET (either directly or indirectly through the whole loan committing application) to transact business with each other, they have agreed to be bound by this Agreement, as amended from time to time, with regard to each such sale and transfer; and

**WHEREAS**, each of Seller and Servicer has entered into the Purchase Documents (as defined below) and the Servicing Documents (as defined below), respectively, with Fannie Mae which set forth, among other things, Fannie Mae’s right to enforce remedies with respect to any breach of Selling Representations and Warranties (as defined below) with respect to Mortgage Loans sold by Seller to Fannie Mae pursuant to the whole loan committing application and for which

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Servicer acquires the Servicing Rights in accordance with the terms and conditions of this Agreement.

**NOW THEREFORE**, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Servicer agree to the terms and conditions set forth below in this Agreement.

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## 1. Definitions

A capitalized term in this Agreement shall have the meaning defined in the Guide unless otherwise defined in this Agreement.

1.1. **Agreement.** As defined in the preamble.

1.2. **Applicable Percentage.** The applicable percentage by which the unpaid principal balance of the Mortgage Loans, or an applicable subset thereof, is multiplied in determining the purchase price paid to Seller for the Servicing Rights of the applicable Mortgage Loans, as reflected via SET.

1.3. **Business Day.** A day on which Fannie Mae's Capital Markets Sales Desk is open for business, which excludes the Securities Industry and Financial Markets Association's (SIFMA's) recommended holidays and early closings.

1.4. **Concurrent Transfer of Servicing.** The transfer of the Servicing Rights related to the Mortgage Loan at the same time Fannie Mae purchases that Mortgage Loan.

1.5. **Fannie Mae.** The Federal National Mortgage Association or any successor thereto.

1.6. **Funding Adjustments.** If, and to the extent applicable, for the Mortgage Loan, the escrow deposits, and Net servicing-released premium ("SRP") which shall take into account the SRP, administrative fee, tax service fee, flood determination fee, and other fees or adjustments as set forth in the whole loan committing application/SET.

1.7. **Funding Date.** The date on which Fannie Mae disburses payment to Seller for the Mortgage Loan Fannie Mae purchases.

1.8. **Guides.** The Fannie Mae *Selling Guide* and the Fannie Mae *Servicing Guide*, each as amended, restated, supplemented or otherwise modified from time to time.

1.9. **Litigation.** All legal, regulatory, governmental or administrative actions, suits, claims, investigations and complaints that affect or involve the Mortgage Loan, excluding foreclosure and bankruptcy actions.

1.10. **Mortgage Loan.** The mortgage loan that is purchased by Fannie Mae through the whole loan committing application with its Servicing Rights concurrently sold and transferred by Seller to Servicer through SET.

1.11. **Master Agreement and Master Commitment.** The agreements entered into between Seller and Fannie Mae for the sale of the Mortgage Loan.

1.12. **Mortgage Insurance.** A contract with a private mortgage insurer insuring or guaranteeing full or partial payment of principal, interest and related expenses of a Mortgage Loan.

1.13. **Mortgaged Premises.** The real property and improvements located thereon that secure the Mortgage Loan.

1.14. **Private Mortgage Insurance Policy.** Each private mortgage insurance policy required to be in effect for a specific Mortgage Loan pursuant to the Fannie Mae *Servicing Guide*, or any replacement policy therefore obtained by Seller.

1.15. **Purchase Date.** The Purchase Date shall be the Business Day immediately preceding the Funding Date. The right of Seller to any portion of the servicing fees or any other fees or income relating to servicing of the Mortgage Loan shall terminate at the close of business on the Purchase Date.

1.16. **Purchase Documents.** Those agreements executed by Seller with respect to the Mortgage Loans, including, without limitation, any Master Agreement and Master Commitment, the Mortgage Selling and Servicing Contract, the Guides, any supplemental servicing instructions or directives provided by Fannie Mae, all applicable master agreements, recourse agreements, repurchase agreements, indemnification agreements, loss-sharing agreements, and any other agreements between Fannie Mae and Seller, and all as amended, modified, restated or supplemented from time to time.

1.17. **Seller.** As defined in the preamble.

1.18. **Selling Representations and Warranties.** The selling representations and warranties required to be made to Fannie Mae by a seller of mortgage loans, including, without limitation, those made pursuant to Section IV-A of the Master Selling and Servicing Contract between Seller and Fannie Mae, Chapters A2-1 and A2-2 of Subpart A2 of the Fannie Mae *Selling Guide* and Seller's Master Agreement with Fannie Mae, as the same may be amended or supplemented from time to time.

1.19. **Servicer.** As defined in the preamble.

1.20. **Servicing Documents.** Those agreements executed by Servicer with respect to the Mortgage Loans, including without limitation, the Mortgage Selling and Servicing Contract, the

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Fannie Mae *Servicing Guide* and any supplemental servicing instructions or directives provided by Fannie Mae, all applicable master agreements (including applicable variances), recourse agreements, repurchase agreements, indemnification agreements, loss-sharing agreements, and any other agreements between Fannie Mae and Servicer, and all as amended, modified, restated or supplemented from time to time.

1.21. **Servicing Rights.** The Servicing Rights shall be all of Seller's responsibilities, rights, title and interest associated with servicing the Mortgage Loan, as required by Fannie Mae. Such Servicing Rights shall include but not be limited to the contractual right to receive all existing funds in any existing custodial or escrow accounts, incidental income and benefits, amounts payable, such as servicing fees, late fees, assumption fees, and other authorized amounts with respect to the Mortgage Loan and possession and use of the servicing files and records, to the extent applicable, including without limitation, copies of applicable insurance policies, all related to the Mortgage Loan.

1.22. **Servicing Rights Repurchase Amount.** With respect to the Servicing Rights related to any Mortgage Loan or REO property, the sum of (a) the product of (1) the Applicable Percentage, and (2) the then-outstanding unpaid principal balance of such Mortgage Loan, or with respect to REO property, the unpaid principal balance of the related Mortgage Loan at the time of conversion to REO property, (b) any unreimbursed costs, expenses and corporate, servicing, principal and interest advances incurred by Servicer in connection with such Mortgage Loan and its servicing, the transfer of the Servicing Rights to Seller, and if applicable, repurchase and transfer of the related Mortgage Loan from Fannie Mae to Seller, including reasonable attorney's fees and costs, and (c) any and all other costs, expenses, losses, damages, deficiencies, claims, including costs of investigation, attorney's fees and disbursements incurred by Servicer in connection with such Servicing Rights and the related Mortgage Loan, other than to the extent attributable to Servicer's failure to service the related Mortgage Loan in accordance with the terms and conditions of the Servicing Documents.

1.23. **Servicing Transfer Instructions.** The Servicing Execution Tool - Servicing Transfer Instructions, which describe the submission of required information and completion of applicable forms by Seller for the transfer of servicing for the Mortgage Loan, as may be amended from time to time. The Servicing Transfer Instructions are provided to Seller by Fannie Mae.

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## 2. Scope of Responsibilities for Purchase and Sale

2.1 **Seller.** Concurrent with Servicer winning the auction for the Servicing Rights of the Mortgage Loan via the whole loan committing application and SET, Seller agrees that Seller shall sell its interest in the Servicing Rights of the Mortgage Loan to Servicer at the same time Fannie Mae purchases that Mortgage Loan. Within thirty (30) days of the first Purchase Date, Seller shall provide to Servicer a copy of Seller's most recent audited and year-to-date unaudited

financial statements. In addition, Seller shall provide to Servicer, on a semi-annual basis, updated audited and unaudited financial statements for as long as this Agreement is in effect. Seller warrants that it shall maintain fidelity bond and insurance for errors and omissions as required by Fannie Mae.

**2.2 Servicer.** Concurrent with Servicer winning the auction for the Servicing Rights of the Mortgage Loan via the whole loan committing application and SET, Servicer agrees that Servicer shall purchase Seller's interest in the Servicing Rights of the Mortgage Loan at the same time Fannie Mae purchases that Mortgage Loan. A Servicer for purposes of this Agreement may designate a third party to act on its behalf (such as a subservicer), and Seller shall perform its obligations under this Agreement with such designee as instructed or authorized by Servicer or by Fannie Mae.

**2.3 Fannie Mae.** Fannie Mae shall facilitate the transfer of Servicing Rights. Fannie Mae approves the sale of the Mortgage Loan and the transfer of the Servicing Rights. In no event shall Fannie Mae have and/or be subject to any recourse, claim or liability which may be alleged, due or imposed in connection with any breach, claim or default of any kind under this Agreement, and any such recourse, claim or liability shall be the responsibility of, satisfied by and chargeable to Seller or Servicer, as applicable.

**2.4 Notification of Parties.** Fannie Mae shall notify Servicer and Seller of the transfer of Servicing Rights based on Servicer's bid as follows:

(a) **Notice to Seller.** Seller shall be notified of the transfer of the Servicing Rights of the Mortgage Loan via the whole loan committing application.

(b) **Notice to Servicer.** Servicer shall be notified of the transfer of the Servicing Rights of the Mortgage Loan via SET.

**2.5 Sellers and Servicer Acknowledgement of Fannie Mae's Role.** Both Seller and Servicer hereby agree and acknowledge that:

(a) **Match.** Fannie Mae through SET will match Sellers with Servicers for the purchase and sale of Seller's interest in the Servicing Rights.

(b) **Recourse.** In no event shall Fannie Mae have and/or be subject to any recourse, claim or liability which may be alleged, due or imposed in connection with any breach, claim or default of any kind under this Agreement, and any such recourse, claim or liability shall be the responsibility of, satisfied by and chargeable to Seller or Servicer, as applicable.

(c) **Release of Liability.** Except as otherwise provided in this Agreement or any other agreement between Fannie Mae and Seller or Servicer, respectively, Seller and Servicer each hereby release

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Fannie Mae from any liability, claim or expense relating to the performance of each other under the terms of this Agreement.

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### **3. Responsibility and Liability for Selling Representations and Warranties**

Notwithstanding the terms of this Agreement, the parties hereto acknowledge and agree that Fannie Mae has the right to enforce the Selling Representations and Warranties against either or both of Seller and/or Servicer pursuant to, and to the extent provided by, the terms and conditions of the Seller's Purchase Documents and the Servicer's Servicing Documents, respectively.

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### **4. Purchase Price**

**4.1 Seller.** The purchase price paid to Seller for the Servicing Rights of the Mortgage Loan less servicer fees shall be included in the Net SRP quoted by Fannie Mae and accepted by Seller for the sale of the Mortgage Loan to Fannie Mae.

**4.2 Funding Adjustments.** The amount of all Funding Adjustments shall be reflected in the purchase proceeds paid by Fannie Mae on the Funding Date.

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### **5. Condition Precedent to Servicer's Obligations**

Unless waived by Servicer in writing, Seller agrees to the following:

#### **5.1 Seller Obligations on Purchase Date.**

(a) **Notice to Insurance Company.** On the Purchase Date, Seller shall inform, by written notice, all interested insurance companies, all other interested parties, and/or their respective agents, of the transfer of Servicing Rights to Servicer. Such notice shall include Servicer's Mortgage Loan number and shall:

(i) **Title.** Name Servicer and its successors and assigns as an insured in the lender's policy of title insurance for the Mortgage Loan (unless the lender's policy of the title insurance for the Mortgage Loan defines "insured" as any owner of indebtedness secured by the insured mortgage);

(ii) **Fire and Extended Coverage.** Change the loss payee or mortgagee clause to include Servicer in the fire and extended coverage policy for the Mortgaged Premises;

(iii) **Flood and Catastrophe.** Change the loss payee or mortgagee clause to include Servicer in the flood insurance policy and in the catastrophe insurance policy, if any, for the Mortgaged Premises; and



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(iv) **Private Mortgage.** Name Servicer and its successors and assigns as an insured and, if applicable, include a lender's loss payable endorsement in the private Mortgage Insurance certificate for the Mortgage Loan.

(b) **Notice to Mortgagor.** Seller shall provide the mortgagors with written notice of the transfer of servicing from Seller to Servicer, the form and content of which notice shall comply with the Real Estate Settlement Procedures Act ("**RESPA**"), RESPA's implementing Regulation X, and other applicable laws and regulations. Seller shall provide the mortgagors with such written notice at the closing of the Mortgage Loan or such other time as may be required by RESPA and other applicable laws and regulations.

(c) **Recording and Delivery of Assignment.**

(i) If (A) Mortgage Electronic Registration Systems, Inc. ("**MERS**"<sup>®</sup>) is not the mortgagee of record at the time Seller transfers the Servicing Rights to Servicer, Seller shall execute and submit for recording at the applicable recording office an assignment of the relevant security instrument securing the Mortgage Loan in favor of Servicer, in the format provided by Servicer, or (B) MERS is the mortgagee of record at the time Seller transfers the Servicing Rights to Servicer, Seller shall cause the applicable Mortgage Loan to be registered on MERS and identify Servicer as servicer, in the format provided by Servicer, and Fannie Mae as investor, and deliver all such recorded assignments to Servicer.

(ii) Seller shall deliver powers of attorney to Servicer sufficient to allow Servicer to execute all documentation requiring execution on behalf of Seller with respect to the servicing of the Mortgage Loan, including assignments, mortgages, title policies, satisfactions, partial releases, modifications and foreclosure documentation, or in the alternative when execution by Seller is required, Seller shall, as promptly as reasonably feasible, but in no event exceeding five (5) days after delivery, execute and return such documentation to Servicer.

(d) **Real Estate Tax Payment.** In the event the Mortgage Loan requires the mortgagor to escrow funds, Seller shall pay all real estate taxes that are due and payable (i) on or before the Purchase Date, and (ii) within thirty (30) days after the Purchase Date. Seller agrees to follow transfer procedures with respect to real estate tax service contracts in a manner described in the Servicing Transfer Instructions. In addition, Seller shall not pay any bill for which Seller has not specifically retained escrow funds pursuant to the Section herein entitled "After Receipt". In the event the Mortgage Loan does not require the mortgagor to escrow funds, Seller shall cause the mortgagors to pay the above-described real estate taxes.

(e) **Insurance Payment.** In the event the Mortgage Loan requires the mortgagor to escrow funds, Seller shall pay the hazard insurance, flood insurance and private Mortgage Insurance premiums that are due and payable (i) on or before the Purchase Date, and (ii) within thirty (30) days after the Purchase Date. Seller shall not pay any bill for which Seller has not specifically retained



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escrow funds pursuant to the Section herein entitled “After Receipt”. In the event the Mortgage Loan does not require the mortgagor to escrow funds, Seller shall cause the mortgagors to pay the above-described hazard insurance, flood insurance and private Mortgage Insurance premiums.

(f) **Execute Other Documents.** Seller shall execute such further documents reasonably required by Servicer to fully transfer or assign all of Seller's rights, title, and interest in and to the subject Servicing Rights to Servicer and escrow funds transferred hereunder.

**5.2 Seller Obligations after Purchase Date.** Within three (3) Business Days after the Purchase Date, Seller at its own expense shall furnish Servicer or the designated document custodian, as applicable, with the following:

(a) **Mortgage Loan Information.** In addition to the information entered in the Servicer Required Fields (SRF) by Seller and the file of such information imported into the whole loan committing application by Seller, Seller shall provide all available computer or like records if and as reasonably requested by Servicer, from time to time, reflecting pertinent information on the Mortgage Loan, including but not limited to comprehensive tax and insurance information identifying payee, payee address, next payment due date, and policy number.

(b) **File.** A complete loan file as described in the Fannie Mae *Selling Guide* to Servicer unless otherwise directed by Fannie Mae. Seller must also retain a copy of the complete loan file and maintain that copy in accordance with the requirements of the Fannie Mae *Servicing Guide* and any other applicable requirements set forth therein.

(c) **Other Documents.** Seller shall deliver to Servicer any and all further documents reasonably required by Servicer in order to fully transfer to Servicer all of Seller's rights, title and interest in and to the Servicing Rights and escrow funds transferred hereunder.

(d) **Late Fee.** If Seller fails to comply with this Section, Servicer may, in its sole discretion, charge Seller a late fee of up to \$500.00

**5.3 Accurate Representations and Warranties.** Seller's representations and warranties hereunder are true and accurate as of and prior to the Purchase Date.

**5.4 Compliance with Requirements.** Seller shall comply with the Servicing Transfer Instructions, as amended from time to time; and Seller shall complete any and all required forms contained in and as required by the Servicing Transfer Instructions and return such information and items to the party designated therein to receive such information and items.

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## 6. Exchange of Funds

### 6.1 After Purchase Date.

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(a) **Reconciliation of Funding Adjustments.** Seller and Servicer shall have the sole responsibility to adjust and reconcile the amount of the Funding Adjustments. Seller and Servicer hereby agree to release Fannie Mae from any responsibility to adjust the Funding Adjustments, to communicate with Seller and Servicer regarding any adjustments to or reconciliations of the Funding Adjustments, or to pay any amounts owed or owing between Seller and Servicer regarding adjustments to or reconciliations of the Funding Adjustments. In the event either party informs the other of the need to adjust and reconcile the Funding Adjustments, the party that is so informed shall research the discrepancy and, upon verification by them, the parties shall take such actions as are necessary to rectify the discrepancy.

(b) **Late Fee.** If Seller fails to transfer any and all funds required pursuant to this Agreement within three (3) Business Days of demand from Servicer, then Servicer may, in its sole discretion, charge Seller a late fee of up to \$500.00.

**6.2 After Receipt.** Within one (1) Business Day of receipt, Seller shall transfer and forward to Servicer via wire transfer or overnight delivery service all funds received from the mortgagor after the Purchase Date.

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## 7. Payment of Costs

**7.1 Seller Costs.** Seller shall pay all its own costs for computer service fees, production of required material, transporting records and files, obtaining a real estate tax contract, assignment fees, legal and accounting fees, wire transfer fees and other costs incurred by Seller in its performance of its obligations under this Agreement related to the time period ending on or before the Purchase Date. Additionally, Seller shall pay the applicable Fannie Mae transfer fee(s), if any, for the Servicing Rights transferred to Servicer. Seller shall also be responsible for all designated document custodian-assessed custodial fees, including but not limited to fees for the certification, safekeeping and release of the promissory note.

**7.2 Servicer Costs.** Servicer shall pay all its own costs for computer service fees, legal and accounting fees, all designated document custodian-assessed custodial fees, including but not limited to fees for the certification, safekeeping and release of the promissory note, and other costs incurred by Servicer in its performance of its obligations under this Agreement after the Purchase Date.

**7.3 Late Fee.** Servicer shall be entitled to charge Seller a fee ("**Late Document Fee**") equal to \$100.00 per Mortgage Loan per month if all final documents specified in the "Final Documents" section of the Servicing Transfer Instructions have not been delivered to Servicer or the designated document custodian within six (6) months of the Purchase Date. Such Late Document Fee shall begin to accrue on the first (1st) day of the seventh (7th) month after the Purchase Date. Notwithstanding the foregoing, Servicer shall not impose a Late Document Fee if Seller's

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failure to deliver an original loan document is caused by the failure of the applicable recording office to record and return the loan document, provided Seller, in Servicer's reasonable judgment, has exercised and continues to exercise reasonable good faith efforts to fulfill its obligation hereunder.

#### **7.4 Refund of Servicing Released Premium and Repurchase of Mortgage Loan.**

(a) **Mortgage Loan Paid in Full.** If the Mortgage Loan is paid in full within 120 days of the Purchase Date, Seller shall refund one hundred percent (100%) of the price paid by Servicer for such Servicing Rights, plus any applicable associated interest loss and any applicable fees due to Fannie Mae.

#### **(b) Mortgage Loan Repurchases.**

(i) If Fannie Mae requires Seller to repurchase the Mortgage Loan, Servicer may, in its sole discretion, require Seller to repurchase the Servicing Rights. Seller shall then be required to refund the price paid by Servicer for the Servicing Rights in accordance with the schedule in *Exhibit A* to this Agreement.

(ii) Servicer may charge Seller a \$200.00 repurchase fee in the event Seller is required to repurchase the Mortgage Loan. Seller shall remit payment of such repurchase fees directly to Servicer.

(iii) In the event that for any Mortgage Loan for which Servicer has purchased the Servicing Rights, the first, second or third monthly payment due Servicer becomes sixty (60) or more days delinquent (each such Mortgage Loan, an “**EPD Mortgage Loan**”) after the applicable Purchase Date, Seller shall reimburse Servicer for the original purchase price paid for said EPD Mortgage Loan, along with an early payment default fee of \$1,500 per EPD Mortgage Loan. Seller shall wire to Servicer the applicable amount within seven (7) Business Days from the date of Servicer’s request.

(iv) To the extent provided in the Servicing Documents, if Servicer is required by Fannie Mae to repurchase a Mortgage Loan or to make Fannie Mae whole, for any issue determined by Fannie Mae to be a breach of Seller’s representations and warranties made under the *Selling Guide*, Servicer shall promptly notify Seller and shall inform Seller of the related repurchase or make-whole request and the date of such repurchase or make-whole payment. Seller shall have the right to determine and direct whether to effect or contest such repurchase or make-whole request. Subject to applicable notice and cure provisions of this subsection and regardless of whether Seller has elected to contest such repurchase or make-whole request, Seller shall pay to Servicer, by wire transfer of immediately available funds, the sum of the applicable repurchase or make-whole payment and the related Servicing Rights Repurchase Amount on the day which is the earlier of (a) five (5) Business Days prior to such repurchase or make-whole payment date, or (b) ten (10) Business Days after Servicer’s demand for payment of such

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amounts. Seller shall reimburse Servicer an amount equal to the amount paid by Servicer to Fannie Mae for such repurchase or make-whole, as well as pay the applicable Servicing Rights Repurchase Amount. In addition, Seller shall pay to Servicer all actual and reasonable out-of-pocket costs and expenses (including but not limited to overnight courier charges) borne by Servicer in connection with the attempted cure of the applicable breach and in connection with the repurchase or make-whole of such Mortgage Loan from Fannie Mae, including, but not limited to, reasonable attorney's fees. Upon the consummation of any such repurchase or make-whole as provided above, the applicable repurchased Mortgage Loan shall be delivered to Seller, provided Fannie Mae is not requesting a make-whole. With respect to each Mortgage Loan for which Servicer is notified by Fannie Mae that it will or may be required to repurchase or make-whole (1) Servicer will make reasonable efforts to mitigate losses with respect thereto; (2) Servicer will notify Seller of the applicable repurchase requirement no later than ten (10) Business Days after Servicer's receipt of notice thereof from Fannie Mae; (3) upon Seller's request Servicer shall furnish to Seller a copy of the related credit file and other information requested by Seller, including payment histories to enable Seller to respond to Fannie Mae; (4) Servicer will allow Seller to cure, within any cure period allowed by Fannie Mae, the condition or breach resulting in the repurchase or make-whole requirement, and (5) Servicer will cooperate with any request for extensions.

(v) If it is discovered after the Purchase Date with respect to a Mortgage Loan that a Private Mortgage Insurance Policy is not in force or has been canceled with respect to such Mortgage Loan as of the Purchase Date, and the failure of such a policy to be in force on or after the Purchase Date is due to negligence on the part of Seller, Seller shall, no later than thirty (30) days after Seller's receipt of notification thereof, either (a) take all such actions as are necessary to cause such policy to be in force or to be reinstated by the applicable insurer, or (b) repurchase the related Servicing Rights from Servicer at the Servicing Rights Repurchase Price. If Seller fails to comply with the preceding sentence with respect to a Mortgage Loan, Servicer shall notify Fannie Mae, to initiate the repurchase process with respect to such Mortgage Loan. At no time shall Servicer be made to advance funds to reinstate any Private Mortgage Insurance Policy or pass-through to Fannie Mae any losses due to reasons stated in this subsection. If Servicer is notified of a rescission of the Private Mortgage Insurance Policy, Seller shall reimburse Servicer for any amounts due within fifteen (15) Business Days of receipt of request for reimbursement from Servicer, provided such policy cannot be reinstated.

(vi) Notwithstanding the provisions of this Section 7.4, if Fannie Mae requires Seller to repurchase a Mortgage Loan that was sold to Fannie Mae in a bifurcated SET transaction, the parties agree and acknowledge that such repurchase shall be handled in accordance with the procedures and requirements specified in the *Servicing Guide* with respect to repurchase obligations related to bifurcated mortgage loans.

**7.5 Post Purchase Date Data Corrections.** If after the Purchase Date Seller or Servicer determines that Seller did not deliver the required data or the correct data for the Mortgage Loan,

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Servicer must complete post Purchase Date data corrections in accordance with the terms and provisions of the Fannie Mae *Servicing Guide*.

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## **8. Representations, Warranties, Covenants and Indemnification and other Responsibilities**

### **8.1 Transfer of Servicing Rights.**

(a) **Governing Rules.** Except as provided in the Fannie Mae *Selling Guide*, the Purchase Documents and the Servicing Documents, as and to the extent applicable, all Concurrent Transfers of Servicing shall be in accordance with the Fannie Mae *Selling Guide* and the Fannie Mae *Servicing Guide*.

(b) **Selling Representations and Warranties.** Seller and Servicer, respectively, shall be liable to Fannie Mae for all Selling Representations and Warranties with respect to the Mortgage Loans upon the transfer of servicing to the extent provided in the Purchase Documents and the Servicing Documents, respectively.

(i) **Quality control activities.** Fannie Mae will conduct quality control activities relating to the sale representations and warranties with Seller. Seller agrees that Fannie Mae may share information with Servicer regarding the Mortgage including, but not limited to, quality control findings, Seller's response to quality control findings, and defect reports.

(ii) **Consent to Workout/REO Disposition.** Seller acknowledges that in the event the Mortgage Loan becomes delinquent or is foreclosed, Fannie Mae or Servicer may enter into a workout of the Mortgage Loan or dispose of the Mortgaged Premises. Seller consents in advance to any such workout option or disposition of the Mortgaged Premises that Fannie Mae and/or Servicer enters into for the Mortgage Loan, and acknowledges that Fannie Mae retains the right to exercise its remedies for Seller's breach of the sales representations, covenants and warranties.

### **8.2 Indemnification of Servicer.**

(a) **Seller Action.** Seller shall indemnify Servicer for, and shall hold Servicer harmless from and against any and all losses, liabilities, penalties, damages, expenses or other harm or injury that Servicer may incur or suffer or claims or causes of action which may be asserted by any person or entity, including reasonable attorneys' fees and court costs, arising from any failure to observe and perform properly each and every covenant of this Agreement either by (a) Seller or (b) Servicer in reliance upon information provided to Servicer by Seller; provided, however, that there is no negligence by Servicer.

(b) **Third Party Claims.** Without limiting the above, Seller shall indemnify Servicer for and shall hold Servicer harmless from and against any and all losses, liabilities, penalties, damages, expenses or other harm or injury that Servicer may incur or suffer or any claims or causes of

action that may be asserted by any person or entity, including reasonable attorney's fees and court costs, resulting from third party claims arising out of or relating to the Mortgage Loan or the Servicing Rights and:

(i) **Misrepresentation.** Any misrepresentation made by Seller in relation to the subject matter of this Agreement.

(ii) **Breach.** Any breach by Seller, any prior originator or any prior servicer of any of Seller's representations or warranties under this Agreement.

(iii) **Seller Act.** Any act or failure to act or perform any term, covenant, condition or obligation of Seller under this Agreement.

(iv) **Prior Act.** Any act or failure to act by any prior originator of the Mortgage Loan or any act or failure to act by any prior servicer of the Mortgage Loan.

(v) **Defect.** Any defect in the Mortgage Loan existing as of the Purchase Date.

(vi) **Error.** Any errors in originating, closing or servicing the Mortgage Loan existing as of the Purchase Date, including any improper act or failure to act when required to do so.

(c) **Servicer Remedies.** Notwithstanding the provisions set forth above, Servicer shall use commercially reasonable efforts to pursue all remedies under any title insurance policy, hazard insurance policy, flood insurance policy, PMI policy, government guarantee, tax service contract, or any other means available in the Mortgage Loan documents or under this Agreement. Servicer, however, shall not be required to sue any such third parties.

**8.3 Indemnification of Seller.** Servicer shall indemnify Seller and shall hold Seller harmless from and against any and all losses, liabilities, penalties, damages, expenses or other harm or injury that Seller may incur or suffer or claims or causes of action which may be asserted by any person or entity, including reasonable attorney's fees and court costs, arising from any failure to observe and perform properly each and every covenant of this Agreement either by (a) Servicer or (b) Seller in reliance upon information provided to Seller by Servicer; provided, however, that there is no negligence by Seller.

**8.4 Notice of Claim/Subrogation.** The party seeking indemnification under this Agreement shall notify the other party, in writing, within 30 days of receipt of notice of any claim, the commencement of any action or of the party which is seeking indemnification becoming aware of any facts that would give rise to, or serve as a basis for, a claim or action for which such party is entitled to receive indemnification under this Agreement. It is understood that Servicer shall take action in accordance with servicing standards generally applicable in the industry in dealing with such matters, and failure to promptly notify Seller shall not affect Servicer's right of indemnification unless such failure is prejudicial to Seller. If any such action is brought against



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Servicer and Servicer notifies Seller as set forth above, Seller shall be entitled to participate in and, provided Seller provides written notice to Servicer of its interest to do so and no conflict of interest exists in doing so, to assume the defense with counsel reasonably satisfactory to Servicer. However, Seller shall promptly deliver written notice to Servicer of its intent to assume the defense of such action. Upon receipt by Servicer of the notice from Seller of its election to assume the defense of such action, Seller shall not be liable to Servicer under this Agreement for any legal or other expenses subsequently incurred by Servicer in connection with the defense thereof. Additionally, Seller shall not be entitled to settle, compromise, decline to appeal or otherwise dispose of any such action without the consent of Servicer, which consent shall not be unreasonably withheld or delayed, but which consent may be withheld by Servicer if the settlement or compromise will have a material impact on Servicer's methods of servicing or ability to service the Mortgage Loan or any other mortgage loans serviced for other investors.

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## 9. Seller's Representation and Warranties

9.1 **As to Each Mortgage Loan.** Seller represents and warrants as to each Mortgage Loan:

(a) **Fannie Mae Requirements.** The Mortgage Loan meets all requirements of the applicable Purchase Documents, as amended and in effect at the time the Mortgage Loan was sold.

(b) **No Fraud.** There was no fraud or misrepresentation in the origination of the Mortgage Loan, whether or not as a result of any act or omission of Seller, a prior originator, the mortgagor, or any employee, representative or agent of the foregoing as would materially impair the Mortgage Loan or the related Mortgage Insurance contract.

(c) **Delinquency.** The Mortgage Loan shall not have been delinquent (more than 30 days past due) within one year of the Purchase Date.

(d) **Other.** Seller has not committed any act or failed to commit an act in connection with the Mortgage Loan which would cause Fannie Mae to request a repurchase of the Mortgage Loan.

9.2 **As to Servicing Rights.** Seller represents, warrants and covenants that:

(a) **Title to Servicing Rights.** Seller has good and marketable title to the Servicing Rights and has the complete right and power to transfer the Servicing Rights to Servicer, subject to approval by Fannie Mae, free and clear of all adverse claims and encumbrances.

(b) **No Adverse Claims.** The transfer of Servicing Rights by Seller to Servicer is free and clear of all adverse claims and encumbrances, and there has been no assignment, sale or hypothecation thereof.

(c) **Validity of Transfer.** If the Mortgage Loan was not originated by Seller or Seller's subsidiary, it shall nonetheless be transferred to Servicer by Seller pursuant to appropriate

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endorsement and assignment of the Mortgage Loan and shall be subject to the representations, warranties and covenants of Seller as provided in this Agreement with the same force and effect as if the Mortgage Loan was originated by Seller or Seller's subsidiary.

(d) **Requirement Adherence.** The Mortgage Loan was serviced in accordance with applicable federal, state and local laws, rules and regulations and with all applicable requirements of Fannie Mae with respect thereto.

(e) **Prior Servicing.** There are no defenses, counterclaims, or rights of setoff arising from the prior servicing affecting the Mortgage Loan or affecting the validity or enforceability of any Mortgage Insurance applicable to the Mortgage Loan. The provisions of any agreement between Seller and any other party providing for servicing of the Mortgage Loan existing as of the Purchase Date will not continue after the Purchase Date.

(f) **Filing of Reports.** Seller has filed or will have filed all reports required by governmental agencies having jurisdiction over the Servicing Rights being transferred by Seller to Servicer.

(g) **Pending Litigation.** There is no pending, or to the best of Seller's knowledge, threatened, Litigation, or basis therefore, with respect to a Mortgage Loan which would have a material adverse affect on the servicing of the Mortgage Loan.

**9.3 Servicer Representations and Warranties.** Servicer represents, warrants and covenants that it will service the Mortgage Loan in accordance with the Servicing Documents.

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## **10. Election by Seller and Servicer to Restrict Cross-Selling by Servicer**

Seller may elect to restrict cross-selling and solicitations by any servicers in connection with the Loan by entering the applicable data into the whole loan committing application. In the event that Seller has elected to restrict cross-selling and solicitations in connection with the Loan, the whole loan committing application and SET shall reflect such restrictions.

Seller covenants and agrees that it shall not solicit any borrower of a Mortgage Loan for a refinance after the Purchase Date. Notwithstanding the foregoing, the parties understand and agree that promotions undertaken by Seller or any affiliate of Seller which are directed to the general public at large or any portion thereof, including, without limitation, any mass mailing, newspaper, radio, internet or television advertisements, shall not constitute solicitation under this Section.

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## **11. Mutual Further Assurances**

Seller and Servicer agree and covenant that each will at any time and from time to time, upon the reasonable request of the other party, execute, acknowledge, deliver or perform all such



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further acts, deeds, assignments, transfers, conveyances and assurances as may be required for the better vesting and confirming unto the other party and its successors and assigns the title to and possession of the Servicing Rights or as shall be necessary to effect the transactions provided for in this Agreement.

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## 12. Governmental Authorities and Laws

In the event any provision of the Agreement is inconsistent with or in violation of any federal statute or rule or regulation of applicable governmental agencies, it is agreed by the parties thereto that such provision shall be of no force or effect and that the Agreement shall continue as though said contrary provision was deleted from this Agreement.

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## 13. Notices

Any notice, demand, or communication which either party desires or is required to give the other party in connection with this Agreement shall be in writing and shall be either served personally, sent by prepaid registered or certified mail, delivered by a nationally recognized overnight courier service, or sent via electronic mail with transmittal confirmed in writing, addressed to the parties as set forth in the Servicing Transfer Instructions.

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## 14. Termination Provision

**14.1 Termination for Cause.** Servicer may elect to not complete the sale and transfer of the Servicing Rights at any time prior to the purchase of the Mortgage Loan by Fannie Mae, if Servicer provides Seller and Fannie Mae with written notice that Servicer is terminating the Agreement with respect to Seller for any of the following for cause events:

(a) **Seller Bankruptcy Protection.** Seller files for protection under any bankruptcy or similar law.

(b) **Seller Termination.** Any termination of Seller's approvals from Fannie Mae, any government entity, or any other regulatory entity.

**14.2 Termination without Cause.** Either Seller or Servicer may terminate this Agreement without cause or penalty upon sixty (60) days prior written notice to the other party. Seller shall sell and transfer and Servicer shall purchase and accept the Servicing Rights for the Mortgage Loan, and the parties shall fulfill all obligations hereunder pertaining to the Mortgage Loan, if the Mortgage Loan was committed for sale to Fannie Mae before the effective date set forth in such notice.

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**14.3 Effect of Termination on Prior Breaches.** Upon termination of this Agreement, each party shall remain liable for breaches of the Agreement that occurred prior to such termination. Termination of this Agreement shall not release a breaching party from its obligation to indemnify the non-breaching party and the non-breaching party shall be entitled to receive reimbursement and payment for all sums that it would have been entitled to receive under this Agreement prior to termination.

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## **15. Entire Agreement**

Except as set forth herein, this Agreement, together with the attachments and schedules, constitutes the entire Agreement between the parties pertaining to the subject matter hereof and supersedes any and all prior agreements, representations, and understanding of the parties, written or oral. In the event of a conflict between this Agreement, the attachments or schedules hereto, the Fannie Mae Guides and the Servicing Transfer Instructions, the order of precedence shall be: (i) the Guides, (ii) this Agreement, (iii) the attachments or schedules hereto, and (iv) the Servicing Transfer Instructions. No addendum, supplement, modification or amendment of this Agreement shall be binding unless executed in writing by the parties hereto. Notwithstanding the foregoing, this Agreement shall not affect or supersede any terms of other agreements between Seller and Fannie Mae, including but not limited to the Guide and any Master Agreement and Master Commitment or other purchase agreement between Seller and Fannie Mae.

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## **16. Governing Law**

This Agreement shall be governed by and construed in accordance with the laws of the State in which Servicer's principal place of business is located.

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## **17. Disputes**

**17.1 Jurisdiction.** In the event of any suit, action, or other proceeding arising directly or indirectly out of such dispute (hereinafter in this Section collectively "**such proceeding**"), the parties agree that such proceeding shall be instituted in the federal and/or state courts located in the state in which Servicer's principal place of business is located and that such courts shall have sole and exclusive in personam, subject matter, and other jurisdiction in connection with such proceeding. For all purposes of venue, such proceeding shall occur in and be determined solely and exclusively by such courts; and any final judgment rendered by such counts shall be deemed final and conclusive for all purposes among the parties, subject to appellate review.

**17.2 Survival of Provisions.** Notwithstanding any provision to the contrary in this Agreement, all representations, warranties and covenants, as well as the agreements, commitments, promises,

and obligations of Servicer and Seller under this Agreement that are intended by their terms to survive the termination of this Agreement shall survive for the life of the Mortgage Loan.

**17.3 Waiver.** Notwithstanding any provision to the contrary in this Agreement, any waiver regarding this Agreement by a party may be made only by a writing signed by the party to be bound thereby specifying that such writing is such a waiver.

**17.4 Party Consent.** Notwithstanding any provision to the contrary in this Agreement, no consent, permission, authorization, or approval required of or by Servicer under this Agreement shall be unreasonably withheld, conditioned or delayed.

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**Exhibit A to Mortgage Loan Servicing Purchase and Sale Agreement**

| <b>EXHIBIT A</b>  |                |
|---|----------------|
| <b>TO MORTGAGE LOAN SERVICING PURCHASE AND SALE AGREEMENT</b> |                |
| <b>REPURCHASE/SOLICITATION</b>                                |                |
| <b>SERVICING RELEASED PREMIUM SCHEDULE</b>                    |                |
| <b>Time from Date of Purchase<br/>of Servicing Rights</b>     | <b>Percent</b> |
| Up to 12 months   | 100%           |
| 13 to 24 months   | 75%            |
| 25 to 36 months   | 50%            |
| 37 to 60 months   | 25%            |
| Greater than 60 months  | 0%             |

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# Chapter E-3, Glossary



## Glossary

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### Introduction

This chapter provides a list of terms used throughout this Guide with associated definitions.

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### In This Chapter

This chapter contains the following topics:

|  |      |
|--|------|
| E-3-01, Glossary of Fannie Mae Terms: A (08/30/2016) | 1323 |
| E-3-02, Glossary of Fannie Mae Terms: B (07/29/2014) | 1326 |
| E-3-03, Glossary of Fannie Mae Terms: C (02/23/2016) | 1329 |
| E-3-04, Glossary of Fannie Mae Terms: D (08/30/2016) | 1336 |
| E-3-05, Glossary of Fannie Mae Terms: E (07/26/2016) | 1339 |
| E-3-06, Glossary of Fannie Mae Terms: F (08/30/2016) | 1342 |
| E-3-07, Glossary of Fannie Mae Terms: G (11/10/2014) | 1347 |
| E-3-08, Glossary of Fannie Mae Terms: H (09/29/2015) | 1348 |
| E-3-09, Glossary of Fannie Mae Terms: I (08/30/2016) | 1350 |
| E-3-10, Glossary of Fannie Mae Terms: J (04/01/2009) | 1353 |
| E-3-11, Glossary of Fannie Mae Terms: K (10/02/2012) | 1354 |
| E-3-12, Glossary of Fannie Mae Terms: L (02/23/2016) | 1354 |
| E-3-13, Glossary of Fannie Mae Terms: M (08/30/2016) | 1357 |
| E-3-14, Glossary of Fannie Mae Terms: N (05/26/2015) | 1365 |
| E-3-15, Glossary of Fannie Mae Terms: O (11/10/2014) | 1366 |
| E-3-16, Glossary of Fannie Mae Terms: P (01/31/2017) | 1367 |
| E-3-17, Glossary of Fannie Mae Terms: Q (04/01/2009) | 1372 |
| E-3-18, Glossary of Fannie Mae Terms: R (02/23/2016) | 1372 |
| E-3-19, Glossary of Fannie Mae Terms: S (11/03/2015) | 1376 |
| E-3-20, Glossary of Fannie Mae Terms: T (11/10/2014) | 1382 |
| E-3-21, Glossary of Fannie Mae Terms: U (07/30/2013) | 1384 |
| E-3-22, Glossary of Fannie Mae Terms: V (04/01/2009) | 1385 |
| E-3-23, Glossary of Fannie Mae Terms: W (11/10/2014) | 1385 |
| E-3-24, Glossary of Fannie Mae Terms: X (04/01/2009) | 1385 |
| E-3-25, Glossary of Fannie Mae Terms: Y (04/01/2009) | 1386 |
| E-3-26, Glossary of Fannie Mae Terms: Z (04/01/2009) | 1386 |



## **E-3-01, Glossary of Fannie Mae Terms: A (08/30/2016)**

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### **A.M. Best Company**

A company that establishes financial-strength ratings for insurance carriers by evaluating their balance sheet strength, operating performance, and business profile.

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### **accrual rate**

The rate at which interest is calculated. For a particular remittance date for an MBS pool, it is the mortgage interest rate due under the terms of the mortgage note during the period beginning on the second day of the month preceding the remittance date and ending on the first day of the month in which such remittance date occurs, less the lender's servicing spread.

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### **actual/actual remittance type**

A remittance type that requires the lender to remit to Fannie Mae only the actual interest due (if it is collected from borrowers) and the actual principal payments collected from borrowers.

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### **Additional Data Elements**

A Fannie Mae Web-based application that allows lenders to electronically deliver housing goals information to Fannie Mae after a loan has been submitted through Loan Delivery.

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### **adjustable-rate mortgage (ARM)**

A mortgage loan that permits the lender to periodically adjust the interest rate on the basis of changes in a specified index.

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### **affiliated projects**

Condo, co-op, and PUD projects that are under the same master association or share the use of common facilities that are either owned individually or as part of a master association or development. Multiple condo, co-op, or PUD projects that do not have one of these characteristics, but are managed by the same management company, are considered unaffiliated projects.

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**allonge**

An attachment to a legal document that is used to insert language or signatures when there is no space for them on the document itself. Frequently used to add endorsements to the mortgage note.

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**all-risk insurance**

An insurance policy that provides coverage for every conceivable risk except those specifically excluded by the policy itself, as opposed to a “named-perils” policy that covers only those risks specifically set forth in the policy.

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**amenities**

Features that enhance the project but are not essential to the project’s use. Examples include, but are not limited to, swimming pools, fitness centers, tennis courts, playgrounds, gardens, or beach access.

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**American Land Title Association (ALTA)**

A national association of title insurance companies, abstractors, and title agents. The association speaks for the abstract and title insurance industry and establishes standard procedures and title policy forms.

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**amortization**

Gradual reduction of the mortgage debt through periodic payments scheduled over the mortgage term.

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**amortization schedule**

A timetable for payment of a mortgage that shows the amount of each payment that should be applied to interest and principal and the remaining unpaid principal balance after each payment is applied.

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**appeal**

A responsible party may dispute in writing a demand issued by Fannie Mae. The “appeal process” includes both the first and second appeals available to the responsible party.

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### **application date**

The date on which receipt of the borrower's financial information first triggers the federal Truth in Lending disclosure requirements to the borrower in connection with the mortgage loan.

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### **appraisal**

A report that sets forth an opinion or estimate of value.

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### **ARM Flex**

ARM MBS pools that provide interest accruals at a weighted-average pool accrual rate (which is developed by using either a fixed MBS margin or a weighted-average MBS margin). Because the application of the interest rate caps for the mortgage and the pool will coincide, the pass-through rate for a mortgage will not increase on any change date in which the interest rate cap limits the interest rate that is charged to the borrower.

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### **ARM Flex Plus**

ARM MBS pools that provide interest accruals at a weighted-average pool accrual rate (which is developed by using a fixed MBS margin) and allow interest rate caps to be applied independently to the individual mortgages in the pool and to the pass-through rate for the pool. This means that the pass-through rate for a mortgage may continue to increase even when no further increases can be made to the borrower's interest rate.

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### **As Soon As Pooled (ASAP) Plus settlement**

A settlement option in which a lender can deliver individual mortgages to Fannie Mae as much as 60 days before they are redelivered for whole loan purchase or allocated to a specific MBS pool.

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### **As Soon As Pooled (ASAP) Sale settlement**

An MBS settlement option in which a lender delivers pools of mortgages to Fannie Mae and receives a cash payment for them, with the securities from the delivered pools being used to satisfy a trade with either Fannie Mae or a third party.

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### **assignment of rents**

A written agreement wherein the owner of a property gives another party, such as the mortgagee or creditor, the right to collect rents, manage the property, pay expenses, and apply the net income toward delinquent mortgage payments.

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### **assumption**

A transaction in which the purchaser of real property takes over the seller's existing mortgage; the seller remains liable for the mortgage unless released by the lender from this obligation. The terms describing whether or not the loan is assumable are typically set forth in the security instrument.

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### **Automated Clearing House (ACH)**

An electronic drafting system that debits (or credits) an authorized bank account and electronically transfers funds to (or from) another designated account.

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### **automated valuation model (AVM)**

AVMs are statistically based computer programs that use real estate information, such as comparable sales, property characteristics, tax assessments, and price trends, to provide an estimate of value for a specific property.



## **E-3-02, Glossary of Fannie Mae Terms: B (07/29/2014)**

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### **back-end buyout fee**

A fee that applies when a lender fails to deliver the mandatory delivery amount under a non-conversion Master Agreement or the sum of all the mandatory delivery amounts under a conversion Master Agreement by the specified expiration date of the applicable Master Agreement.

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### **balances-to-limits ratio**

The relationship between the outstanding balance(s) on an individual's revolving debt(s) to the total credit limit allowed for the revolving debt(s).



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**balloon mortgage**

A mortgage that has level monthly payments that would fully amortize it over a stated term, but which provides for a lump-sum payment to be due at the end of an earlier specified term.

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**balloon payment**

The outstanding balance due on a balloon mortgage that must be paid in a lump sum at the end of the mortgage term.

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**bankruptcy**

A legal proceeding in federal court in which a debtor seeks to restructure his or her obligations to creditors pursuant to the Bankruptcy Code. This generally affects the borrower's personal liability for a mortgage debt, but not the lien securing the mortgage.

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**basis points (bps)**

One one-hundredth of one percent. For example, 7½ basis points equal 0.075 percent or 0.00075.

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**Best's Insurance Reports**

A publication issued by the A.M. Best Company, which establishes ratings for property insurance carriers by evaluating their assets and liabilities.

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**blanket insurance policy**

A single policy that covers more than one piece of property (or more than one person).

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**blanket mortgage**

A mortgage that is secured by a co-op project, as opposed to the share loans on individual units within the project.

---

**book-entry delivery**

An electronic system that allows for the issuance, maintenance, and transfer of mortgage-backed securities on the records of the U.S. Federal Reserve Banks. The system may be accessed through financial institutions that have book-entry accounts at one of the Federal Reserve Banks. Book-entry for Fannie Mae's securities is available through all of the Federal Reserve Banks.

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### **book-entry delivery date**

The actual date that Fannie Mae issues mortgage-backed securities to the designated book-entry account for a financial institution that has such an account with one of the Federal Reserve Banks. The book-entry delivery date and the settlement date for the securities may be the same day.

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### **borrower**

The person to whom credit is extended. On a mortgage loan, the person who has an ownership interest in the security property, signs the security instrument, and signs the mortgage/deed of trust note (if his or her credit is used for qualifying purposes). See also *co-borrower*.

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### **bridge (or swing) loan**

A short-term loan secured by the borrower's present home (which is usually for sale) that allows the proceeds to be used for closing on a new house before the present home is sold.

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### **broker origination**

A mortgage loan that is originated under circumstances where a person or firm other than a mortgage loan seller or lender correspondent is acting as a "broker" and receives a commission for bringing together a borrower and a lender. The broker performs some of the loan processing functions (such as taking loan applications; ordering credit reports, appraisals, and title reports; and verifying a borrower's income and employment), but does not underwrite the loan, fund the loan at settlement, or service the loan. Typically, the mortgage loan is closed in the name of the mortgage loan seller or lender correspondent that commissioned the broker's services, but may also include so-called "table-funded" mortgage loans where the loan is closed in the broker's name, but is funded by the mortgage loan seller or the lender correspondent.

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### **broker price opinion (BPO)**

A written estimate of the probable sales price of a property performed by a real estate broker or sales person with or without an interior property inspection. Commonly used for quality control and loss mitigation.

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### **builder's risk insurance**

A type of property insurance that is obtained for improvements that are being constructed, which protects against losses during the construction period that are the result of theft, vandalism, and

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acts of nature (including fire, flood, and wind damage). (This type of insurance was previously referred to as construction site insurance.)

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### **business day**

A day other than (1) a Saturday or Sunday, (2) a day on which the Federal Reserve Bank of New York (or other agent acting as Fannie Mae's fiscal agent) is authorized or obligated by law or executive order to remain closed, or (3) a day on which the main offices of Fannie Mae in the District of Columbia are scheduled to be closed. In this Guide, the word "day" without the modifier "business" refers to a calendar day.

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### **buydown account**

An account in which funds are held so that they can be applied as part of the mortgage payment as each payment comes due during the period that an interest rate buydown plan is in effect.

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## **E-3-03, Glossary of Fannie Mae Terms: C (02/23/2016)**

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### **capitalization**

The addition of certain amounts due under the mortgage—such as tax and insurance payments made by the servicer or delinquent interest installments—to the unpaid principal balance of the mortgage, either because the borrower was unable to pay them or the servicer paid them on the borrower's behalf.

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### **cash back pair-off**

A process under which Fannie Mae provides a lender cash back if the lender is unable to meet the terms of a mandatory whole loan delivery commitment and, because of market fluctuations, the applicable whole loan price at commitment is greater than the price at the time of pair-off.

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### **cash-out refinance**

A refinancing transaction in which the amount of money received from the new loan exceeds the total of the money needed to repay the existing first mortgage, closing costs, points, and the amount required to satisfy any outstanding subordinate mortgage liens.

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### **closing costs**

Money paid by the borrower to effect the closing of a mortgage loan. This generally includes an origination fee, title exam, title insurance, survey, attorney's fees, and such prepaid items as taxes and insurance escrow payments.

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### **co-borrower**

For Fannie Mae's purposes, this term is used to describe any borrower other than the first borrower whose name appears on the mortgage note, even when that person owns the property jointly with the first borrower (and is jointly and severally liable for the note).

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### **coinsurance clause**

A provision in a property insurance policy that states the minimum amount of coverage that must be maintained—as a percentage of the total value of the insurable property, in order for claims for insurance losses to be paid based on replacement costs up to the total coverage amount of the insurance policy.

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### **combined loan-to-value (CLTV) ratio**

A ratio that is used for a mortgage loan that is subject to subordinate financing, which is calculated by dividing the sum of (1) the original loan amount of the first mortgage, (2) the drawn portion (outstanding principal balance) of any HELOC from which the borrower has withdrawn funds, and (3) the unpaid principal balance of all other subordinate financing, by the lower of the property's sales price or appraised value.

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### **commercial space**

Space in a condo, co-op, or PUD project or in buildings in which a condo, co-op, or PUD project is located that is used for non-residential purposes. Examples include, but are not limited to, office space, retail shops, or apartment rentals.

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### **common area assessments**

Mandatory periodic or regularly charged fees or dues (also referred to as common charges or common expense assessments) assessed against individual unit owners in a condo or PUD project for additional capital to defray the homeowners' association's costs and expenses and to repair, replace, maintain, improve, or operate the common areas of the project.

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### **common elements (areas)**

Those portions of a building, land, or amenities owned or managed by the homeowners' association of a condo or PUD project (or by a co-op project's co-op corporation) that are used by all of the unit owners, who share in the common expenses of their operation and maintenance. Common areas are defined in the project documents and may include, but are not limited to, swimming pools, tennis courts, and other recreational facilities, as well as common corridors of buildings, parking areas, and means of ingress and egress. (Also see *amenities* and *common area assessments*.)

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### **community facilities districts**

Localities that have been empowered by state law to levy special taxes on their residents to fund the capital costs of a wide variety of public improvements (such as roads and sewer services), as well as the ongoing operation and maintenance costs of a limited number of public services (such as schools, police and fire protection services, libraries, etc.) that benefit the community.

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### **Community Seconds**

A subsidized second mortgage typically made by a federal, state, or local government agency, a nonprofit organization, or an employer.

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### **compensatory fee**

A fee Fannie Mae charges to compensate for damages that maybe incurred as the result of a lender's failure to comply with a specific policy or procedure or to emphasize the importance Fannie Mae places on a particular aspect of the lender's performance.

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### **condemnation**

Depending on context, may refer to a determination that a building is not fit for use or is dangerous and must be destroyed, or the taking of private property for a public purpose through an exercise of the right of eminent domain.

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### **conditional project approval**

The first stage of Fannie Mae's approval of a condo, co-op, or PUD project. It is issued after a preliminary review of the project, and it specifies any conditions that must be satisfied before Fannie Mae will issue a final approval for the project.

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**conditional right to refinance**

A provision in Fannie Mae's balloon mortgage documents that gives a borrower the right to refinance the balloon mortgage on (or shortly before) the balloon maturity date, as long as certain eligibility criteria are satisfied.

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**conditional tender of payment**

A procedure whereby a lender offers a borrower an opportunity to "refinance" a mortgage at minimal or no cost through modification of the existing mortgage, endorsement of the mortgage note, and assignment of the original mortgage, rather than by satisfaction of the existing mortgage debt.

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**Condo Project Manager (CPM)**

A web-based application available to lenders that supports a lender's Full Review of a condo project by providing key project eligibility questions to assist the lender in determining whether the project meets Fannie Mae's eligibility requirements.

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**condominium (condo)**

A unit in a condominium project. Each unit owner has title to his or her individual unit, an individual interest in the project's common areas, and, in some cases, the exclusive use of certain limited common areas.

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**condominium (condo) conversion**

Legal change in the ownership of an existing building (usually a rental project) to the condominium form of ownership through the recording of a declaration or master deed.

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**condominium (condo) hotel**

Any project that is managed or operated like a hotel, motel, resort, inn, or lodge where the individual units are either sold as co-op or condo units.

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**condominium (condo) unit**

A unit in a condominium project. Each unit owner has title to his or her individual unit, an individual interest in the project's common areas, and, in some cases, the exclusive use of certain limited common areas.

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**conforming mortgage loan**

A conventional mortgage loan that has an original loan amount not exceeding the current Fannie Mae loan limit (“current” refers to when Fannie Mae purchased or securitized the mortgage). If a mortgage was originated prior to the current year, the loan limit that was in effect on the origination date is disregarded.

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**construction site insurance**

See *builder’s risk insurance*.

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**construction-to-permanent mortgage**

A mortgage that provides funds for the acquisition or refinancing of unimproved land and the construction of a residential dwelling on the land.

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**consumer reporting agency (or bureau)**

An organization that is engaged in the preparation of reports that are used by credit grantors to determine the credit and public records history of an individual. The agency obtains data for these reports from repositories of accumulated credit records as well as from other sources.

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**conventional mortgage**

A mortgage that is not insured or guaranteed by a federal government agency—the Federal Housing Administration (FHA), the Department of Housing and Urban Development (HUD), the Department of Veterans Affairs (VA), or Rural Development (RD). Conventional mortgages delivered to Fannie Mae must also be conforming mortgages.

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**converted ARM resale commitment**

A type of whole loan commitment to provide coverage for the redelivery of converted ARMs that were originally in an MBS pool that had a take-out post-conversion disposition option.

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**convertible ARM**

A type of adjustable-rate mortgage that includes an option for the borrower to change the mortgage to a fixed-rate mortgage in the early years of the mortgage term.

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**cooperative (co-op) corporation**

A business trust entity that holds title to a co-op project and grants occupancy rights to particular apartments or units to shareholders through proprietary leases or similar arrangements.

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**cooperative (co-op) mortgages**

Mortgages related to a co-op project. This usually refers to multifamily mortgages covering the entire project.

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**cooperative (co-op) project**

A residential or mixed-use building wherein a corporation or trust holds title to the property and sells shares of stock representing the value of a single apartment unit to individuals who, in turn, receive a proprietary lease as evidence of title.

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**cooperative (co-op) share loan**

A loan secured by a co-op unit that finances (or refinances) the purchase of an ownership interest and the accompanying occupancy rights in a co-op housing corporation. It is secured by an assignment of the occupancy agreement and a pledge of the co-op shares.

---

**correction**

Action taken by the lender, typically through delivery of documentation or information to Fannie Mae, that demonstrates that the identified significant defect (i) did not, in fact, exist at the time of loan purchase or securitization; or (ii) has been corrected in the time frame and manner specified in the Lender Contract such that the defect is no longer considered by Fannie Mae to be a significant defect.

---

**correspondent origination**

A mortgage loan that is originated by a party other than a mortgage loan seller and is then sold to a mortgage loan seller. A lender correspondent performs the loan processing functions (such as taking loan applications; ordering credit reports, appraisals, and title reports; and verifying a borrower's income and employment) without the assistance of a broker. The lender correspondent typically underwrites the mortgage loan, but correspondent loans may also include



mortgage loans where the correspondent has not received delegated underwriting authority from a mortgage loan seller and, accordingly, did not underwrite the loan. The lender correspondent funds the mortgage loan at settlement, and the mortgage loan is closed in the name of the lender correspondent, which may or may not service the mortgage loan.

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### **cost approach to value**

A method of measuring the value of a property based on the cost of producing a substitute residence that has the same use as the property that is being appraised.

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### **Cost Of Funds Index (COFI)**

An index that is used to determine interest rate changes for certain ARM plans. It represents the weighted average of the cost of savings, borrowings, and advances to member banking institutions of the Federal Home Loan Bank of San Francisco (the 11th District).

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### **credit life insurance**

A type of insurance purchased by a borrower to pay off the mortgage debt if the borrower dies while the policy is in force.

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### **credit score**

A numerical value that ranks an individual according to his or her credit risk at a given point in time, as derived from a statistical evaluation of information in the individual's credit file that has been proven to be predictive of loan performance. When this term is used by Fannie Mae, it is referring to the classic FICO score developed by Fair Isaac Corporation.

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### **CUSIP number**

A nine-digit number, which is required for book-entry delivery of mortgage-backed securities, that uniquely identifies the MBS to which it is assigned.

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### **custodial account**

A bank account that a lender must establish to hold the funds of others—the borrower and Fannie Mae—as opposed to any account established to hold the lender's corporate funds.

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### **custody documents**

The original mortgage note, an original unrecorded assignment to Fannie Mae (or a copy of the original recorded assignment), and, in some cases, the original mortgage insurance or loan guaranty certificate, and, if the mortgage has been modified, the modification agreement.



## **E-3-04, Glossary of Fannie Mae Terms: D (08/30/2016)**

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### **de minimis correction**

Minor amount not to exceed \$500 (or such higher amount as the lender and Fannie Mae may agree) that, when remitted, refunded, or otherwise provided, corrects or otherwise resolves an identified significant defect.

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### **debt**

Borrowed money, the repayment of which may be either secured or unsecured, with various possible repayment schedules.

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### **debt-to-income ratio**

A ratio derived by dividing the borrower's total monthly obligations (including housing expense) by his or her stable monthly income. This calculation is used to determine the mortgage amount for which a borrower qualifies. This term is used interchangeably with "total debt-to-income ratio" and "expense ratio."

---

### **deed in lieu of foreclosure (or deed-in-lieu)**

A transfer of title from a delinquent borrower to the lender in satisfaction of the mortgage debt to avoid foreclosure; also called a voluntary conveyance.

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### **default**

The failure to make a mortgage payment or to otherwise comply with one or more covenants of the mortgage.

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**defect**

A loan-level deficiency that breaches a term contained in the Lender Contract in effect at the time of loan purchase or securitization.

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**defect rate**

The number of loans, expressed as a percentage, reflecting the total loans with defects discovered in the loan review process divided by the total loans reviewed.

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**delinquency advance**

An amount advanced by a lender in respect of interest or principal on one or more mortgage loans, as required by their servicing contract, even though the lender has not collected the actual funds from the related borrowers. A lender may reimburse itself for delinquency advances from subsequent collections in accordance with its servicing contract.

---

**delivery versus payment settlement**

Also called “delivery against funds” or “existing issue.” A settlement option for trades of existing MBS under which Fannie Mae will credit the lender’s account at the institution that wires the security to its trading desk as soon as the security is received.

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**demand**

A repurchase or other remedy request issued by Fannie Mae to a responsible party to provide a specific remedy as provided in the Lender Contract.

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**demand deposit account**

A bank account in which the funds are available for withdrawal at any time without penalty.

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**Demotech, Inc.**

A company that establishes ratings for property and casualty insurance carriers and title insurance companies by evaluating their assets and liabilities.

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**Desktop Originator (DO)**

A Web-based application that gives originators access to DU through a sponsoring lender.

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**Desktop Underwriter (DU)**

Fannie Mae's automated underwriting system.

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**designated threshold amount**

A level of unsecured exposure an "in the money" party will accept before making a margin call on the "out of the money" party.

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**deterioration**

See *physical depreciation*.

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**direct surety bond**

A class of bond that is written to afford protection for the direct acts of the principal in the event of a loss caused by the principal's negligence, lack of ability, or dishonest act.

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**disbursement date**

The date the loan funds are disbursed for the subject mortgage. The disbursement date may occur on or after the note date.

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**discount**

The amount by which the sales price of a note is less than its face value. The purpose of a discount is to adjust the yield upward in lieu of interest.

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**Document Certification**

A Web-based application for document custodians to electronically submit whole loan and MBS pool certifications to Fannie Mae and the lender. It also can be used to give a warehouse lender notification about the lender's wiring instructions.

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**document custodian**

A financial institution that maintains custody of certain mortgage documents on behalf of Fannie Mae.

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**domestic partner**

An unrelated individual who shares, and intends to continue sharing, a committed relationship with a borrower who signs the note.

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**due-on-sale provision**

A provision in a mortgage that allows the lender to demand full payment of the outstanding balance if the mortgaged property is transferred without the lender's permission.

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**Duff & Phelps Credit Rating Company**

A company that, among other things, establishes ratings for title insurance companies by evaluating their assets and liabilities.



**E-3-05, Glossary of Fannie Mae Terms: E (07/26/2016)**

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**earnest money deposit**

A deposit submitted with a purchase offer to show that the buyer's offer is being made in good faith.

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**eBoutique**

A Web-based application that supports the servicing of reverse mortgages.

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**economic obsolescence**

See *external depreciation*.

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**electronic**

Relating to technology having electrical, digital, magnetic, wireless, optical, electromagnetic, or similar capabilities.

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**electronic imaging**

A method of reproducing a facsimile of a document or photograph with a computer or another electronic device.

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**electronic mortgage (eMortgage)**

A mortgage for which the promissory note and possibly other documents (such as the security instrument and loan application) are created and stored electronically rather than by using traditional paper documentation that has a pen and ink signature. Most (but not all) eMortgages typically consist of a paper security instrument and an electronic note. The terms “electronic mortgage,” “electronic mortgage loan,” “eMortgage,” and “eMortgage loan” used in this Guide have the same meaning.

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**electronic record**

A contract or other record created, generated, sent, communicated, received, or stored by electronic means.

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**electronic signature**

An electronic sound, symbol, or process, attached to or logically associated with, a contract or other record executed or adopted by a person with the intent to sign the record.

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**employer-assisted housing mortgage**

Any mortgage for which a borrower’s employer is either offering mortgage payment assistance or providing down payment or closing costs assistance (through a grant, an unsecured loan, or a secured subordinate mortgage).

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**environmental hazard assessment**

An evaluation of the environmental soundness of a project development based on information gathered from various sources. A Phase I assessment involves a screening process that focuses

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on reviewing available documentation, interviewing people knowledgeable about the project, and inspecting the site, the building, and adjoining properties. A Phase II assessment provides a more detailed review of the site (with specific physical sampling for each hazard that was not acceptable under the Phase I assessment) and a review of historical records to determine the presence or absence of specific environmental liabilities or to quantify the extent of an observed or suspected environmental liability.

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### **errors and omissions coverage**

A type of indirect loss insurance used to cover losses that occur because of an error or neglect on the part of an employee to whom a specific responsibility has been assigned.

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### **escrow account**

A trust account that is established to hold funds allocated for the payment of a borrower's property taxes and assessments by special assessment districts, ground rents, insurance premiums, condo or homeowners' association or planned unit development association dues and similar expenses as they are received each month in accordance with the borrower's mortgage documents and until such time as they are disbursed to pay the related bills.

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### **ESIGN**

Electronic Signatures in Global and National Commerce Act. A federal law that gives broad legal effect to the use of electronic signatures and records in interstate commerce.

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### **excess margin**

The overage that results when the net mortgage margin of an adjustable-rate mortgage is greater than Fannie Mae's required margin.

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### **existing issue**

See *delivery versus payment settlement*.

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### **external depreciation (economic obsolescence)**

A loss in value that is caused by negative influences that are outside of a property's site, such as economic factors or environmental changes.

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## **E-3-06, Glossary of Fannie Mae Terms: F (08/30/2016)**

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### **facsimile signatures**

A form of signature that is electronically reproduced or copied in another acceptable manner. Such signatures are acceptable under certain conditions as long as they are valid and enforceable in the jurisdictions in which they are used.

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### **factory-built housing**

Prefabricated single-family housing (such as panelized, modular, or sectional housing), which is constructed in a factory (and, if applicable, in accordance with the building codes of the state in which the factory is located) and is subsequently joined together at a permanent building site, assumes the characteristics of site-built housing (such as permanent connections to water, electrical, and waste disposal systems), and is legally classified as real property. (Collectively, this term also may refer to manufactured homes. See the definition of that term for distinctions between the different types of factory-built housing.)

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### **Fair Access to Insurance Requirement (FAIR) plan**

A program established within a state to provide access to insurance for property owners in designated urban areas or specific beach and windstorm areas.

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### **Fannie Mae**

Federal National Mortgage Association.

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### **Fannie Mae losses**

Losses, damages, penalties, settlements, liabilities, judgments, claims, counterclaims, defenses, actions, costs, expenses, attorneys' fees, and other legal fees (collectively, "Fannie Mae losses" or "losses incurred by Fannie Mae").

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### **Fannie Majors**

See *multiple pool*.

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### **Federal Emergency Management Agency (FEMA)**

A federal agency that provides assistance in areas that have suffered a major disaster or other emergency. It also maintains flood insurance rate maps that identify the Special Flood Hazard Areas in which Fannie Mae requires flood insurance.

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### **Federal Emergency Management Agency (FEMA) disaster area**

A city, county, or parish designated by FEMA as eligible for individual assistance as a result of a natural disaster.

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### **Federal Housing Administration (FHA)**

FHA, also a part of HUD, provides mortgage insurance on loans made by FHA-approved lenders.

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### **Federal Housing Finance Agency (FHFA)**

The safety, soundness, and mission regulator for Fannie Mae. FHFA replaced the former regulator, the Office of Federal Housing Enterprise Oversight (OFHEO).

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### **fee simple estate**

An unconditional, unlimited estate of inheritance that represents the greatest estate and most extensive interest in land that can be enjoyed. It is of perpetual duration. When the real estate is in a condo project, the unit owner is the exclusive owner only of the air space within his or her portion of the building (the unit) and is an owner in common with respect to the land and other common portions of the property.

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### **FHA-insured mortgage**

A mortgage by the FHA; may be referred to as a “government” mortgage.

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### **fidelity bond**

A type of bond that is obtained by an employer to protect against economic loss from dishonest acts of its employees.

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**fidelity/crime insurance**

A type of insurance that a condo or PUD homeowners' association or a co-op corporation obtains to protect itself against economic loss from dishonest acts of anyone who either handles (or is responsible for) funds that the association or corporation holds or administers, whether or not that individual receives compensation for services.

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**final project approval**

The eligibility determination that is issued for a condo, PUD, or co-op project to indicate that the project's physical characteristics and marketability are acceptable to Fannie Mae, and that mortgages or share loans on units within the project may be delivered to Fannie Mae for purchase or securitization.

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**financed mortgage insurance premium**

A mortgage insurance premium for which the borrower is not required to make an advance payment from his or her own funds. Rather, the amount required to pay for a lump-sum premium is financed by including it as part of the original mortgage amount.

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**Financial Institutions Reform, Recovery, and Enforcement Act**

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 modified federal laws governing thrift and bank regulation. Title XI of the Act includes real estate appraisal reform amendments.

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**first mortgage**

A mortgage that is the primary lien against a property.

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**first-time home buyer**

An individual is to be considered a first-time home buyer who (1) is purchasing the security property; (2) will reside in the security property as a principal residence; and (3) had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the security property. In addition, an individual who is a displaced

homemaker or single parent also will be considered a first-time home buyer if he or she had no ownership interest in a principal residence (other than a joint ownership interest with a spouse) during the preceding three-year time period.

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**fiscal year**

Any 12-month period used for financial reporting and preparation of balance sheets, profit and loss statements, and other financial summaries.

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**Fitch, Inc.**

A credit rating agency that, among other things, assigns credit ratings to debt issuers and the debt instruments themselves, as well as to title insurance companies and custodial depositories by evaluating their assets and liabilities.

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**fixed installment**

That portion of a mortgage payment that is applied toward principal and interest. When a mortgage negatively amortizes, the fixed installment does not include any amount for principal reduction.

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**fixed-rate mortgage**

A mortgage that provides for only one interest rate for the entire term of the mortgage. Fannie Mae acquires fixed-rate mortgage loans that are fully amortizing.

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**Flash MBS**

Expedited processing of an MBS pool submission that results in the issuance of securities to the designated book-entry account within three business days after the lender electronically transmits its pool documentation to Fannie Mae.

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**flood insurance**

Insurance that compensates for physical property damages resulting from flooding. It is required in federally designated Special Flood Hazard Areas.

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### **Flood Insurance Rate Map (FIRM)**

The official map of a community on which FEMA has delineated both the special hazard areas and the risk premium zones applicable to the community.

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### **forbearance**

Willingness to refrain, in full or in part, from pursuing remedies against a delinquent borrower for a period of time (specified or unspecified), but without modification of the loan terms. See also *modification*.

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### **foreclosure**

The legal process by which a borrower in default under a mortgage is deprived of his or her interest in the mortgaged property. This usually involves a forced sale of the property at public auction with the proceeds of the sale being applied to the mortgage debt.

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### **Freddie Mac**

Federal Home Loan Mortgage Corporation (FHLMC). A congressionally chartered corporation that purchases mortgage loans in the secondary mortgage market.

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### **full payment amount**

The monthly payment required, at each interest change date, to amortize the then outstanding principal balance of an ARM at the new interest rate over the remaining mortgage term.

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### **fully amortizing ARM**

An adjustable-rate mortgage that has a monthly payment sufficient to amortize the unpaid principal balance—at the interest accrual rate—over the mortgage term.

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### **functional depreciation (obsolescence)**

A loss in value that is caused by defects in the design of a structure or by changes in market preferences that result in some aspect of a property being considered obsolete by current standards.

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### **Funding Express**

A Web-based application that is used in conjunction with early funding products. This application allows lenders to electronically submit requests and detailed, loan-level information for those products.

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### **E-3-07, Glossary of Fannie Mae Terms: G (11/10/2014)**

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#### **good delivery**

The delivery of mortgage-backed securities to Fannie Mae's trading desk at the parameters agreed on at the time of the trade and in an amount that meets the minimum trade requirements; the delivery of eligible portfolio mortgages that meet all of Fannie Mae's legal and underwriting criteria and that satisfy the terms of the original cash commitment before the expiration date of the commitment.

---

#### **government mortgage loan**

A mortgage loan that is insured or guaranteed by a government agency. Examples include FHA-guaranteed mortgage loans, VA-insured mortgage loans, and RD-guaranteed mortgage loans.

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#### **ground rent**

The amount of money that is paid for the use of land when title to a property is held as a leasehold estate, rather than as fee simple.

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#### **group home**

A residential structure utilized for occupancy by persons with disabilities.

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#### **guaranty fee**

Compensation that a lender pays Fannie Mae for the right to participate in the MBS program. The amount of the fee will differ depending on whether the lender selects the regular or special servicing option.

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**guaranty fee buydown**

An agreement to reduce the guaranty fee remittance rate for an MBS mortgage below the contractual rate for the applicable servicing option and remittance cycle in return for the lender's payment of a fee to Fannie Mae.

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**guaranty fee buyup**

An agreement to increase the guaranty fee remittance rate for an MBS mortgage above the contractual rate for the applicable servicing option and remittance cycle in return for Fannie Mae's paying a fee to the lender.

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**Guide**

The Fannie Mae *Selling Guide* and *Servicing Guide*, as modified, amended, or supplemented from time to time.

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**gut rehabilitation project**

A project that has been developed by rehabilitating an existing building and creating individual units. The building is stripped down to its shell and, as rehabilitated, contains all new mechanical equipment including heating, exhaust, insulation, roofing, plumbing, and electrical. Individual units and common areas have new interiors, fixtures, appliances, and flooring.

**E-3-08, Glossary of Fannie Mae Terms: H (09/29/2015)**

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**higher-priced mortgage loan**

A mortgage loan that meets the corresponding definition under Regulation Z of the Truth in Lending Act. Only principal residences are included in this category.

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**higher-priced covered transaction**

A mortgage loan that meets the corresponding definition under Regulation Z of the Truth in Lending Act, and applies to both principal residences and second homes.

---

**home equity combined-loan-to-value ratio (HCLTV)**

A ratio that is used when a mortgage financing package includes home equity lines that are potential liens; a ratio that is developed by dividing the sum of the original loan amount of the first mortgage, the amount of the HELOC (whether or not there have been any draws), and the unpaid principal balance of all other subordinate financing by the lower of the property's sales price or appraised value.

---

**home equity line of credit (HELOC)**

A mortgage loan, which is usually in a subordinate position, that allows the borrower to obtain cash advances at his or her discretion, up to an approved amount that represents a specified percentage of the borrower's equity in a property.

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**homeowner's insurance**

Insurance coverage available for owner-occupied properties to protect against personal liability and physical property damages for a dwelling and its contents.

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**homeowners' association (HOA)**

An entity formed to manage the day-to-day operation and long term interests of residential dwelling communities, including condo, co-op, and PUD projects. The HOA is typically created and vested with specific roles, responsibilities, and rights by the project's legal documents in compliance with applicable laws. For Fannie Mae's purposes, the term "HOA" includes a homeowners' association, a common interest community association, a cooperative corporation, and other similar entities.

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**HomePath property**

A HomePath property is a property that was owned and sold by Fannie Mae through a transaction resulting in the disposition of its real estate owned.

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**HomeReady**

Fannie Mae's flexible, affordable lending product designed to meet the needs of low- to moderate-income home buyers and homeowners. HomeReady is a standard product with underwriting recommendations available through DU and manual underwriting.

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### **HomeStyle Renovation mortgage**

A mortgage that enables eligible borrowers to obtain financing to renovate, remodel, repair, or upgrade their existing home or a home that they are purchasing.

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### **HUD-1**

HUD-1 Settlement Statement. See “settlement statement.”

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### **HUD-guaranteed mortgage**

A mortgage guaranteed under Section 184 of the Housing and Community Development Act of 1992, which created the Native American Housing Loan Guarantee Fund.



## **E-3-09, Glossary of Fannie Mae Terms: I (08/30/2016)**

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### **impasse process**

An option available to an eligible lender to use to resolve loan-level disputes that were not resolved through the appeal process.

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### **inclusionary zoning**

A practice by which state or local governments impose zoning restrictions that require a specified percentage of new development in a designated area to be set aside to provide housing for low- and moderate-income persons.

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### **income approach to value**

A method of measuring the value of a property based on the market rent or income that the property can be expected to earn.

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### **Independent Dispute Resolution (IDR)**

IDR is a process that is available for eligible lenders to use to resolve loan-level disputes that were not resolved through the appeal, impasse, or management escalation processes.



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### **index**

A number used to compute the interest rate for an ARM. The index is generally a published number or percentage, such as the average interest rate or yield on U.S. Treasury bills. A margin is added to the index to determine the interest rate that will be charged on the ARM. This interest rate is subject to any caps on the maximum or minimum interest rate that may be charged on the mortgage, as stated in the note.

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### **index disclosed to the borrower**

The value of the selected index for an ARM that is given to the borrower when the mortgage is closed. When subsequent index values differ from this value, it reflects changes in market conditions.

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### **in-file credit report**

An objective account, normally computer-generated, of credit and public record information obtained from a credit repository.

---

### **initial interest rate**

The original interest rate of the mortgage when it is closed. This rate (which is often referred to as the “start rate”) changes for adjustable-rate mortgages. Also referred to as the initial note rate.

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### **installment debt**

Borrowed money that is repaid in several successive payments, usually at regular intervals, for a specific amount and for a specified term (for example, an automobile loan or a furniture loan).

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### **installment land contract**

An agreement to transfer title to a property once conditions of the contract have been fulfilled. Also known as a contract or bond for deed.

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### **institutional lender**

A financial institution that invests in mortgages and keeps them in its own portfolio.

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***inter vivos* revocable trust (or living trust)**

A trust that an individual creates during his or her lifetime that becomes effective during his or her lifetime, but which can be changed or canceled at any time for any reason during its creator's lifetime.

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**interest accrual rate**

The percentage rate at which interest accrues on the mortgage. In most cases, it is also the rate used to calculate the monthly payments.

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**interest rate buydown plan**

An arrangement wherein the property seller or any other party deposits money to an account so that it can be released each month to reduce the borrower's payments during the early years of a mortgage. During the specified period, the borrower's effective interest rate is "bought down" below the actual mortgage interest rate.

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**interest rate cap**

For an adjustable-rate mortgage (ARM), a limitation on the amount the interest rate can change per adjustment or over the lifetime of the loan, as stated in the note.

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**interest rate change date**

The date on which the mortgage interest rate changes for an ARM; the date on which interest begins to accrue at a new rate for an ARM MBS pool.

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**interest rate change interval**

The period that elapses between interest rate change dates for an ARM.

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**interest rate differential**

See *yield difference*.

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**interest rate shortfall**

The interest rate shortage that occurs when Fannie Mae's return on a mortgage (the net note rate) is less than Fannie Mae's required yield.

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### **interested party contributions**

Costs that are normally the responsibility of the property purchaser that are paid (directly or indirectly) by someone else who has a financial interest in, or can influence the terms and the sale or transfer of, the subject property. These persons or entities include, but are not limited to, the property seller, the builder/developer, and the real estate agent or broker (or an affiliate who may benefit from the sale of the property and/or the sale of the property at the highest price possible).

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### **intermediate-term mortgage**

A mortgage that amortizes over an original term from 10 to 20 years.

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### **investor-purchased mortgage insurance**

Mortgage insurance coverage obtained by Fannie Mae after the purchase of a mortgage; a type of financial backing used for some second mortgages in lieu of borrower-purchased or lender-purchased mortgage insurance.

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### **issue date**

The first day of the month in which MBS backed by an MBS pool of mortgage loans are issued.

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### **issue date principal balance**

The principal balance of each mortgage in an MBS pool after crediting the principal portion of any monthly payments due on or before the issue date for the related MBS (whether or not it was actually collected) and after crediting any unscheduled partial payment or other recovery of principal received on or before the issue date (as long as it was not accompanied by payment of an interest amount that represented scheduled interest due for the month after the payment was made).



## **E-3-10, Glossary of Fannie Mae Terms: J (04/01/2009)**

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### **no applicable terms**



## **E-3-11, Glossary of Fannie Mae Terms: K (10/02/2012)**

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### **Kroll Bond Rating Agency, Inc. (Kroll)**

A nationally recognized statistical rating organization that, among other things, provides independent financial strength ratings for title insurance companies and for regulated depositories in the U.S. based upon their financial information.

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## **E-3-12, Glossary of Fannie Mae Terms: L (02/23/2016)**

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### **late charge**

A penalty that a borrower must pay when a mortgage payment is made a stated number of days (usually a minimum of 15) after its due date.

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### **last paid installment date**

The due date of the last paid installment that had been collected for the mortgage.

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### **lead Fannie Mae regional office**

The regional office that is responsible for overseeing Fannie Mae's relationship with specific lenders.

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### **lease**

A written agreement between the property owner and a tenant that stipulates the conditions under which the tenant may possess the real estate for a specified period of time and rent.

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### **leasehold estate**

A way of holding title to a property wherein the borrower does not actually own the property but rather has a recorded long-term lease on it.

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### **Lender Adjusted Net Worth**

Lender net worth, as defined and calculated by Fannie Mae, is the lender's Total Equity Capital as determined by Generally Accepted Accounting Principles (GAAP), less goodwill and other intangible assets (excluding Mortgage Servicing Rights) and, based on Fannie Mae's assessment of associated risks, a possible deduction of “affiliate receivables” and “pledged assets net of associated liabilities” (hereinafter referred to as “Lender Adjusted Net Worth”).

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### **lender-purchased mortgage insurance**

Mortgage insurance coverage for a conventional mortgage loan that the lender pays for by using its own funds, rather than requiring the borrower to include periodic accruals for such coverage as part of his or her mortgage payment.

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### **liability insurance**

Insurance coverage that offers protection against claims alleging that a property owner’s negligence or inappropriate action resulted in bodily injury or property damage to another party.

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### **LIBOR index**

An index that is used to determine interest rate changes for certain ARM plans. LIBOR is an acronym for London Interbank Offered Rate. It represents the interest rates at which banks lend to each other within the London interbank market.

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### **limited cash-out refinance**

A refinance transaction in which the mortgage amount generally is limited to the sum of the unpaid principal balance of the existing first mortgage, closing costs (including prepaid items), points, and the amount required to satisfy any mortgage liens if the documented proceeds of the subordinate financing were solely used to acquire the property (if the borrower chooses to satisfy them), and other funds for the borrower’s use (as long as the amount does not exceed the lesser of \$2000 or 2% of the principal amount of the new mortgage).

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### **limited liability company (LLC)**

A flexible form of business enterprise that blends elements of partnership and corporate structures.

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### **living trust**

See *inter vivos revocable trust*.

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### **loan amount**

The original amount of the loan as indicated by the note; also known as the original loan amount or original principal balance.

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### **Loan Delivery**

A Fannie Mae Web-based application that allows a lender to electronically prepare, edit, and transmit information from the Schedule of Mortgages for various MBS pool purchase transactions and whole loan/cash deliveries.

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### **loan estimate**

A form required by federal law that provides disclosures to borrower(s) to help them understand the key features, costs, and risks of the mortgage loan for which they are applying. References to the “loan estimate” include the Loan Estimate and Good Faith Estimate forms, as applicable, based on the application date of the mortgage loan.

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### **Loan Quality Center (LQC)**

A division of Fannie Mae that reviews acquired loans to confirm that the loans meet underwriting and eligibility requirements.

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### **loan-level price adjustment (LLPA)**

LLPAs are assessed based on certain eligibility or other loan features, such as credit score, loan purpose, occupancy, number of units, product types, etc. For whole loan transactions, LLPAs will be deducted from (or credited to) the loan proceeds.

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### **loan-to-value (LTV) ratio**

The relationship between the original loan amount of the first mortgage and the property’s appraised value (or sales price, if it is lower).

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### **long-term standby purchase commitment**

A negotiated structure that enables a lender to reduce its credit exposure by paying a monthly commitment fee on an identified portfolio of mortgages in exchange for the lender's agreement to deliver on a mandatory basis, and Fannie Mae's agreement to purchase any mortgage at par should it become a specified number of months delinquent after the date of the commitment.

---

### **look-back period**

The date on which the index value that will be used to establish the next interest rate change for an ARM is determined. It is a specified number of days (at least 45) before the interest rate change date.

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### **losses incurred by Fannie Mae**

See *Fannie Mae losses*.



## **E-3-13, Glossary of Fannie Mae Terms: M (08/30/2016)**

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### **make whole payment**

The amount that a party responsible for a breach of a selling representation or warranty or a servicing breach must pay Fannie Mae so that Fannie Mae does not incur a loss on the mortgage or the property.

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### **management escalation process**

An option available to an eligible lender to use to resolve loan-level disputes that were not resolved through the appeal or impasse processes.

---

### **mandatory delivery commitment**

A whole loan commitment that generally requires the lender to deliver eligible mortgages equal to at least the minimum required delivery amount (which is an amount that will not be less than the original commitment amount by more than \$10,000 or 2.5% of the original amount) by the expiration date of the commitment.

---

### **manufactured home**

Any dwelling unit built on a permanent chassis and attached to a permanent foundation system. Other factory-built housing (not built on a permanent chassis), such as modular, prefabricated, panelized, or sectional housing, is not considered manufactured housing. The manufactured home must be built in compliance with the Federal Manufactured Home Construction and Safety Standards that were established in June 1976 (as amended and in force at the time the home is manufactured) and that appear in HUD regulations at 24 C.F.R. Part 3280. Compliance with these standards will be evidenced by the presence of a HUD Data Plate that is affixed in a permanent manner near the main electrical panel or in another readily accessible and visible location. The manufactured home must be a one-unit dwelling that is legally classified as real property. The towing hitch, wheels, and axles must be removed and the dwelling must assume the characteristics of site-built housing.

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### **margin**

The amount that is added to an index value to create the mortgage interest rate for an ARM; an amount (expressed as a percentage) that is used in the calculation of the purchase price for an As Soon As Pooled transaction.

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### **margin call**

When two parties have entered into one or more MBS trades, one party has the right to request funds from the other party due to a change in the market value of the securities. The right of one party to make a margin call on another party may be subject to a designated threshold amount and minimum transfer amount.

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### **margin differential**

The margin shortage that occurs when the net mortgage margin is less than Fannie Mae's required margin.

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### **market data approach**

*See sales comparison approach to value.*

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### **market-rate option**

A post-conversion disposition option that allows the lender to determine whether it wants to redeliver a repurchased convertible adjustable-rate mortgage that was in an MBS pool to Fannie

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Mae following its conversion to a fixed-rate mortgage or to retain the repurchased mortgage for its portfolio.

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### **Master Agreement**

A negotiated contract that enables lenders to submit multiple transactions—both standard and negotiated—under the terms of a single agreement. Terms are specifically negotiated with each lender.

---

### **master association**

A governing association in a large condo or PUD community that is made up of representatives from associations covering specific areas within the project. In effect, it is an “umbrella” association that handles matters affecting the entire development, while the “sub” associations handle matters affecting their particular portions of the project.

---

### **master servicer**

A Fannie Mae approved servicer that is contractually obligated to service one or more mortgage loans for Fannie Mae and has contracted with a subservicer under a subservicing arrangement.

---

### **maximum claim amount**

The lesser of the appraised value of a property and the maximum loan amount that FHA can insure for a one-unit residence in the area where the property is located; a component that is used in determining the borrower’s principal limit for an FHA home equity conversion mortgage.

---

### **maximum pool accrual rate**

The maximum interest rate that can accrue on an ARM MBS pool. For stated-structure ARM MBS pools, it must be evenly divisible by 0.125% and must be less than or equal to the lowest mortgage interest rate ceiling in the pool (after appropriate deductions have been made for the guaranty fee and the minimum servicing fee).

---

### **maximum weighted-average pool accrual rate**

The weighted average of the mortgage interest rate ceilings (less the lender’s retained spread) of the mortgages in a weighted-average ARM MBS pool.

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### **MBS Express pool**

An MBS pool for which the servicer remits “unscheduled” principal payments to Fannie Mae on the 4th business day of the month and “scheduled” principal and interest payments on the 18th calendar day (or the preceding business day if the 18th is not a business day).

---

### **MBS Express remittance cycle**

A payment cycle used for scheduled/scheduled remittance types for MBS pools that has two different remittance dates—one for unscheduled principal payments and one for scheduled principal and interest payments.

---

### **MBS margin**

One of the factors used to establish the pool accrual rate for an ARM MBS pool on each interest rate change date. For stated-structure ARM MBS pools, it is the difference between the lowest mortgage margin in the pool and the sum of the guaranty fee and the minimum servicing fee. For weighted-average ARM MBS pools, the MBS margin may be a fixed margin that the lender specifies or a weighted-average margin. A “fixed” MBS margin is attained by varying the servicing fee for individual mortgages to equalize the differences in their mortgage margins. A “weighted-average” MBS margin is attained by reducing the various mortgage margins by the applicable guaranty fee and a fixed servicing fee that the lender specifies, thus developing a different MBS margin for each mortgage.

---

### **MBS pool**

All of the mortgages or participation interests in mortgages (delivered under one or more contracts) that will secure an individual issuance of MBS.

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### **MBS pool delivery**

Group or groups of mortgages (or participation interests in mortgages) delivered by a lender for the purpose of creating a pool to back an MBS issuance. These deliveries are accepted in one or more pool purchase transactions, rather than being accepted as individual mortgages (or participation interests) to be held in Fannie Mae’s portfolio. Deliveries under this program are, therefore, referred to as MBS pool deliveries.

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### **MBS mortgage**

A mortgage or participation interest in a mortgage that is part of an MBS pool.

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### **Megas**

A pass-through security backed by groups of existing Fannie Mae MBS or other existing Megas.

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### **Message Manager**

A Web-based application that allows lenders to access, view, and download reports on pools and whole loans submitted to Fannie Mae through Loan Delivery.

---

### **minimum borrower contribution**

The minimum borrower contribution is an amount of funds described as a percentage that is generally required to be paid toward the down payment, closing costs, and financial reserves. The contribution may be required from the borrower's own funds or in some cases from other eligible sources of funds.

---

### **minimum coupon rate**

The rate of interest due Fannie Mae for a participation pool, which ensures that Fannie Mae receives the required yield and the servicer receives an appropriate servicing fee; it is generally derived by multiplying the required commitment yield by Fannie Mae's percentage interest in the pool and then adding the applicable minimum servicing fee to the result.

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### **minimum transfer amount**

A specified amount of money that must be exceeded before a margin call can be made.

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### **mixed use project**

A project comprised of residential and non-residential (commercial) space, often featuring separate associations that represent the different components.

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### **modification**

The act of changing any of the terms of the mortgage by agreement between the borrower and the note holder.

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**monthly operating income**

Income from the rental of an investment property that is determined by reducing the annual effective gross income for the property by the annual operating expenses and dividing the result by 12. This calculation is used to determine whether a borrower who will occupy one unit of a two- to four-unit property as his or her principal residence qualifies for a mortgage.

---

**monthly payment**

The monthly payment of principal and interest collected by mortgage lenders. This may also include escrow items for taxes and insurance and is therefore called the housing payment.

---

**monthly payment mortgage**

A mortgage that requires payments to reduce the debt once a month.

---

**monthly remittance**

The total of the interest and principal distribution amounts that a lender is obligated to remit to Fannie Mae on each remittance date. For scheduled/scheduled remittance types, this represents scheduled principal reductions and scheduled interest accruals, whether or not payments were collected from the borrowers. For scheduled/actual remittance types, this represents scheduled interest accruals (whether or not payments were collected from the borrowers) and actual principal collections.

---

**Moody's Investors Service**

A credit rating agency that, among other things, assigns credit ratings to debt issuers and the debt instruments themselves, as well as to title insurance companies and custodial depositories, by evaluating their assets and liabilities.

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**mortgage**

Collectively, the security instrument, the note, the title evidence, and all other documents and papers that evidence the debt (including the chattel mortgage, security agreement, and financing statement for a co-op share loan).

---

### **Mortgage Electronic Registration System, Inc. (MERS)**

An electronic system that assists lenders, investors, and others in tracking mortgages, servicing rights, and security interests, thus streamlining and reducing the costs associated with servicing transfers, lien releases, and quality control processes related to registered mortgages.

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### **Mortgage Identification Number (MIN)**

An 18-digit identifier that MERS assigns to each registered mortgage, which is used to track the mortgage within MERS' electronic system.

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### **mortgage impairment insurance**

A type of insurance coverage that protects the lender against the lack or inadequacy of insurance coverage for a specific mortgage if the lender is not directly responsible for the insufficiency.

---

### **mortgage insurance (MI)**

A financial backing type under which a private insurer (and sometime a state or local entity) insures the mortgagee against losses from borrower default, by agreeing to cover a percentage of the losses in return for the payment of a specified mortgage insurance premium.

---

### **mortgage interest rate**

The rate of interest in effect for the periodic installment due. For fixed-rate mortgages or for ARMs that have an initial fixed-rate period, it is the rate in effect during that period. For ARMs after any initial fixed-rate period, it is the sum of the applicable index and the mortgage margin (rounded as appropriate and subject to any per-adjustment or lifetime interest rate ceilings).

---

### **mortgage interest rate ceiling**

For an ARM, the maximum interest rate over the life of the loan. It is determined by applying a "lifetime cap" to the initial mortgage interest rate.

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### **mortgage loan**

An individual secured loan that is sold to Fannie Mae as a whole loan or in a pool of mortgages underlying Fannie Mae-guaranteed MBS. The term includes a participation interest in a

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mortgage loan where context requires. In this Guide, a mortgage loan also may be referred to as a mortgage or a loan.

---

**mortgage margin**

The amount that is added to the index value to establish the mortgage interest rate on each interest rate change date (subject to any limitations on the interest rate change) for an ARM.

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**mortgage note**

The note or other evidence of indebtedness for a mortgage loan.

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***Mortgage Selling and Servicing Contract (MSSC)***

The contract that establishes the basic legal relationship between a lender and Fannie Mae.

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**mortgage-backed security (MBS)**

An investment instrument that represents an undivided interest in a pool of mortgages.

---

**mortgagee interest insurance**

See *mortgage impairment insurance*.

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**multi-dwelling units**

Properties that provide separate housing units for more than one family, although they secure only a single mortgage; e.g., two to four units.

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**multifamily mortgage**

A residential mortgage on a dwelling that is designed to house more than four families, such as a high-rise apartment complex.

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**multiple pool**

An MBS pool that consists of pools of mortgages delivered by more than one lender; also called Fannie Majors.

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**multiple pool transaction**

An MBS transaction in which mortgages delivered by several individual lenders are combined into one large pool for the sole purpose of backing all or part of an issuance of MBS.

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**multiwidth manufactured home**

A manufactured home that is created by joining two or more single-width sections that are built and towed separately to the site and joined together to create one living unit. Typical models are 24 feet wide and 60 feet long, offering about 1,400 square feet of living area.

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**municipal utility districts**

See *special assessment districts*.

**E-3-14, Glossary of Fannie Mae Terms: N (05/26/2015)**

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**National Credit Union Administration (NCUA)**

The regulator of the credit union industry.

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**net cash flow**

The income that remains for an investment property after the monthly operating income is reduced by the monthly housing expense (which includes PITI for the mortgage, homeowners' association dues, leasehold payments, and subordinate financing payments).

---

**net mortgage ceiling**

The mortgage ceiling for an adjustable-rate mortgage after the minimum servicing fee has been subtracted.

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**net mortgage interest rate**

The mortgage interest rate less the lender's servicing spread (which may be a minimum servicing fee plus any excess yield or a servicing fee and a guaranty fee, depending on whether the mortgage is a portfolio mortgage or an MBS mortgage).

---

**net mortgage margin**

The mortgage margin shown in the ARM note and rider after the minimum servicing fee has been subtracted.

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**net note rate**

The mortgage interest rate after the applicable servicing fee and any guaranty fee for Fannie Mae's various product types have been subtracted.

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**net worth**

The value of all of a company's (or individual's) assets—including cash—less its total liabilities. It is used to indicate financial strength.

---

**newly converted project**

A condo or co-op project that was converted from an apartment or other use is defined as a newly converted project until it fully meets Fannie Mae's definition of an established project.

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**non-gut rehabilitation**

A project that has been developed by rehabilitating an existing building and converted into individual units. The building, its mechanical equipment, and individual units typically have not been substantially rehabilitated or replaced.



## **E-3-15, Glossary of Fannie Mae Terms: O (11/10/2014)**

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**obsolescence**

See *functional depreciation*.

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**operating expenses**

The costs of maintaining an investment property, such as expenses for electricity, gas, fuel oil, water/sewer, trash removal, pest control, license fees, painting/decorating, general repairs/maintenance, supplies, casual labor, professional management fees, and replacement reserves.



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**original issue settlement**

The standard settlement option for a newly originated MBS, which results in the mortgage-backed security being assigned directly to Fannie Mae when the pools are delivered, and subsequently being delivered to the trading desk (which will wire the funds to pay for the security to the lender on the settlement date).

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**original loan amount**

See *loan amount*.

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**origination fees**

The fee(s) charged by a lender to prepare loan documents, make credit checks, inspect, and sometimes appraise a property. The fee(s) are usually computed as a percentage of the face value of the mortgage.



## **E-3-16, Glossary of Fannie Mae Terms: P (01/31/2017)**

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**pair-off**

A process under which a lender that is unable to meet the terms of a mandatory delivery commitment either pays Fannie Mae a fee or, under certain circumstances for whole loan transactions, receives cash back from Fannie Mae, calculated against the unused portion of the commitment.

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**par**

The face value of the mortgage (the unpaid principal balance) equals its selling price (100%—there are no discounts or premiums).

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**participation certificate**

The instrument that evidences an undivided interest in mortgages and obligations secured thereby.

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**participation interest**

An individual interest in a mortgage, as specified in the applicable participation certificate.

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**pass-through rate**

The rate at which interest is paid to Fannie Mae for a mortgage. For mortgages held in Fannie Mae's portfolio, it is the lower of the required yield or the mortgage interest rate after deduction of a minimum servicing fee.

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**payee code**

A number used to identify warehouse or wire transfer banks, which the lender places on its loan schedule for cash deliveries to ensure that purchase proceeds are sent to the appropriate party (if they are to be paid to anyone other than the lender).

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**payment change date**

The date on which the payment changes for an ARM; the effective date that a new amount is due from a borrower. It must fall in the month immediately following an interest rate change date (unless an ARM provides for the monthly payment to change more frequently than the interest rate).

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**payment rate**

The percentage rate used to calculate the mortgage payment when the payment will not fully amortize the mortgage. It differs from the interest accrual rate.

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**paystub**

A paystub, pay slip, pay advice, paycheck notice, or payroll earnings statement is a document produced by the borrower's employer and provided to the borrower that evidences the borrower's income. Paystubs typically detail the gross income and all taxes and other deductions, such as retirement plan contributions, insurance, garnishments, or charitable contributions taken out of the gross amount for the current pay period. Paystubs generally include year-to-date earnings.

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**physical depreciation (deterioration)**

A loss in value that is caused by deterioration in the physical condition of a property's improvements.

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**planned unit development (PUD)**

A real estate project in which each unit owner has title to a residential lot and building and a nonexclusive easement on the common areas of the project. The owner may have an exclusive easement over some parts of the common areas (for example, a parking space). Fannie Mae does not purchase or securitize mortgages secured by PUD projects; it does purchase or securitize mortgages on individual units in a project.

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**pool**

A collection of mortgages (or participation interests) delivered pursuant to one or more pool purchase contracts that secure an individual issuance of MBS.

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**pool accrual rate**

The rate of interest that accrues to the security holder of a stated-structure ARM MBS pool. It is subject to change in accordance with adjustments to the index.

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**pool issue date**

The first day of the month in which MBS are issued.

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**pool purchase contract**

A contract between Fannie Mae and a lender to buy and sell mortgages or participation interests for inclusion in an MBS pool. It will be uniquely identified by a pool purchase contract number that appears on its face.

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**pool purchase transaction**

Any MBS transaction between Fannie Mae and a lender in which Fannie Mae purchases a group of mortgages or participation interests from the lender for the sole purpose of backing all or part of an issuance of MBS.

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**pool transaction amount**

The total of the issue date principal balances of all mortgages or participation interests included in a pool purchase transaction.

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**portfolio mortgage**

A whole mortgage purchased by Fannie Mae to hold in its mortgage portfolio.

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**prearranged refinancing agreement**

A formal or informal arrangement between a lender and a borrower wherein the lender agrees to offer special terms (such as a reduction in costs) for a future refinancing of a mortgage being originated as an inducement for the borrower to enter into the original mortgage transaction.

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**prepayment penalty**

A charge imposed for paying all or part of the transaction's principal before the date on which the principal is due, other than a waived, bona fide third-party charge that the lender imposes if the borrower prepays all of the transaction's principal sooner than 36 months after loan closing.

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**price-adjusted loan (PAL)**

One or more defects that, when considered with other loan features, and based on the facts of the loan as purchased or securitized by Fannie Mae, result in a loan that was otherwise eligible for delivery to Fannie Mae had the correct data been delivered and LLPA been paid to Fannie Mae by the lender.

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**price differential**

The aggregate amount obtained by applying the pricing rate for an As Soon As Pooled Plus transaction to the purchase price on a daily basis (using a 360-day year) for the actual number of elapsed days beginning with the purchase date and ending with the date preceding the repurchase date.

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**pricing rate**

The per annum percentage rate that is used for determining the price differential between the purchase price and the repurchase price for an As Soon As Pooled Plus transaction.

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**principal distribution amount**

For a particular remittance date, Fannie Mae's share of the aggregate principal portions of the monthly installments for mortgages in an MBS pool that became due from the second day of

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the preceding month to and including the first day of the remittance month (whether or not they were actually collected) and those unscheduled principal recoveries that were collected during the month preceding the month in which the remittance is made. This is the principal amount that will be drafted from the servicer's custodial account.

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### **project**

A dwelling or dwellings comprising two or more single-family units established as a condo, co-op, or PUD project.

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### **project documents**

Recorded legal documents for a project and any master association that pertain to the formation of the project, the rights of the developer and limitations on the actions of the developer, the operation of the association, and sales of units in the project. The documents include, but are not limited to, the declaration of condominium or master deed; by-laws, rules, and regulations; articles of incorporation; governing documents; covenants, conditions, and restrictions (CC&Rs); offering circulars; and agreements as applicable to the project as well as any documents related to a master association or the overall project.

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### **project legal phase**

A development phase that is defined in the project documents. A project legal phase is not the same as a construction or marketing phase.

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### **property inspection waiver**

An optional offer from DU to waive the appraisal requirement.

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### **property insurance**

Insurance coverage that compensates for physical damage—by fire, wind, or other natural disasters—to the property. (This type of coverage was previously referred to as hazard insurance.)

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### **proprietary lease**

A lease that a co-op corporation gives to a tenant-stockholder to cover the unit that he or she will occupy. The lease is called proprietary because the tenant-stockholder is both a shareholder in the landlord co-op corporation and a tenant under the lease.

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**purchase date**

The date on which Fannie Mae disburses the purchase proceeds for a whole loan delivery; the date on which Fannie Mae purchases a pool or mortgage loan in an early funding transaction.

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**purchase money transaction**

The acquisition of property through the payment of money or its equivalent.



**E-3-17, Glossary of Fannie Mae Terms: Q (04/01/2009)**

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**no applicable terms**



**E-3-18, Glossary of Fannie Mae Terms: R (02/23/2016)**

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**rapid payment method (RPM)**

A payment cycle used for scheduled/scheduled remittance types for MBS pools that has an early remittance date (usually the tenth of the month, although earlier or later dates can be negotiated) for both scheduled and unscheduled payments.

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**Real Estate Mortgage Investment Conduit (REMIC)**

A type of multi-class mortgage-related security in which interest and principal payments from mortgages or mortgage-related securities are structured into separately traded securities.

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**real estate owned (REO)**

Other real estate owned by the borrower (such as an investment property).

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**reciprocal easement**

The right of unit owners in different phases of an overall condo development to use the roads, parking areas, etc., in other phases of the development, through the creation of cross-easements.

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### **recognition agreement**

An agreement on the part of a co-op corporation to recognize specific rights of lenders who finance share loans in the project (or those of the lenders' successors and assigns).

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### **recourse**

The obligation of the lender to cover losses the buyer incurs as a result of a default on the note. Under a whole loan transaction, a lender that sells a mortgage to Fannie Mae under the “with recourse” servicing option assumes the entire risk of borrower default, while a lender that sells a mortgage under the “without recourse” servicing option transfers the risk of borrower default to Fannie Mae. (See *regular servicing option* and *special servicing option* for equivalent terms for MBS transactions.)

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### **refinance transaction**

The repayment of a debt from the proceeds of a new loan using the same property as security. Fannie Mae also considers the current owner's placement of financing on a property that is not financed as a refinance transaction.

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### **regular servicing option**

A guaranty fee option for an MBS pool under which the lender assumes the entire risk of loss from a borrower default; a servicing option for RD-guaranteed mortgages under which the servicer is fully responsible for any losses not recovered from RD. (See *recourse* for the equivalent term for a whole loan delivery.)

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### **regularly amortizing mortgage**

A collective term that Fannie Mae uses to differentiate “forward” mortgages from reverse mortgages. Mortgages that fall into this category include fully amortizing mortgages and partially amortizing mortgages (such as balloon mortgages).

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### **rehabilitation mortgage**

A mortgage created to cover the costs of repairing, improving, and sometimes acquiring an existing property.

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**relocation loan**

A mortgage originated under a relocation lending agreement between the lender and the employer (or its agent). Fannie Mae restricts the percentage of a TBA-eligible MBS pool that can be comprised of relocation loans. A loan that involves an employee relocation that is not subject to a relocation lending agreement between the lender and the employer (or its agent) is not considered a relocation loan for TBA pooling purposes, and as such, is not subject to pooling limitations (or delivery of a special feature code).

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**relative**

The borrower's spouse, child, or other dependent or any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship.

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**remaining term**

Original term less the number of payments that have been applied.

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**remittance cycle**

A schedule for determining when funds must be remitted to Fannie Mae each month. Portfolio mortgages generally have only a single remittance cycle (regardless of the remittance type), but MBS mortgages have three different remittance cycles (standard, RPM, or MBS Express).

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**remittance type**

A way of determining the composition of the servicer's required remittance to Fannie Mae. For portfolio mortgages, there are three types—Actual/Actual, Scheduled/Actual, and Scheduled/Scheduled.

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**replacement reserve fund**

A dedicated fund set aside for the repair and replacement of common property in a condo, co-op, or PUD project.

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**repurchase date**

The date through which interest must be calculated when a lender is required to repurchase a mortgage or an acquired property from Fannie Mae; the date on which the lender redelivers



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mortgages funded in certain early funding transactions to Fannie Mae for whole loan purchase or for securitization under an As Soon As Pooled Sale transaction.

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**required margin**

Fannie Mae's posted commitment margin for each ARM plan plus all applicable adjustments.

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**required yield**

Fannie Mae's posted commitment yield plus all applicable adjustments. This yield does not include a servicing fee.

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**residential mortgage credit report**

A detailed account of the credit, employment, and residence history (as well as public records information) of an individual.

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**responsible party**

A seller, servicer, or other entity that is responsible for the selling representations and warranties and/or for the servicing responsibilities or liabilities on a mortgage loan.

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**retail origination**

A mortgage loan for which the mortgage loan seller takes the mortgage loan application and then processes, underwrites, funds, and delivers the mortgage loan to Fannie Mae. The loan is closed in the name of the mortgage loan seller, which may or may not service the loan. This definition may include joint ventures between the mortgage loan seller and another entity, provided that the mortgage loan seller retains control of the joint venture (either through majority ownership or voting rights).

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**revolving debt**

An arrangement for credit in which the customer receives purchases or services on an ongoing basis prior to payment. Repayment is usually at regular intervals but not for a specified amount or term. Example: charge cards.

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**right of first refusal**

A provision in an agreement that requires the owner of a property to give another party the first opportunity to purchase or lease the property before he or she offers it for sale or lease to others.

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**right of ingress or egress**

The right to enter upon or leave from designated premises.

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**Rural Development (RD)**

A government agency within the U.S. Department of Agriculture (USDA) that makes direct loans and guarantees mortgages secured by residential properties located in rural areas, concentrating on borrowers who meet income eligibility requirements. Formerly the Rural Housing Service (RHS).

**E-3-19, Glossary of Fannie Mae Terms: S (11/03/2015)**

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**sales comparison approach to value (or market data approach)**

A method of measuring the value of a property based on an analysis of comparable sales, contract offerings, and listings of properties that are the most comparable to the property that is being appraised.

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**sales contract**

A contract for the purchase/sale, exchange, or other conveyance of real estate between parties. The contract must be in writing, contain the full names of the buyer(s) and seller(s), identify the property address or legal description, identify the sales price, and include signatures by the parties. Sales contracts are also known as agreements of sale, purchase agreements, or contracts for sale.

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**same month pooling**

An option for creating MBS pools that allows a lender to include in a pool mortgages that close in the same month that the related MBS is issued (which means that they will have their first payment due two months after the MBS issue date).

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**scheduled/actual remittance type**

A method of sending mortgage payments to Fannie Mae requiring lenders to remit the scheduled interest due (whether or not it is collected from borrowers) and the actual principal payments collected from borrowers.

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**scheduled/scheduled remittance type**

A method of sending mortgage payments to Fannie Mae requiring lenders to remit the scheduled interest due and the scheduled principal due (whether or not payments are collected from borrowers).

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**second mortgage (or subordinate lien mortgage loan)**

A mortgage loan that has a lien position subordinate to the first mortgage. Also called subordinate lien mortgage loan.

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**secondary mortgage market**

The financial market in which residential mortgages and mortgage-related securities are bought and sold.

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**security balance**

The balance for an MBS mortgage (or a participation interest in an MBS mortgage) that is determined by reducing Fannie Mae's share of the issue date principal balance of the mortgage by its share of any principal distribution amounts included in subsequent monthly remittances; the balance for an MBS pool that represents the aggregate security balance of all the mortgages (or participation interests) in the pool as of any date, which is equal to the aggregate issue date principal balances of the mortgages (or participation interests) less any subsequent principal distribution amounts.

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**servicer**

A Fannie Mae approved servicer that is contractually obligated to service one or more mortgage loans for Fannie Mae. Also refers to a subservicer if there is a subservicing arrangement.

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### **servicing compensation**

The income that a servicer receives for the collection of payments and management of operational procedures related to a mortgage. It includes a base servicing fee, plus late charges, fees charged for special services, yield differential adjustments or excess yield, and, sometimes, prepayment premiums.

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### **Servicing Execution Tool (SET)**

SET is a web-based solution for facilitating the concurrent transfer of servicing rights from the lenders that commit and sell mortgage loans to Fannie Mae using Fannie Mae's whole loan committing application to approved Fannie Mae servicers, while providing a servicing-released premium best execution price.

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### **servicing fee**

The monthly fee, generally expressed in basis points, that a lender retains from borrowers' interest payments as compensation for servicing loans on an investor's behalf.

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### **servicing spread**

The fixed percentage amount for each mortgage or participation interest in a weighted-average ARM MBS pool that consists of the guaranty fee and the servicing fee. It cannot be less than the sum of the minimum allowable servicing fee and the guaranty fee applicable to the pool, nor greater than the sum of the maximum allowable servicing fee and the guaranty fee.

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### **settlement date**

The date that the sale of an MBS is settled and funds are paid or transferred. It may be the same day that the securities are issued to the designated book-entry account.

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### **settlement statement**

A form required by federal law that provides disclosures to borrower(s) of the final loan terms and costs of the mortgage loan transaction. References to "settlement statement" include the HUD-1 Settlement Statement and Closing Disclosure forms, as applicable, based on the application date of the mortgage loan.

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### **significant defect**

One or more defects that either necessitate a change to the price on which the loan was acquired or result in the loan being unacceptable for purchase had the true and accurate information about the loan been known at time of purchase. In determining whether there is a significant defect, Fannie Mae must give due consideration to the severity of the defect. The defect must also meet certain criteria established in this Guide.

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### **significant interest rate buydown**

A temporary reduction in the initial interest rate of a mortgage loan that provides for either more than a 2% difference between the actual interest rate as stated in the note and the “bought-down” interest rate, or a buydown period greater than two years. Fannie Mae restricts the percentage of an MBS pool that can be comprised of mortgages with this type of buydown. Requires SFC 014 at delivery.

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### **single entity owner**

The same individual, investor group (e.g., developer, sponsor, builder), partnership, or corporation that owns multiple units in a condo or co-op project. In its examination for project eligibility, the lender must determine compliance with Fannie Mae’s single entity ownership requirements.

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### **single pool**

An MBS pool that consists of mortgages or participation interests delivered by a single lender.

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### **single-family mortgage loan**

A mortgage loan secured by a property that contains one to four residential dwelling units.

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### **special assessment districts (or municipal utility districts)**

Jurisdictions that have been granted the authority to assess owners of properties within their boundaries for funds that will be used to cover the operating costs and debt service they incur for providing water or other utilities for the area (since it is not served by existing city or municipal utility services).

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**special deposit account**

An account that is established for renovation mortgages to hold the funds needed for the renovation work so they can be disbursed from time to time as particular portions of the work are completed.

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**special feature codes (SFC)**

Codes that Fannie Mae uses to identify certain characteristics related to individual mortgage loans, mortgage products, or negotiated transactions. A lender must specify these codes when they apply to mortgages delivered to Fannie Mae.

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**Special Flood Hazard Area (SFHA)**

The land in the flood plain within a community having at least a 1% chance of flooding in any given year, as designated by FEMA.

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**special lender obligations**

Special requirements or undertakings that a lender agrees to honor in connection with the purchase or securitization of mortgages—such as credit support obligations; repurchase obligations; and recourse, loss-sharing, or indemnity obligations.

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**special servicing option**

A guaranty fee option for an MBS pool under which Fannie Mae assumes the entire risk of loss from a borrower default; a servicing option for RD-guaranteed mortgages under which Fannie Mae will bear all losses not recovered from the RD. (See *recourse* for the equivalent term for a whole loan delivery.)

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**Standard and Poor's Ratings Services**

A credit rating agency that, among other things, assigns credit ratings to debt issuers and the debt instruments themselves, as well as to title insurance companies and custodial depositories, by evaluating their assets and liabilities.

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**standard pricing option**

A pricing method under which all mortgages delivered under a single commitment will be priced based on the relationship of their specific pass-through rate to the commitment's single required

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yield. Standard pricing can result in either a par price or a discount price, but not a premium price.

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**standard remittance cycle**

A payment cycle used for scheduled/scheduled remittance types for MBS pools that requires the scheduled and unscheduled payments to be remitted to Fannie Mae on the 18th calendar day of each month (or on the preceding business day if the 18th is not a business day).

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**stated-structure pooling**

A method of creating an ARM MBS pool that results in interest accruals to the security holder at the stated pool accrual rate.

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**structured transactions**

Multi-class or multi-tranche Fannie Mae securities and/or single-class Fannie Mae MBS that are resecuritizations of other single-class Fannie Mae MBS.

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**subdivision**

A housing development that is created by dividing a tract of land into individual lots for sale or lease.

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**subordinate financing**

Any mortgage or other lien that has priority lower than that of the first mortgage.

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**subordinate lien mortgage loan**

See *second mortgage*.

---

**servicer**

A Fannie Mae approved servicer that is contractually obligated to a master servicer to perform substantially all of the ongoing servicing activities for one or more mortgage loans for the master servicer.

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**subservicing arrangement**

An arrangement wherein the master servicer of one or more Fannie Mae mortgage loans hires a subservicer to subservice substantially all of its subservicing functions.

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**swing loan**

See *bridge loan*.



**E-3-20, Glossary of Fannie Mae Terms: T (11/10/2014)**

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**take-out option**

A post-conversion disposition option that requires the lender to redeliver as a whole loan a repurchased convertible adjustable-rate mortgage that was in an MBS pool following its conversion to a fixed-rate mortgage and to continue any recourse or credit enhancement that initially applied to the mortgage (unless Fannie Mae agrees it is no longer needed).

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**temporary interest-rate buydown**

A temporary reduction in the effective interest rate that a borrower pays during the early years of a mortgage term, which is made possible by the property seller or another acceptable party depositing a lump sum of money into a buydown account so that it can be released each month to reduce the borrower's payments.

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**tenant-stockholder**

The obligee for a co-op share loan, who is both a stockholder in the co-op corporation and a tenant of the unit under a proprietary lease or occupancy agreement.

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**Texas Section 50(a)(6) mortgage**

A mortgage originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allows a borrower to take equity out of a homestead property under certain conditions.



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**timeshare project**

A real estate development in which a purchaser can buy the exclusive right to occupy a unit for a specified period of time each year.

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**title insurance**

Insurance against loss resulting from defects in the title to real property.

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**trade equity**

Equity that results from a property purchaser giving his or her existing real property as trade as all or part of the down payment for the property that is being purchased.

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**transfer of ownership**

Any means by which the ownership of property changes hands. Fannie Mae considers the transfer of all or any part of the property or any interest in the property to be a transfer of ownership, including: the purchase of a property “subject to” the mortgage, the assumption of the mortgage debt by the property purchaser, and any exchange of possession of the property under a land sales contract, grant deed, or any other land trust device. In cases in which an *inter vivos* revocable trust is the borrower, Fannie Mae also considers any transfer of a beneficial interest in the trust to be a transfer of ownership.

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**Treasury index**

An index that is used to determine interest rate changes for certain ARM plans. It is based on the results of auctions that the U.S. Treasury holds for its Treasury bills and securities or is derived from the U.S. Treasury’s daily yield curve, which is based on the closing market bid yields and actively traded Treasury securities in the over-the-counter market.

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**two- to four-unit condo project**

A project comprised of two to four residential units in which each unit is separately owned. A two- to four-unit project may be either a new or established project and may be comprised of attached and/or detached units.

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**two- to four-unit property**

A property that consists of a structure that provides living space (dwelling units) for two to four families, although ownership of the structure is evidenced by a single deed.

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**E-3-21, Glossary of Fannie Mae Terms: U (07/30/2013)**

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**underwriting documents**

All of the documentation used to support the lending decision for a mortgage—such as the loan application and other documents used to verify a borrower’s employment, income, deposits, and credit history.

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**Uniform Commercial Code (UCC)**

A comprehensive codification and modernization of commercial law (but excluding law dealing with real property).

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**Uniform Electronic Transactions Act (UETA)**

Any of several state adoptions of an Act that has provisions for the use of electronic signatures and records in interstate commerce that are virtually identical in all material respects to similar provisions of ESIGN.

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**unit mortgage**

A mortgage (or share loan) on an individual residential unit in a planned unit development, condo, or co-op project.

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**unpaid principal balance (UPB)**

The actual balance of the mortgage as of the last paid installment date (also referred to as the “outstanding principal balance”).

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## **E-3-22, Glossary of Fannie Mae Terms: V (04/01/2009)**

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### **VA-guaranteed mortgage**

A mortgage that is guaranteed by the U.S. Department of Veterans Affairs; may be referred to as a “government” mortgage.

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### **voluntary conveyance**

See *deed in lieu of foreclosure*.

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## **E-3-23, Glossary of Fannie Mae Terms: W (11/10/2014)**

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### **weighted-average pool accrual rate**

The weighted average of the net mortgage interest rates of the mortgages in a weighted-average ARM MBS pool, which is the rate at which interest will accrue on the MBS.

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### **weighted-average structure pooling**

A method of creating an ARM MBS pool that results in interest accruals to the security holder at the weighted average of the accrual rates of the mortgages in the pool.

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### **whole loan delivery**

The submission of a whole mortgage or a participation pool mortgage to Fannie Mae for purchase as a portfolio mortgage. Fannie Mae pays the mortgage seller cash for its mortgage delivery, rather than swapping the mortgage for a mortgage-backed security.

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## **E-3-24, Glossary of Fannie Mae Terms: X (04/01/2009)**

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### **no applicable terms**



## **E-3-25, Glossary of Fannie Mae Terms: Y (04/01/2009)**

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### **yield**

Return on an investment.

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### **yield difference (or interest rate differential)**

The difference between Fannie Mae's required yield and the net note rate of an ARM. Fannie Mae limits the amount of this difference.

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### **yield differential adjustment**

An amount paid to the servicer of a whole first mortgage when the initial interest rate of a mortgage exceeds Fannie Mae's required yield for the commitment under which the mortgage was purchased. For adjustable-rate mortgages, a yield differential adjustment occurs if there is excess "margin" rather than yield.

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## **E-3-26, Glossary of Fannie Mae Terms: Z (04/01/2009)**

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### **no applicable terms**

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