



# Selling Guide

Fannie Mae Single Family

September 27, 2011

## **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 Lender 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

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 state Fannie Mae requirements logically and 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 you 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 “Personal Gifts”:

#### **B2-5.3.2-01 Personal Gifts**

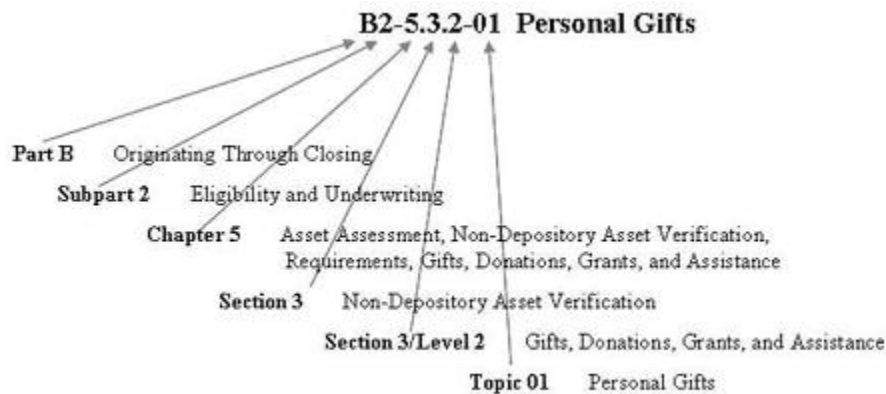
If you know that each:

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

Then you can use the numbering system identifier (“B2-5.3.2-01”) to map the location and level of content detail of this topic within the *Selling Guide*.

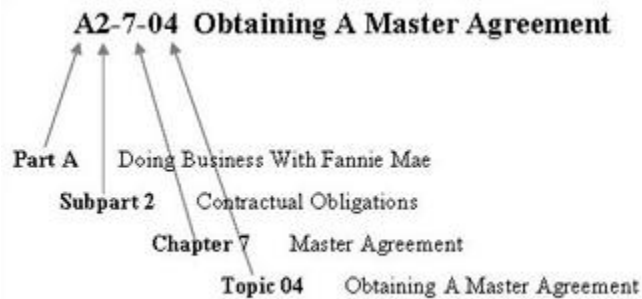
For example, here is how the numbering system identifier for this topic maps to the content levels:





As shown above, the part and subpart are combined as **B2-**. The chapter, section, and level are combined as **5.3.2-**. And the topic is added as **01**.

Keep in mind that not all parts have subparts, not all chapters have sections, and not all sections have topics. For example, the topic “Obtaining a Master Agreement” has the numbering system identifier “A2-7-04” (which does not include sections or levels):







**Note:** As topics are added, updated and deleted with each publication of the *Selling Guide*, the chapters, sections and topic identifiers will change accordingly (For example, **B2-5.3.2-01 Personal Gifts**).

### Use of Icons to Identify Types of Content

The online and PDF versions of this *Selling Guide* use various icons to help you quickly identify the type of content:

Icon	Description
	<b>Overview</b> topics provide the logic behind the arrangement of a part, subpart, or chapter.

Icon	Description
	<b>Policy</b> topics instruct you about what must or must not be done (for example, laws and rules).
	<b>Process and Procedure</b> topics present actions that must be followed over time or that must be performed in a particular instance.
	<b>Supporting Information</b> topics present concepts, facts, structures, or background information that corroborate or expand upon a topic.
	<b>Glossary</b> topics present key terms and their definitions.

### 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** — when the lender contracts to sell mortgages to Fannie Mae as whole mortgages (to hold in our portfolio or to include later in MBS pools that we form). We remit cash proceeds to the lender in payment of the purchase price for these mortgages.
- As **MBS mortgage loans** — when the lender contracts to sell mortgages to us that we convey to an MBS trust under the terms of our MBS program, and we deliver to the lender (or its designee) mortgage pass-through certificates representing interests in the mortgages. These pass-through certificates are in payment of 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, we specify the delivery method.

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

The glossary provides definitions of all terms used in connection with Fannie Mae requirements.

### 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 our *Selling Guide* policies and procedures—as communicated in Announcements, Notices and Lender Letters—in two ways:

- By posting the documents on eFannieMae.com and the AllRegs Web site.
- By e-mail notification of these postings to lenders that subscribe to Fannie Mae’s e-mail 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 eFannieMae.com.

## 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 eFannieMae.com via the [Single Family Forms and Documents](#) page, which provides a complete list of forms as interactive PDF files.
- On the AllRegs Web site 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 our requirements are only referenced in the Guides and are posted in their entirety on eFannieMae.com. In addition, from time to time we issue product-specific guides or directives, 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 eFannieMae.com, with delivery of the “Selling News” option of Fannie Mae’s e-mail subscription service, or with the AllRegs Web site, users may contact the following resources:

**Printed copies may not be the most current version. For the most current version, go to the online version at <http://www.efanniemae.com/sf/guides/ssg/>.**

- For eFannieMae.com and Fannie Mae’s e-mail subscription service, use the “Contact Us” or “Legal” links on the Web site to ask questions or obtain more information.
- For the AllRegs Web site, submit an e-mail support request from the Web site 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 (see E-1-03, List of Contacts) unless specifically instructed otherwise within this Guide.

We specify when a lender may need to contact other groups within Fannie Mae, such as the Capital Markets Sales Desk and others. 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 contains the following subparts:

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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.

---

### Subpart A2, Lender Contract

This subpart describes some of the Contractual Obligations a lender takes on when it becomes an approved Fannie Mae lender. (See A2-1-01, Contractual Obligations for Lenders.) It includes information on Fannie Mae's statutory requirements, 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 also describes the parameters within which Fannie Mae may impose compensatory fees or formal sanctions and require loan repurchases or substitutions. It articulates some of the circumstances under which the Lender Contract can be terminated and the consequences of any breach of such obligations. 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.

---

### Subpart A3, Getting Started With Fannie Mae

This subpart includes the procedures for obtaining the technology applications and completing the compliance certifications required in order to transact business with Fannie Mae. 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 Lender 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 . . . . .	9
Subpart A3, Getting Started With Fannie Mae . . . . .	70
Subpart A4, Maintaining Lender Eligibility . . . . .	123

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# Subpart A1, Approval Qualification



## Approval Qualification

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### Introduction

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

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### In This Subpart

This subpart contains the following chapter:

A1-1, Application and Approval of Lender .....	4
--	---

---

# Chapter A1-1, Application and Approval of Lender



## Application and Approval of Lender

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### Introduction

This chapter describes the eligibility and application requirements for lenders seeking Fannie Mae approval. It also describes loan types that require special lender approval.

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### In This Chapter

This chapter contains the following topics:

A1-1-01, Application and Approval of Lender (06/28/2011) .....	4
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## A1-1-01, Application and Approval of Lender (06/28/2011)

---

### Introduction

This topic contains general information on Fannie Mae's lender approval requirements, including:

- General Information
- Eligibility
- Application Requirements
- Application Review Fee
- Special Lender Approval



---

## General Information

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

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

---

## Eligibility

To be approved to sell and service residential first mortgages, a lender must, at a minimum:

- 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 one-quarter of one percent (0.25%) of the outstanding principal balance of any Fannie Mae portfolio it is servicing. A lender's Fannie Mae portfolio includes mortgages or participation interests in MBS pools, first and second whole mortgages held in Fannie Mae's portfolio, Fannie Mae's participation interests in first or second mortgages in participation pools held in its portfolio, and multifamily mortgages. 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"). Based on specific circumstances, a lender may be required to satisfy other financial standards or additional net worth and liquidity eligibility criteria. See A4-2-01, Net Worth and Liquidity Requirements Net Worth and Liquidity Requirements for additional information on Fannie Mae's net worth requirements for approved lenders.

- 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 lenders, all lenders that are seeking approval to sell and/or service certain types of mortgages, all lenders that share certain characteristics, or all lenders. Fannie Mae approves or disapproves a lender based on an assessment of its total circumstances; therefore, a lender 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.

Lenders are no longer required to purchase or own Fannie Mae stock as a condition of eligibility.

Approval or rejection of a lender'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 lender's circumstances.

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## Application Requirements

Lenders applying to do business with Fannie Mae must submit the following:

- The completed online [lender application](#).
- The Authorization for Verification of Credit and Business References ([Form 1001](#)), executed by all principal officers, partners, and others who own a 5% or more interest in the lender.
- Year-end financial statements for the past two years, certified by an independent public accountant. An interim financial statement must be included if more than 180 days have elapsed since the lender's last audit.

A lender that is state- or federally-supervised may satisfy this requirement by submitting its regulatory reports, along with a statement certifying that yearly audited financial statements are not available and that its published statements are identical to those submitted to its supervisory authority.

- Evidence of fidelity bond and errors and omissions coverage.
- Resumes of principal officers and key personnel who oversee each functional area.

- A copy of the lender's two most recent quality control reports and management responses.
- Copies of signed contracts with any third parties that perform origination, quality control, or servicing functions for the lender.
- Application review fee(s).
- Two original Mortgage Selling and Servicing Contracts (MSSCs), executed by an authorized senior officer.
- If the applicant is seeking additional authority, two original Addenda executed by an authorized senior officer.
- Any additional information or documentation that Fannie Mae may request.

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### **Application Review Fee**

The basic application review fee for new lenders is \$1,000. An additional application review fee may be charged for special approval to deliver certain mortgage types. Application review fees are not refundable.

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### **Special Lender Approval**

Certain loan types require special approval. The following special approvals will be documented by an addendum to the Mortgage Selling and Servicing Contract between Fannie Mae and the lender:

- co-op share loans,
- second mortgages,
- HomeStyle® renovation mortgages, and
- Texas Section 50(a)(6) mortgages.

Lenders may apply for special approval to deliver co-op share loans, second mortgages, and Texas Section 50(a)(6) mortgages at the time they initially obtain Fannie Mae approval or at any time thereafter. Requests for approval should be submitted through [Customer Approval](#). Lenders may apply for special approval to deliver HomeStyle renovation mortgages after they obtain Fannie Mae approval by completing a HomeStyle Approval Form ([Form 1000A](#)) and submitting it to their Customer Account Team E-1-03, List of Contacts.

Fannie Mae reserves the right to no longer accept deliveries of any or all of the loan types listed above from any or all lenders. This decision may result in an amendment to, or the termination of, the special approval. 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.

The following loans require delivery under a variance to the lender's master agreement, which will evidence the lender's approval to deliver such loans:

- HomeStyle renovation mortgages (a variance is required after the lender obtains special approval),
- mortgages secured by properties in Guam, and
- certain special housing initiative mortgages (rural housing initiative loans and Native American housing initiative loans).

Lenders may request approval to deliver these loans through their Customer Account Team E-1-03, List of Contacts. Lenders may not deliver these loan types unless they obtain the applicable special lender approval and execute any additional required agreements required by Fannie Mae.

Fannie Mae may identify other loan types that require special approvals and, in Fannie Mae's discretion, require deliveries under a variance to the lender's master agreement.

For additional information on lender contracts, refer to Exhibit EE-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-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

# Subpart A2, Lender Contract



## Lender Contract

---

### Introduction

This subpart describes some of the contractual obligations a lender takes on when it becomes an approved Fannie Mae lender, (See A2-1-01, Contractual Obligations for Lenders). It includes information on Fannie Mae's statutory requirements, 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, and the policies and procedures associated with obtaining a Master Agreement. It also describes the parameters within which Fannie Mae may impose compensatory fees or formal sanctions and require loan repurchases or substitutions. It articulates some of the circumstances under which the lender's contract can be terminated and the consequences of any breach of the lender's obligations. 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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### In This Subpart

This subpart contains the following chapters:

A2-1, Contractual Obligations for Fannie Mae–Approved Lenders . . . . .	10
A2-2, Contractual Representations and Warranties . . . . .	16
A2-3, Lender Breach of Contract . . . . .	29
A2-4, Master Agreement . . . . .	46
A2-5, Mortgage Files and Records . . . . .	51
A2-6, Fannie Mae Trade Name and Trademarks . . . . .	66

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



## Contractual Obligations for Fannie Mae–Approved Lenders

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### 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:

A2-1-01, Contractual Obligations for Lenders (04/01/2009) .....	10
A2-1-02, Nature of Mortgage Transaction (04/01/2009) .....	13
A2-1-03, Indemnification for Losses (09/27/2011) .....	14

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## A2-1-01, Contractual Obligations for Lenders (04/01/2009)

---

### Introduction

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

- Types of Incorporated Contracts and Agreements
  - Independent Contractors/Third Party Beneficiaries
- 

### Types of Incorporated Contracts and Agreements

The Mortgage Selling and Servicing Contract (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. Lenders may enter into certain additional agreements 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 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 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 Contract,
- Absent such integration, Fannie Mae would not have entered into, or continued to be bound by, the 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 Contract. Fannie Mae requires that the transfer or 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 eFannieMae.com (or successor Web site), 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 Web sites FannieMae.com or eFannieMae.com (or such other Web sites 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 eFannieMae.com that is incorporated by reference into the *Selling Guide*), and any other applicable 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.

---

### **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 MSSC or the *Selling Guide* or *Servicing Guide* or to obtain any rights or entitlements through Fannie Mae’s lender communications or contracts.



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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 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)

---

### Introduction

This topic contains information on mortgage transaction requirements.

---

### 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.



## **A2-1-03, Indemnification for Losses (09/27/2011)**

[Click to see prior version of topic](#)

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### **Introduction**

This topic contains information on indemnification for losses.

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### **Indemnification for Losses**

Fannie Mae requires a lender that sells mortgages to Fannie Mae (or that assumes selling warranties in connection with an acquisition of servicing) 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, judgments, claims, legal actions, and legal fees that are based on, or result from, the lender’s breach or alleged breach of its selling warranties or representations or its origination or selling activities related to Fannie Mae-owned or Fannie Mae-securitized mortgages, including 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. Similarly, Fannie Mae requires a servicer to make

the same indemnification for all losses, damages, judgments, claims, legal actions, and legal fees that are based on, or result from, the lender’s failure or alleged failure to satisfy its duties and responsibilities for mortgages or MBS pools it services for Fannie Mae under the provisions of the Lender Contract, the Fannie Mae Guides, any additional requirements that may have been imposed, or any additional obligations the lender has assumed with respect to such mortgages or MBS pools.

In addition, the obligation of a lender that sells Fannie Mae mortgages secured by manufactured homes to indemnify Fannie Mae in certain circumstances encompasses all losses, damages, judgments, and legal fees that are based on, or result from, 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. (See B5-2.3-01, Manufactured Housing, for more information related to the obligations of a lender that sells Fannie Mae mortgages secured by manufactured homes.)

If a claim is made or a suit or other proceeding that is based on a lender’s alleged acts or omissions in originating, selling, or servicing mortgages or MBS pools; in trading mortgage-backed securities; or in disposing of acquired properties is started against Fannie Mae (or if Fannie Mae subsequently becomes a party to such a claim, suit, or proceeding or is served a subpoena for any purpose in connection with a suit to which Fannie Mae is not a party), the lender’s responsibility to indemnify Fannie Mae from losses and to hold Fannie Mae harmless must be met regardless of whether the claim, suit, or proceeding has merit. However, the lender’s obligation does not apply if Fannie Mae gives the lender written instructions during a claim, suit, or proceeding and Fannie Mae suffers a loss because the lender follows its instructions.

Fannie Mae will manage its defense for any claim, suit, or proceeding in accordance with its own judgment, keeping the option to decide whether (or when) to retain its own separate counsel. If Fannie Mae chooses its own counsel, the lender will still be obligated to pay Fannie Mae’s legal fees and costs. If Fannie Mae decides that its interests and the lender’s coincide, Fannie Mae may decide to cooperate with the lender in a joint defense.

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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-2011–10</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 describes 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:

A2-2-01, Contractual Representations and Warranties (04/01/2009) . . . . .	16
A2-2.1, Additional Selling Representations and Warranties . . . . .	18

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## A2-2-01, Contractual Representations and Warranties (04/01/2009)

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### Introduction

This topic contains information on contractual representations and warranties.

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### 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 for review 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 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 mortgage seller made when the mortgage loan was sold to Fannie Mae. Lenders that acquire the servicing of Fannie Mae mortgages are required to service the mortgage loans in accordance with the servicing obligations of the lender that assigned or transferred the servicing of the mortgage.

## 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(04/01/2009)**

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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

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### **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, or substitutes for a mortgage loan previously sold to Fannie Mae:

- 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, set forth 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.

When the lender substitutes a “qualified substitute mortgage loan” for a defective mortgage loan in an MBS pool (in lieu of repurchasing the defective mortgage loan), the lender represents and warrants that all required selling warranties and representations for the substitute mortgage loan are effective as of the first day of the month of substitution.

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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, warrants, and agrees 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.
- represents and warrants that 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, Subservicing, and the *Servicing Guide*) or any prior servicing agreement is made expressly to Fannie Mae’s rights as owner of the mortgage loans.

The party that was servicing for the lender prior to such date may become a servicer for Fannie Mae, if there is full compliance with all the Fannie Mae Guide requirements that provide for assignment of servicing from the lender concurrent with conveyance of the mortgage to Fannie Mae (see A3-3-02, Concurrent Servicing Transfers).

- makes all of the selling warranties specified in the MSSC even if it is not the originator of the mortgage.
- represents and warrants that it is aware of all matters related to the mortgage that were known to the originating lender.



### **A2-2.1-03, Document Warranties (07/26/2011)**

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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 other Fannie Mae instruments that are applicable to the transaction, the lender warrants that the mortgage loans otherwise comply with the Lender Contract and 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 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).
- **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 a growing-equity mortgage, a graduated-payment mortgage, an adjustable-rate mortgage, or a mortgage with an interest-only feature.
- **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, except for adjustments specifically provided for in the instruments, such as those for mortgage loans with an interest-only feature and adjustable-rate, graduated-payment, or growing-equity mortgage loans,
  - 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.
- **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.

Announcements	Issue Date
<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 of Contractual Warranties for Mortgages Submitted to DU (07/26/2011)**

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### Introduction

This topic contains information on the limited waiver of contractual warranties for mortgages underwritten through DU.

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### Limited Waiver of Contractual 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 (including an Expanded Approval® recommendation of EA-I, EA-II, or EA-III) 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. Special feature codes are required for all loans that receive an EA-I, II, or III recommendation. Without limiting the generality of the foregoing, SFC 127 must be used if the lender delivering the loan to Fannie Mae is the DU licensee. However, if the lender delivering the loan to Fannie Mae is not the DU licensee, then SFC 214 must be used.
- 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 a Refer with Caution/IV recommendation; and loans that receive an Approve/, EA-I/, EA-II/, or EA-III/Ineligible recommendation, even if the reason for the ineligibility is covered by the lender's Master Agreement, unless the limited waiver is specifically granted on a negotiated basis;
- 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/, EA-I/, EA-II/, or EA-III/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 streamlined documentation requirements, streamlined appraisal requirements, alternative property inspection requirements, and any 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.

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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-2011-04</a>	May 24, 2011



## **A2-2.1-05, Invalidation of Limited Waiver of Representation and Warranties (04/01/2009)**

### 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 either an Approve/Eligible recommendation or one of the Expanded Approval recommendations (EA-I, EA-II, or EA-III).

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 either an Approve/Eligible recommendation or one of the Expanded Approval recommendations that is eligible for the limited waiver; 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 either Approve/Eligible or one of the Expanded Approval recommendations that is 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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# 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 .....	30
A2-3.2, Loan Repurchases Requested by Fannie Mae .....	35
A2-3.3, Compensatory Fees .....	43

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## Section A2-3.1, Lender Breach of Contract



### A2-3.1-01, Lender Breach of Contract (04/01/2009)

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#### Introduction

This topic contains information on the lender's breach of its Lender Contract.

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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. The breach of any representation, warranty, or covenant and the submission of fraudulent or inaccurate data also may be grounds for termination of the Lender Contract. 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 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.

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

- requiring the lender to indemnify Fannie Mae for actual and prospective losses,
- requiring the lender to repurchase a mortgage loan or an acquired property,
- 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 there of,
- 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, including Desktop Originator® (DO)/Desktop Underwriter.

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 has cause to do so under the provisions of the Lender Contract. Fannie Mae's decision not to take action 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 take action in the future.

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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 08-23</a>	September 16, 2008



## **A2-3.1-02, Sanctions, Suspensions, and Terminations (04/01/2009)**

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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

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## **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 the Lender Contract whenever a breach has been identified. 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 whole loan commitments or pool purchase contracts to be void.

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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.

Termination of the lender's selling arrangement does not affect any whole loan commitments or pool purchase contracts that the lender has outstanding with Fannie Mae at the time of the termination.

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 a loss, or the selling warranty was assumed in connection with an earlier transfer of servicing to another lender.

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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 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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## Section A2-3.2, Loan Repurchases Requested by Fannie Mae



### **A2-3.2-01, Loan Repurchases Requested by Fannie Mae (04/01/2009)**

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#### **Introduction**

This topic contains information on loan repurchases requested by Fannie Mae, including:

- Overview
  - Conditions Requiring Repurchase
  - Repurchase Request Based on Lender's Underwriting Decisions
  - Repurchase Without Redelivery to Fannie Mae's Portfolio
- 

#### **Overview**

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 include those in which a portfolio or MBS mortgage is in violation of a contractual selling warranty, improper servicing, an adjustable-rate mortgage in an MBS pool is converted to a fixed-rate mortgage, or an MBS mortgage has 24 payments past due. As an alternative to the repurchase of a delinquent special servicing option MBS mortgage, Fannie Mae provides for the automatic reclassification of the mortgage to a portfolio mortgage.

As part of its quality control (QC) system, Fannie Mae's National Underwriting Center reviews a percentage of the mortgages it purchases or securitizes to ensure that they meet Fannie Mae's eligibility criteria and underwriting standards. Fannie Mae also reviews the underwriting of mortgages that have early payment defaults or those for which it acquired the property by foreclosure.

- Fannie Mae will not always require the immediate repurchase of a mortgage when it identifies significant underwriting deficiencies during a post-purchase review—as long as the mortgage is current, was not originated based on fraud or misrepresentation, and is not in violation of

Fannie Mae's mortgage eligibility requirements (including any applicable selling warranties) and the lender that sold the mortgage (or is now servicing it) is in good standing with Fannie Mae, has sufficient financial strength to warrant deferral of an immediate repurchase obligation, and is otherwise eligible to receive Fannie Mae's "no-repurchase-of-performing-mortgages" exemption (see A2-3.2-03, No Repurchase of Performing Mortgages for Breach of Contractual Selling Warranties). Should the mortgage later become delinquent, Fannie Mae will review the individual circumstances to determine whether repurchase is warranted at that time.

- Fannie Mae may require the immediate repurchase of a mortgage or property when an early payment default underwriting review reveals significant underwriting deficiencies (even if the mortgage has subsequently been brought current).
- Fannie Mae may require either the immediate repurchase of a property or an indemnification against any losses it may subsequently incur when a post-foreclosure underwriting review reveals significant underwriting deficiencies.
- Fannie Mae will require the immediate repurchase of a mortgage—or of an acquired property—as a result of the lender's breach of any selling warranty (including instances of fraud or misrepresentation) or its determination that a selling warranty the lender made is untrue; under the terms of any applicable contract provisions; or because of servicing deficiencies that have had a materially adverse effect on the value of the mortgage or the property. However, in some instances in which the lender has breached its warranties or representations, Fannie Mae may allow the lender to correct the warranty violation or, in the case of an MBS mortgage, to substitute a qualified mortgage in lieu of repurchasing a mortgage (or a participation interest in a mortgage) (see Subpart C3, Mortgage-Backed Securities (MBS)).

When Fannie Mae requests a repurchase related to the lender's underwriting of the borrower's financial capacity or creditworthiness for a delinquent mortgage or a mortgage for which Fannie Mae has acquired the underlying property, the lender should work with its lead Fannie Mae regional office (see E-1-03, List of Contacts) to resolve any issues concerning the repurchase request. It may not always be possible to reach a mutual agreement. In such cases, the lender generally must repurchase the mortgage or the acquired property. However, if a lender that is in good standing with Fannie Mae believes that the repurchase request is not justified, it may request an independent third-party repurchase review.

Whenever the Fannie Mae Guides permit or require repurchase of a mortgage without redelivery to Fannie Mae's portfolio and, at the time of the purchase, title to the security property has passed to Fannie Mae (or is held for Fannie Mae but is in the name of the servicer pursuant to its duties as Fannie Mae's servicer), the Guide will be applied to require repurchase of Fannie Mae's interest in the property. The repurchase price will be the same as if the lender were repurchasing the mortgage (with accrued interest and other adjustments, including Fannie Mae's property-



related expenses such as maintenance and marketing expenses, through the date of repurchase). The repurchase price is not based on the market value of the property at the time of the purchase. Further, when the servicer repurchases the property, 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 to have preserved such rights.

The lender must pay Fannie Mae the funds that are due in connection with a repurchase within 30 days (or with its next scheduled remittance following the completion of the 30-day period). Should Fannie Mae have to take legal action to enforce its right to require repurchase of a mortgage (or property), the lender also will be liable for Fannie Mae's attorney's fees, costs, and related expenses, as well as for any applicable consequential damages.

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### Conditions Requiring Repurchase

In addition to repurchase for breach of warranty, some loans may be required to be repurchased because the terms under which the mortgage loans were purchased or securitized call for a repurchase. 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.

If Fannie Mae identifies significant underwriting deficiencies during a post-purchase review, Fannie Mae will not require the immediate repurchase of a mortgage loan, as long as

- the mortgage loan is current,
- the mortgage loan was not originated based on fraud or misrepresentation,
- the mortgage loan is not in violation of Fannie Mae's mortgage loan eligibility requirements, including any applicable selling warranties, and
- the lender that sold the mortgage loan or is now servicing it is in good standing with Fannie Mae and is otherwise eligible to receive Fannie Mae's "no-repurchase-of-performing-mortgages" exemption (see A2-3.2-03, No Repurchase of Performing Mortgages for Breach of Contractual Selling Warranties).

If repurchase is not required because a mortgage loan meets all of the above requirements but the mortgage loan later becomes delinquent, Fannie Mae will review the individual circumstances to determine whether repurchase is warranted at that time.

If an early payment default underwriting review reveals significant underwriting deficiencies, even if the mortgage loan has subsequently been brought current, Fannie Mae may request the immediate repurchase of a mortgage loan.

If a post-foreclosure underwriting review reveals significant underwriting deficiencies, Fannie Mae may request either the immediate repurchase of a property or an indemnification against any losses Fannie Mae may subsequently incur.

Fannie Mae will require the immediate repurchase of a mortgage loan, or of an acquired property, if the lender breaches any selling warranty (including instances of fraud or misrepresentation), or if Fannie Mae determines that a selling warranty the lender made is untrue, under the terms of any applicable contract provisions, or because of servicing deficiencies that have had a materially adverse effect on the value of the mortgage loan or the property.

In some instances in which the lender has breached its warranties or representations, Fannie Mae may allow the lender to correct the warranty violation or, in the case of an MBS mortgage loan, to substitute a qualified mortgage loan in lieu of repurchasing a mortgage loan (or a participation interest in a mortgage loan). (See A2-3.2-02, Repurchases Resulting From Warranty Violations, and the *Servicing Guide*.)

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### **Repurchase Request Based on Lender's Underwriting Decisions**

When Fannie Mae requires a repurchase because of a breach due to a lender's inadequate underwriting of the borrower's financial capacity or creditworthiness for a delinquent mortgage loan, the lender should work with its lead Fannie Mae regional office (see E-1-03, List of Contacts) to resolve any issues surrounding the repurchase request.

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 or Fannie Mae's participation interest in the mortgage loan or the acquired property.

A lender that is in good standing with Fannie Mae and believes Fannie Mae's repurchase request is not justified may request an independent third-party repurchase review at its own expense.

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### **Repurchase Without Redelivery to Fannie Mae's Portfolio**

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, Fannie Mae will require repurchase of Fannie Mae's interest in the property.

The repurchase price 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 purchase.

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 this mortgage loan and property. When the servicer purchases the property, 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 to have preserved such rights.

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## **A2-3.2-02, Repurchases Resulting From Warranty Violations (08/12/2010)**

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### **Introduction**

This topic contains information on repurchases resulting from warranty violations, including:

- Violation of Contractual Warranty
  - Redelivery of Loans
- 

### **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 (for example, instances of fraud or misrepresentation), Fannie Mae may require the selling lender to immediately repurchase the mortgage loan or property (or Fannie Mae's participation interest in the mortgage loan).

Fannie Mae may also require repurchase if any warranty the selling lender made is untrue, whether or not the lender had actual knowledge of the untruth, unless 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.

Neither the fact that a mortgage loan has passed Fannie Mae quality control review or any other review performed, nor any loan-level price adjustments that Fannie Mae charged for such mortgage loan at delivery, limits in any way Fannie Mae's right to require repurchase if a warranty breach is later discovered.

Notwithstanding the foregoing, at Fannie Mae's sole and absolute discretion, in some instances, Fannie Mae may allow a lender to correct a warranty violation, rather than requiring the lender to repurchase the mortgage loan.

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## Redelivery of Loans

If the condition that made the loan ineligible for purchase by Fannie Mae can be cured, and the repurchased loan is subsequently made compliant with Fannie Mae standards, the loan may be redelivered to Fannie Mae.

When a lender redelivers such a mortgage loan, it must notify Fannie Mae that it is a redelivered mortgage loan if it (or an affiliate) previously delivered the mortgage loan to Fannie Mae, or if the lender is informed that another lender previously delivered the loan. The lender must give notice to its lead Fannie Mae regional office (see E-1-03, List of Contacts); this notice must contain the following information for both the original delivery and the redelivery:

- the applicable lender name and number,
- the applicable loan number, and
- the funding month and year if the loan was delivered to Fannie Mae’s portfolio, or
- the MBS issuance month and year, if the loan was securitized.

**Note:** 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, 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. These types of mortgages are not eligible for delivery even if the identified defect has been cured by the lender.

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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-2010–10</a>	August 12, 2010



## **A2-3.2-03, No Repurchase of Performing Mortgages for Breach of Contractual Selling Warranties (04/01/2009)**

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### **Introduction**

This topic contains information on breaches of contractual selling warranties that do not require repurchase by the lender, including:

- No Repurchase of Performing Mortgages for Breach of Contractual Selling Warranties
- 

### **No Repurchase of Performing Mortgages for Breach of Contractual Selling Warranties**

When a loan purchased or securitized by Fannie Mae does not meet Fannie Mae's standards, the lender may be required to repurchase the loan. However, Fannie Mae may choose not to require immediate repurchase for certain contractual selling warranty breaches, so long as the loan is performing and the lender qualifies for Fannie Mae's "no-repurchase-of-performing-mortgages" exemption from immediate repurchase.

If an underwriting deficiency is identified, and if the lender qualifies for this exemption, Fannie Mae will notify the lender of the finding, but will not request immediate repurchase of the mortgage loan. Fannie Mae will advise the lender that the performance of the mortgage loan will be monitored on an ongoing basis and that a subsequent repurchase request may be issued if the loan becomes delinquent.

**Note:** A lender that prefers to resolve potential repurchase issues when they first occur rather than waiting for the mortgage loan to go into default should contact Fannie Mae when it receives this notice.

If the mortgage subsequently becomes delinquent, Fannie Mae will review the individual mortgage loan file and the noted deficiency, taking into consideration

- the age of the mortgage loan,
- the entire payment history for the mortgage loan,
- the circumstances of the default, and
- the relevance and seriousness of the underwriting deficiency.

If Fannie Mae determines that a repurchase is appropriate, Fannie Mae issues a repurchase request to the lender.

The “no-repurchase-of-performing-mortgages” repurchase exemption is available only to a lender that is in good standing with Fannie Mae, that is in a strong financial condition acceptable to Fannie Mae, and that 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 it to Fannie Mae, eligibility for this benefit will be based on an evaluation of the servicer.) In determining a lender’s (or servicer’s) eligibility for this exemption, 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 this exemption.

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## Section A2-3.3, Compensatory Fees



### A2-3.3-01, Compensatory Fees (04/01/2009)

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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.

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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, Fannie Mae assumes that lenders meet Fannie Mae’s mandatory delivery requirement to deliver mortgage loans if it delivers mortgages equal to an amount that falls below the original commitment amount by no more than the greater of \$10,000 or 5% of the original commitment amount.

Fannie Mae also has a residual balance provision for specific whole loan commitments, which allows lenders to deliver additional mortgage loan(s) in an amount that exceeds the original commitment amount by no more than the greater of \$10,000 or 5% of the original commitment amount.

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.
- 

### **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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## 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 MBS deliveries and for any loans to be delivered to Fannie Mae under negotiated terms.

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#### In This Chapter

This chapter provides information on the following subjects:

A2-4-01, Master Agreement Overview (06/28/2011) . . . . .	46
A2-4-02, Terms of a Master Agreement (04/01/2009) . . . . .	48
A2-4-03, Variances and Special Provisions (04/01/2009) . . . . .	49
A2-4-04, Breaches of a Master Agreement (04/01/2009) . . . . .	50

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### A2-4-01, Master Agreement Overview (06/28/2011)

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#### Introduction

This topic contains information on Master Agreements, including:

- About Master Agreements
  - Lenders Required to Obtain a Master Agreement
  - Mortgage Loans 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 terms under which Fannie Mae does business with lenders—whether the business relates to MBS pool or whole loan deliveries.

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. A lender must have a Master Agreement for MBS deliveries and for any loans originated or delivered under 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 obtain a Master Agreement.

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### **Mortgage Loans 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,
- Texas Section 50(a)(6) mortgage loans,
- mortgage loans originated under Fannie Mae Native American housing initiatives,
- mortgage loans originated under the Fannie Mae HomeStyle product line,
- mortgage loans underwritten through an automated underwriting system other than Desktop Underwriter, and
- any other mortgages that contain variances as described in A2-4-03, Variances and Special Provisions.

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 its existing 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-2011-05</a>	June 28, 2011



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

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### 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-2-04, Master Agreement Terms and Conditions.



## **A2-4-03, Variances and Special Provisions (04/01/2009)**

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### **Introduction**

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

- Master Agreements with Variances
  - Lender Identification of Mortgages With Variances
- 

### **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 contracts 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.

Fannie Mae reserves the right to no longer accept deliveries of special products or mortgage loans with certain variances under the terms of outstanding Master Agreements. This decision may result in an amendment to, or the termination of, the provisions in the Master Agreements for all lenders or one or more lenders. Fannie Mae will provide the affected lenders 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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### **Lender Identification of Mortgages With Variances**

The Master Agreement requires the lender to identify any mortgage loans that have variances or represent special mortgage loan products by reporting a special feature code on one of the following forms:

- FRM/GEM Loan Schedule ([Form 1068](#))
- ARM/GPARM Loan Schedule ([Form 1069](#))
- Schedule of Mortgages ([Form 2005](#))

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 eFannieMae.com.

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## **A2-4-04, Breaches of a Master Agreement (04/01/2009)**

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### **Introduction**

This topic contains information on breaches of a Master Agreement.

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### **Breaches of a Master Agreement**

If a lender breaches the provisions of its Contractual Obligations, Fannie Mae may 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 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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# Chapter A2-5, Mortgage Files and Records



## Mortgage Files and Records

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### Introduction

This chapter describes 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 these 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:

A2-5.1, Establishment and Maintenance of Mortgage Files and Records . . . . .	52
A2-5.2, Ownership, Retention, and Examination of Mortgage Files and Records . . . . .	61

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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 (04/01/2009)**

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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, and accounting system reports. 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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## **A2-5.1-02, Individual Mortgage Loan Files (05/24/2011)**

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### **Introduction**

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

- General Requirements
  - Contents of a Mortgage Loan File
- 

### **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:

**Printed copies may not be the most current version. For the most current version, go to the online version at <http://www.efanniemae.com/sf/guides/ssg/>.**

- 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, hazard 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 HUD-1 Settlement Statement (or HUD-1A if applicable) or other closing statement evidencing all settlement costs paid by the borrower and seller, executed by the borrower and seller (if applicable).

**Note:** In escrow states, if the lender is unable to have the final HUD-1 signed by the borrower and seller, the lender may supplement the final HUD-1 signed by the escrow officer with either:

- the estimated HUD-1 (or multiple matching documents) signed by the borrower and seller, or
- the final Escrow Instructions (or multiple matching documents) signed by the borrower and seller.

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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-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



## A2-5.1-03, Electronic Records, Signature, and Transactions (04/01/2009)

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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
- Disclaimers

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### 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 records that modify or supplement the promissory note, in which case the original ink-signed records of such instruments should be stored in the mortgage loan files. Where a lender has an eMortgage variance in place with Fannie Mae, these requirements may not apply.

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 lender identification 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. For transactions involving electronic mortgage originations and deliveries, a lender should refer to the *Guide to Delivering eMortgage Loans to Fannie Mae* and consult with its lead Fannie Mae regional office (see E-1-03, List of Contacts).

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



## **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

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### **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



## 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 (04/01/2009)**

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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.

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, 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.



## **A2-5.2-03, Retention and Storage of Mortgage File Records (04/01/2009)**

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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
- 

### **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.

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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.

### **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.
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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 describes 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:

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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

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## 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 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 House-on-the-Hill 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 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 lender, unless Fannie Mae gives 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 MyCommunityMortgage.” A lender may not use the Marks in the promotion of lender’s products or services in 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 includes the procedures for obtaining the technology applications and completing the compliance certifications required in order to transact business with Fannie Mae. 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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### In This Subpart

This subpart contains the following chapters:

A3-1, Fannie Mae's Technology Products . . . . .	71
A3-2, Compliance With Requirements and Laws . . . . .	73
A3-3, Third-Party Lending Functions . . . . .	81
A3-4, Lending Practices . . . . .	110
A3-5, Fidelity Bond and Errors and Omissions Coverage . . . . .	117

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



## Fannie Mae's Technology Products

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### Introduction

This chapter describes 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:

A3-1-01, Fannie Mae's Technology Products (04/01/2009) ..... 71

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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 available on the [Technology Requirements](#) page to ensure that you meet or exceed them.

**Note:** This information does not apply to integration solutions. See [Integration Overview](#) 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 [Single-Family Technology Applications page](#) for instructions 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.

# 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:

A3-2-01, Compliance With Laws (12/01/2010) . . . . .	73
A3-2-02, Responsible Lending Practices (07/26/2011) . . . . .	75

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## A3-2-01, Compliance With Laws (12/01/2010)

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### Introduction

This topic contains information on compliance with laws, including:

- Compliance With Laws
  - IRS Reporting Requirements
  - Department of Treasury Office of Foreign Assets Control (OFAC) Regulations
- 

### 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, terrorist activity, 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).

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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*.

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

Lenders must comply with the Department of Treasury's Office of Foreign Assets Control (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.

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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 09-01</a>	January 7, 2009



## **A3-2-02, Responsible Lending Practices (07/26/2011)**

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### 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	A borrower should be offered the lowest-cost product with the lowest-risk loan terms for which the borrower qualifies. A borrower should be placed in a higher-cost product designed for persons with impaired credit only when an objective review of the borrower’s credit- and income-related criteria supports placing the borrower in such a product. Lenders must not steer borrowers toward a low- or no-income documentation program to qualify the borrower for a mortgage loan in an effort to misrepresent the borrower’s true credit and/or income related qualifications. See also B2-1.4-01, Mortgage Loan Limits.
Points and Fees	Lenders may not charge borrowers points and fees (whether or not financed, and as calculated in accordance with the <i>Selling Guide</i> ) in an amount that exceeds the greater of (i) 5% of the principal amount of the mortgage loan, or (ii) \$1,000. Points and fees must be adequately disclosed in accordance with applicable law and regulation. See B2-1.4-03, Legal Requirements, which provides detailed information regarding the calculation of points and fees.
Lender Hiring Requirements	<p>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) Excluded Party List and the HUD Limited Denial of Participation List (LDP List).</p> <p>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 is requiring that if, at the time of hire, the lender has determined that an individual is on the GSA or LDP list, the lender may not permit that employee to manage or perform origination functions on loans sold to Fannie Mae.</p> <p><b>Note:</b> An individual confirmed to be on either list <i>for any reason</i> may not be permitted to manage or perform origination</p>



Topic	Policy
	<p>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.</p> <p>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.</p> <p>Lenders can access the GSA and LDP lists via the links provided below:</p> <ul style="list-style-type: none"> <li>• GSA Excluded Parties List - available through GSA’s <a href="#">Excluded Parties List System (EPLS)</a>. The review of EPLS must include a search for actions taken across all federal agencies.</li> <li>• HUD’s LDP - available through <a href="#">LDP</a>.</li> </ul> <p>The GSA and LDP lists are also available via <a href="#">AllRegs</a>.</p> <p>See A3-4-03, Preventing, Detecting, and Reporting Mortgage Fraud for specific fraud related requirements.</p>
HOEPA	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.
HOEPA Threshold Loans	A “residential mortgage transaction” defined under the Truth in Lending Act (a purchase-money loan secured by borrower’s principal residence) that has either an annual percentage rate (APR) or total points and fees payable by the borrower that exceeds the applicable thresholds under HOEPA is not eligible for delivery to Fannie Mae.
HPML Loans	<p>A “higher-priced mortgage loan” (HPML), as defined by Regulation Z, is eligible for delivery to Fannie Mae provided the following requirements are met:</p> <ul style="list-style-type: none"> <li>• Lenders represent and warrant when they sell an HPML to Fannie Mae that the mortgage complies in all respects with Regulation Z requirements for HPMLs, including the underwriting and consumer protection requirements; and</li> </ul>

Topic	Policy
	<ul style="list-style-type: none"> <li>Lenders must verify the borrower's ability to repay the mortgage in accordance with the requirements of Regulation Z. Borrower income, assets, and obligations must be verified.</li> </ul> <p><b>Example :</b></p> <p>If lenders identify a Refi Plus<sup>TMTM</sup> loan as an HPML, lenders must ensure the Regulation Z requirements are met with respect to income and asset documentation, including a review of the borrower's current obligations even though such verification may not be required in accordance with existing Refi Plus eligibility guidelines.</p>
Single Premium Credit Insurance	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 B7-3-06, Additional Insurance Coverage.
Prepayment Penalties	A mortgage loan with a prepayment penalty provision is not eligible for delivery to Fannie Mae if (i) it was made absent borrower choice and economic benefit, (ii) the provision is not legally and adequately disclosed to the borrower, (iii) the prepayment duration exceeds three years from the date of the note, or (iv) the prepayment penalty is not waived by the lender upon acceleration of the loan after default. The terms of the prepayment penalties must otherwise comply with applicable laws. See also B8-3-02, Special Note Provisions and Language Requirements.
Arbitration	A mortgage loan that was originated on or after October 31, 2004, and is subject to mandatory arbitration is not eligible for delivery to Fannie Mae. See also B8-3-02, Special Note Provisions and Language Requirements.
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 higher-priced loan described in B2-1.4-02, Mortgage Loan Eligibility 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

Topic	Policy
	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.

### Underwriting Standards

Every mortgage loan delivered to Fannie Mae must be underwritten in order to establish that the borrower has the willingness and ability 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 ability to repay a loan. All mortgage loans delivered to Fannie Mae must adhere to the following requirements:

- An analysis of a borrower’s repayment capacity must include an evaluation of the borrower’s ability 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 ability is particularly important if a lender relies upon reduced documentation or allows other forms of 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 ratio, the borrower’s level of reserves and/or liquid assets and, as applicable, the borrower’s prior mortgage payment history.
- Lenders must verify and document the borrower’s income (both source and amount), assets and liabilities, unless there are strong mitigating factors that clearly minimize the need for direct verification of repayment capacity. These mitigating factors must be documented. Mitigating factors include situations where the borrower has substantial liquid reserves or assets that demonstrate repayment capacity and can be verified and documented by the lender. Lenders must also verify that the income disclosed in the loan application is reasonable based on the borrower’s occupation, type of business, tenure, and title.
- Debt-to-income ratio (DTI) is a typical method of assessing a borrower’s repayment ability. 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. DTI is expressed as a percentage of gross monthly income.

- Lenders must consider the potential effect of payment shock, i.e., the possibility for future payment increases, on the borrower's ability to repay the mortgage debt.
- 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.

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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-2011-06</a>	July 26, 2011
<a href="#">Announcement SEL-2011-05</a>	June 28, 2011
<a href="#">Announcement SEL-2010-13</a>	September 20, 2010
<a href="#">Announcement SEL-2010-11</a>	August 13, 2010
<a href="#">Announcement SEL-2010-06</a>	April 30, 2010
<a href="#">Announcement SEL-2010-01</a>	March 2, 2010
<a href="#">Announcement 09-24</a>	July 10, 2009

# Chapter A3-3, Third-Party Lending Functions



## Third-Party Lending Functions

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### Introduction

This chapter describes Fannie Mae requirements that apply to approved lenders that outsource mortgage origination and/or servicing functions. It also addresses document custody and document custodian requirements.

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### In This Chapter

This chapter contains the following sections:

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## **A3-3-01, Outsourcing of Mortgage Processing and Third-Party Originations (07/26/2011)**

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### **Introduction**

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

- Third-Party Originations
  - Pledge of Servicing Rights
- 

### **Third-Party Originations**

A third-party origination is any mortgage that is completely or partially originated, processed, underwritten, packaged, funded, or closed by 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 D1-1-02, Lender QC Process 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.

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 Party List and the HUD Limited Denial of Participation List (LDP List).

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:

<b>Management Procedures for Third-Party Originations</b>	
	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
	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

	<b>Management Procedures for Third-Party Originations</b>
	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.

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### **Pledge of Servicing Rights**

A lender may pledge the servicing rights to all or part of its Fannie Mae one- to four-unit mortgage loan servicing portfolio, including mortgage loans in MBS pools, for the following purposes:

- to fund the purchase of additional servicing portfolios;
- to provide collateral for warehouse lines of credit; or
- to effect the purchase of a mortgage banking company, including a management buyout of its existing company.

The lender must request Fannie Mae's prior approval of a specific pledging transaction at least 30 days in advance of the proposed effective date. The transaction between the lender and the secured creditor must be documented by a security agreement in a form determined by the lender. Both the lender and the secured creditor also must execute an acknowledgment agreement in a form approved by Fannie Mae, which sets forth the rights and responsibilities of the lender, the secured party, 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-2011-06</a>	July 26, 2011
<a href="#">Announcement SEL-2010-03</a>	March 29, 2010

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## **A3-3-02, Concurrent Servicing Transfers (09/27/2011)**

[Click to see prior version of topic](#)

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### 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
- 

### 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, 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,

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 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, Subservicing, 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 set forth in Part 1, Section 205, of 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 cash 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 cash 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 cash 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 Part I, Section 201 of 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 Part I, Section 205, of the *Servicing Guide* for additional requirements.)

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### Notification of Concurrent Servicing Transfers

The lender must notify Fannie Mae of the transferee servicer by entering the nine-digit seller/servicer number that Fannie Mae has assigned to the transferee servicer on one of the following forms:

- FRM/GEM Loan Schedule ([Form 1068](#))
- ARM/GPARM Loan Schedule ([Form 1069](#))
- Schedule of Mortgages ([Form 2005](#))

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 costs, expenses, and/or losses resulting from its designation of an ineligible servicer.

For additional information about concurrent servicing transfers, 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-2011-10</a>	September 27, 2011
<a href="#">Announcement SEL-2011-05</a>	June 28, 2011



## **A3-3-03, Subservicing (04/01/2009)**

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### **Introduction**

This topic provides an overview of subservicing agreements, including:

- Subservicing
  - General Requirements for Subservicing Arrangements
- 

### **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.
- 

### **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 servicer may not enter into new subservicing arrangements—or extend existing arrangements to include newly originated mortgages—unless both the 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.



## **A3-3-04, Document Custodians (01/27/2011)**

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### **Introduction**

This topic provides general information on document custodians, including:

- Overview
- Role and Responsibilities of the Document Custodian
- Monitoring the Financial Rating of Document Custodians
- Selecting a Document Custodian
- Eligibility Criteria for Document Custodians
- Operational Requirements for All Document Custodians
- Independent Custody Department
- Insurance Requirements
- Financial Institution Bond
- Errors and Omissions
- Commingling of Fannie Mae Custodial Documents
- Change in Document Custodian's Organization or Ownership
- Approval Process for New Document Custodians
- Annual Determination of Active and Inactive Status
- Termination of Document Custodian Based on Inactive Status

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### **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.

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 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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## **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 [thirdparty\\_custody@fanniemae.com](mailto:thirdparty_custody@fanniemae.com) (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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### **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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### **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), the Office of Thrift Supervision (OTS), 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:
    - C/D or better Individual Rating from Fitch, Inc. (Fitch); or
    - 125 or better rating from IDC Financial Publishing, Inc. (IDC); or
    - C or better rating from LACE.
  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:
    - C or better Individual Rating from Fitch, or
    - 130 or better rating from IDC, or
    - C+ or better rating from LACE.

When the document custodian is not a regulated financial institution, the document custodian's parent or subsidiary must, itself, meet the financial rating standards. A document custodian does not need to meet all three ratings to qualify. However, if the document custodian (or its parent or subsidiary) is rated by Fitch and is also rated by IDC and/or LACE, then it is the Fitch rating that will determine whether the institution satisfies Fannie Mae's rating criteria (provided that the IDC rating is not below 75 and/or the LACE rating is not below D).

If the regulated entity is rated by IDC and LACE, 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 LACE).

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

- Moody’s Investors Service, Inc. Long Term rating of Baa.

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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### **Operational Requirements for All Document Custodians**

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 processing systems, and additional requirements of periodic testing and monitoring of the plan;
- 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.
- 

### **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](#)).
- 

### **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 E-1-03, List of Contacts.)

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.

---

## **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.

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.

---

## **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 email notification at least 30 days prior to any such change to [thirdparty\\_custody@fanniemae.com](mailto:thirdparty_custody@fanniemae.com) (see E-1-03, List of Contacts). 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. See E-1-03, List of Contacts, List of Contacts.

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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 eFannieMae.com. For information concerning the approval process for new document custodians, see [RDC guide](#).

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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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## 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-2011-01</a>	January 27, 2011
<a href="#">Announcement SEL-2010-10</a>	August 12, 2010
<a href="#">Announcement 08-32</a>	December 10, 2008



## **A3-3-05, Custody of Mortgage Documents (09/27/2011)**

[Click to see prior version of topic](#)

### 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**

---

### 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-2-02, Document Submission Packages for All Mortgages.

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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-2-02, Document Submission Packages for All Mortgages.

Printed copies may not be the most current version. For the most current version, go to the online version at <http://www.efanniemae.com/sf/guides/ssg/>.



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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.

---

### 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



## **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<sup>®</sup> 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 *Requirements for Document Custodians* ([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.

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.

Announcements	Issue Date
<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

## Section A3-3.1, Other Document Custodians



### **A3-3.1-01, Documentation of the Document Custodian Relationship(10/30/2009)**

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#### **Introduction**

This topic contains information on documentation of the document custodian relationship.

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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 cause Form 2003, showing original signatures for both the lender and the custodian, to be sent to the Director of Custodian Oversight Monitoring (see E-1-03, List of Contacts).

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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#### **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 08-37</a>	December 19, 2008



## **A3-3.1-02, Document Custodian Arrangement/ Relationship (10/30/2009)**

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### **Introduction**

This topic contains information on the document custodian arrangement/relationship, including:

- Compensation for the Document Custodian
  - Lender's Liability for Custodian Documents
- 

### **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 Fannie Mae incurs a loss because 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 loss.

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.

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 the references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement 08-37</a>	December 19, 2008
<a href="#">Announcement 08-32</a>	December 10, 2008



## **A3-3.1-03, Annual Certification of Document Custodians (10/30/2009)**

### Introduction

This topic contains information on the annual certification that document custodians provide to Fannie Mae.

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### Annual Statement of Eligibility for 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.

Document custodians must prepare an Annual Statement of Eligibility for Document Custodians ([Form 2001](#)) ("Annual Statement") for each calendar year. The completed form must be submitted by March 31st of the year after the year covered by the form, e-mailed to Fannie Mae's third party document custody department, E-1-03, List of Contacts or mailed to the Director of Custodian Oversight and Monitoring (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 immediately at 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.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement 08–32</a>	December 10, 2008

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## 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
- 

#### **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 describes Fannie Mae's requirements related to data delivery, data quality, and the handling of confidential information. It also describes 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/Conflict of Interest Parameters (04/01/2009) . . . . .	110
A3-4-02, Data Quality and Integrity (09/27/2011) . . . . .	111
A3-4-03, Preventing, Detecting, and Reporting Mortgage Fraud (04/01/2009) . . . . .	114

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### A3-4-01, Confidentiality of Information/Conflict of Interest Parameters (04/01/2009)

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#### Introduction

This topic contains information on confidentiality of information and conflict of interest.

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#### Confidentiality of Information/Conflict of Interest

A lender often obtains confidential information about borrowers, security properties, and Fannie Mae when performing origination, selling, or servicing activities. The lender must take appropriate steps to ensure the security, integrity, and confidentiality of such information and must comply with all applicable laws, including laws protecting borrower privacy.

The lender must not use this information in any way that could be viewed as a conflict of interest, a breach of confidentiality, or the gaining of an unfair advantage from the lender's relationship with Fannie Mae. For example, the lender's use of privileged information to solicit a borrower to refinance a loan under any other loan product offered by the lender is prohibited.

Fannie Mae will not disclose information received from a lender to a third party, except as required or permitted by law.

The lender 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.



## A3-4-02, Data Quality and Integrity (09/27/2011)

[Click to see prior version of topic](#)

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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 eCommitting™ and eCommitONE™
- Verification of Data in DU
- Delivery Data
- Reporting of Gross Monthly Rent
- Sources for Further Information

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### 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 ([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 eCommitting™ and eCommitONE™**

Accurately entering loan data through Fannie Mae’s electronic commitment applications, eCommitting and eCommitONE, is critical to ensure that the lender obtains the product pricing desired. Inaccurate or insufficient data entered into eCommitting or eCommitONE 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 training available for both of these applications 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 D1-3-03, Lender Post-Closing QC Review of Underwriting Documents.

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### **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 security property (that is, 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 security 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 be used to obtain the gross monthly rental amount for reporting purposes. See B3-3.2-07, Rental Income, for details.

If the borrower is not using any rental income from the security property to qualify, gross monthly rent must be documented only for lender reporting purposes. The borrower can provide one of the sources listed in B3-3.2-07, 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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### 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 Lender Eligibility
- B1-1-01, Contents of the Application Package
- C1-2-02, Loan Data and Documentation Delivery Requirements
- [Housing Goals Data](#) page on eFannieMae.com

- Fannie Mae's [Loan Quality Initiative](#) page on eFannieMae.com
- [eCommitting](#) Training and Education
- [eCommitONE](#) Training and Education
- [Desktop Underwriter](#) Training and Education

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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 SEL-2011-06</a>	July 26, 2011



## **A3-4-03, Preventing, Detecting, and Reporting Mortgage Fraud (04/01/2009)**

### Introduction

This topic contains information on preventing, detecting, and reporting mortgage fraud, including:

- Overview
- Types of Fraud
- Lender Fraud-Prevention Measures
- Lender Reporting Requirements
- Tools and Resources

---

### Overview

Fannie Mae takes mortgage fraud very seriously and seeks to work with its sellers 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
  - Diversion of sales proceeds
- 

### **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.
- 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 Reporting Requirements**

A lender must notify Fannie Mae immediately if it learns about any misrepresentation or possible breach of a selling warranty, including fraud. It must do so regardless of who committed the act or whether the lender believes that the act resulted in an actual breach of its selling warranties. In addition, any fraudulent or dishonest activities by lenders, contractors, or brokers must be reported to Fannie Mae immediately. 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.

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### **Tools and Resources**

Fannie Mae has resources for help in preventing and detecting mortgage fraud at [Mortgage Fraud Resources](#). Fannie Mae also has anti-fraud tools available for registered lenders with DU.

Lenders that have information concerning possible mortgage fraud should contact Mortgage Fraud Reporting (see E-1-03, List of Contacts).



# 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 for approved lenders.

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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 (04/01/2009) . . . . .	117
A3-5-02, Fidelity Bond Policy Requirements (04/01/2009) . . . . .	119
A3-5-03, Errors and Omissions Policy Requirements (03/02/2010) . . . . .	120
A3-5-04, Reporting Fidelity Bond and Errors and Omissions Events (04/01/2009) . . . . .	122

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## A3-5-01, Fidelity Bond and Errors and Omissions Coverage Provisions (04/01/2009)

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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

Lender must have a blanket fidelity bond and an errors and omissions insurance policy in effect at all times. These policies must insure the lender against losses resulting from dishonest or fraudulent acts committed by the lender's personnel, any employees of outside firms that provide

data processing services for the lender, and temporary contract employees or student interns. The fidelity bond also should protect against dishonest or fraudulent acts by the lender's principal owner, if the lender's insurance underwriter provides that type of coverage. The lender 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 lender 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 lender's total servicing portfolio, the lender 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 lender's coverage. For example, if Fannie Mae requires a lender to maintain a fidelity bond of at least \$5 million (with a deductible amount of no more than \$250,000) and the lender is named as a joint insured on its parent's bond of \$50 million (with a deductible amount of \$2.5 million), the lender must maintain its own separate bond for at least \$2.5 million (with a maximum deductible of \$250,000). Corporate lenders 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 lender 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 lender 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 lender'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 lender's request to cancel or reduce any coverage.

Within 30 days after a lender 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 lender 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.



## **A3-5-02, Fidelity Bond Policy Requirements (04/01/2009)**

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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 lender 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 lender's fidelity bond coverage is calculated the same way as fidelity bond coverage, except that the percentages are applied only to the lender'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:

<b>Coverage Required</b>	<b>Mortgages Serviced</b>
\$300,000	\$100,000,000 or less
+0.150% of the next \$400,000,000	

Coverage Required	Mortgages Serviced
+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.

Lenders must get Fannie Mae's permission for higher deductible amounts. The lender's request for a higher deductible amount should explain the reason for the request and provide a copy of the lender's most recent audited financial statements (prepared under generally accepted accounting principles).



### **A3-5-03, Errors and Omissions Policy Requirements (03/02/2010)**

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#### **Introduction**

This topic describes errors and omissions policy requirements, including:

- Errors and Omissions
  - Deductible Clause
  - Mortgage Impairment or Substitute for Errors and Omissions
- 

#### **Errors and Omissions**

The errors and omissions policy must, at least, protect the lender against negligence, errors, and omissions in:

- maintaining hazard 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 servicer's fidelity bond coverage. However, Fannie Mae does not require errors and omissions coverage in excess of \$10 million if the 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 lender has in its portfolio, and
- the lender 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 hazard 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 lender'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 mortgagee 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.

Announcements	Issue Date
<a href="#">Announcement SEL-2010-02</a>	March 2, 2010



## A3-5-04, Reporting Fidelity Bond and Errors and Omissions Events (04/01/2009)

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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

Lenders 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 lender’s fidelity bond or errors and omissions policy.

The lender 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 lender must promptly advise Fannie Mae of all cases of embezzlement or fraud in its organization even if no loss has been incurred. The lender’s report should indicate the total amount of any loss regardless of whether a claim was filed with an insurer.

# Subpart A4, Maintaining Lender Eligibility



## Maintaining Lender Eligibility

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### Introduction

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 Subpart

This subpart contains the following chapters:

A4-1, Maintaining Lender Eligibility: Overview .....	124
A4-2, Submission of Operational and Financial Information .....	125
A4-3, Changes in the Lender's Organization .....	134

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# Chapter A4-1, Maintaining Lender Eligibility: Overview



## Maintaining Lender Eligibility: Overview

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### Introduction

This chapter describes the requirements a lender must satisfy to maintain its status as a Fannie Mae-approved lender.

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### In This Chapter

This chapter contains the following topics

A4-1-01, Maintaining Lender Eligibility (04/01/2009) ..... 124

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## A4-1-01, Maintaining Lender Eligibility (04/01/2009)

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### Introduction

This topic contains information on maintaining lender eligibility.

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### Maintaining Lender Eligibility

To maintain eligibility as a lender, the lender must comply with its Lender Contract. Failure to do so may result in Fannie Mae taking a range of possible actions up to and including terminating the Lender Contract for cause.

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# Chapter A4-2, Submission of Operational and Financial Information



## Submission of Operational and Financial Information

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### Introduction

This chapter describes the financial statements, operational reports, and Lender Record Information form that an approved lender 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, Net Worth and Liquidity Requirements (01/27/2011) .....	125
A4-2-02, Financial Statements and Reports (04/01/2009) .....	129
A4-2-03, Lender Record Information (Form 582) (04/01/2009) .....	132

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## A4-2-01, Net Worth and Liquidity Requirements (01/27/2011)

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### Introduction

This topic contains information on lender net worth and liquidity requirements.

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### Net Worth and Liquidity Requirements

Fannie Mae requires lenders to meet minimum net worth requirements to maintain their lender approval. This requirement represents the minimum amount that Fannie Mae currently considers

acceptable net worth for a lender to demonstrate that its financial condition is sufficient to support its obligations to Fannie Mae, assuming no other extenuating circumstances exist.

Based on the assessment of market conditions or other relevant factors, Fannie Mae may, at any time, impose additional net worth, liquidity, or financial condition requirements, including:

- provisions related to declines in net worth,
- profitability,
- minimum capital requirements,
- cross default provisions,
- recourse, and
- outstanding repurchase limitations.

Any additional requirements Fannie Mae imposes may apply to a particular lender, a defined group or type of lender, or all lenders.

If a lender fails to maintain a financial condition that is satisfactory to Fannie Mae (including maintaining an acceptable net worth and satisfying liquidity requirements or meeting other measures of financial soundness that are established), such failure constitutes a breach of the Lender Contract, permitting Fannie Mae to terminate the lender's selling and/or servicing approvals, or take other appropriate actions, under its Lender Contract.

Approved lenders must have and maintain a net worth of at least \$2.5 million, plus a dollar amount that represents one-quarter of one percent (0.25%) of the outstanding principal balance of its total portfolio of mortgage loans serviced for Fannie Mae.

- 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").
- A lender's total Fannie Mae servicing portfolio includes mortgages or participation interests in MBS pools, first and second whole mortgages held in Fannie Mae's portfolio, Fannie Mae's participation interests in first or second mortgages in participation pools held in its portfolio, and multifamily mortgages.

**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 Lender Adjusted Net Worth requirements may be indexed to future conforming loan limits. Fannie Mae will announce new net worth requirements and their effective dates when applicable.

A lender's capital position is a critical factor in maintaining eligibility. Therefore, lenders also must have minimum acceptable levels of capital as follows:

Type of Entity	Minimum Acceptable Levels of Capital*
Commercial Banks and Thrifts	Total Risk-Based Capital ratio of 10% or higher
	Tier 1 Risk-Based Capital ratio of 6% or higher
	Tier 1 Leverage Capital ratio of 5% or higher
All Others	Lender Adjusted Net Worth/Total Assets ratio of 6%, or equivalent, as determined by Fannie Mae, for entities/peer groups not reporting such data

\*For commercial banks and thrifts, as reflected in Call Reports and Thrift Financial Reports

Failure to maintain the required capital levels constitutes a failure to meet Fannie Mae's standards for eligible lenders.

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### **Decline in Net Worth**

Fannie Mae imposes additional requirements to protect itself against the material and adverse impact of rapid declines in a lender's net worth. Fannie Mae considers a decline in a Lender's Adjusted Net Worth by more than 25% over a quarterly reporting period, or by more than 40% over two-consecutive quarterly reporting periods, to be a material and adverse change in the lender's financial condition that constitutes a breach of the Lender Contract.

---

### **Profitability**

If a lender records four or more consecutive quarterly losses and experiences a decline in Lender Adjusted Net Worth of 30% or more during the same period, the lender will be considered in breach of the Lender Contract, and Fannie Mae may pursue any of its available remedies, including suspension or termination.

---

## Cross Default Provisions

The following events constitute a lender's breach of the Lender Contract, to the extent permitted by applicable law or regulation:

- A breach by a lender on a credit or funding facility, including warehouse lines,
- A breach by any lender-affiliated or related entity in any of its obligations with Fannie Mae, including parental guaranties, or
- A breach of any agreements with any other creditors where such breach involves an amount that exceeds 3% of the lender's Lender Adjusted Net Worth and which extends beyond any applicable cure period provided the lender in such agreement.

Lenders must provide Fannie Mae with written notification in the form of an updated Lender Record Information ([Form 582](#)) of any of the above cross default events within 30 days of the occurrence. This notice must be provided to Fannie Mae electronically. For additional information and instructions, see [Tips for entering data into Form 582](#).

---

## Recourse Obligation

For a lender to be permitted to take on unsecured credit recourse obligations, with credit recourse defined to include any lender contractual credit enhancement to Fannie Mae (over and above the standard selling and servicing representations and warranties), such as an automatic repurchase requirement upon loan default, unconditional indemnification, or loss participation obligation, for either a limited time period, or for life of loan, it must meet minimum long-term external credit rating requirements of AA- or Aa3 from two of the three following agencies: Moody's, Standard & Poor's, or Fitch. If long-term credit ratings are available from fewer than three agencies, all available rating(s) must comply with the standards above. If external ratings are not available, the lender must have internal ratings, as determined and assigned by Fannie Mae, equivalent to AA- or higher.

For lenders who do not meet this requirement, Fannie Mae may require collateral posting or other forms of risk reduction measures.

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## Repurchase Limitation

The total unpaid principal balance of all outstanding Fannie Mae repurchase requests cannot exceed 25 percent of Lender Adjusted Net Worth as of the latest quarter end. If a breach of this requirement occurs, the lender will have 30 days to reduce the outstanding repurchase requests to a level that complies with this requirement.

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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 08-23</a>	September 16, 2008



## A4-2-02, Financial Statements and Reports (04/01/2009)

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### 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

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### Financial Reporting Requirements

In addition to meeting Fannie Mae's net worth and liquidity requirements, the lender must otherwise demonstrate its financial adequacy to Fannie Mae. To determine financial adequacy, Fannie Mae requires the lender to submit to its lead Fannie Mae regional office (see E-1-03, List of Contacts)—within 90 days after its fiscal year-end—audited annual financial statements and an Authorization for Verification of Credit and Business References ([Form 1001](#)) (to identify the presence of any new principal officers, partners, or other owners who hold more than a five percent interest), electronically or via hard copy to Fannie Mae's Counterparty Risk Monitoring Unit (see E-1-03, List of Contacts).

In addition, Fannie Mae may, at any time, require the lender 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 lender so that it can better monitor the continuing eligibility of the lender. Based on applicable circumstances, Fannie Mae also may impose specific liquidity requirements, and require increased reporting on lender's liquidity at any time. A lender's failure to timely provide the additional financial reporting upon Fannie Mae's request or its failure to comply with liquidity requirements or liquidity reporting may result in Fannie Mae imposing sanctions or other remedies, including termination or suspension of the Lender Contract.

---

### **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 lender'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 lender'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 lender 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 lender 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 lender 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.

---

## Submission of Special Financial Reports

A lender 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 lender 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 lender 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 lender's ability to conduct business with Fannie Mae. Should extenuating circumstances prevent a lender 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 lender must submit its data [electronically, as specified in the form](#).

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## Failure to Submit Required Financial Reports

Untimely submission of financial statements, as well as untimely submissions of the [Forms 1001](#), [1002](#), and [582](#) as referenced in this Chapter, constitutes an inadequate verification of the lender's ability to meet Fannie Mae's financial and eligibility requirements. Therefore, if a lender fails to timely submit required financial reports and information, one or more of the following may occur:

- Fannie Mae may suspend the lender's privileges for selling or servicing mortgages or terminate the 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 lenders 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 08-23</a>	September 16, 2008



## **A4-2-03, Lender Record Information (Form 582) (04/01/2009)**

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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 lender 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 lender'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 lender 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. The lender will need to complete an Order Form/Schedule and a User Registration Form to obtain user IDs to access and submit the online [Form 582](#).

After the initial report submission, the lender may submit updates as changes to its status occur. Lenders that submit updates throughout the year can substantially reduce their fiscal year-end reporting.





# Chapter A4-3, Changes in the Lender's Organization



## Changes in the Lender's Organization

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### Introduction

This chapter describes the types of organizational changes and events for which an approved lender must provide 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 Lender's Organization (04/01/2009) ..... 134

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## A4-3-01, Report of Changes in the Lender's Organization (04/01/2009)

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### Introduction

This topic contains information on the reporting of changes in the lender's organization.

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### Report of Changes in the Lender's Organization

The lender must send Fannie Mae written notice of any contemplated major changes in its organization. The notice must include copies of any filings with, or approvals from, the lender's state and/or other regulatory authority.

The lender is also required to provide immediate notice if its regulatory agency assumes a participatory role in the management of the firm's operations. In addition, the lender must advise Fannie Mae of any changes in its business address.

Fannie Mae requires written notice of the following contemplated major changes:

- the change of any senior management personnel,
- any mergers, consolidations, or reorganizations,
- 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 lender's parent, any owner of the parent, or any other beneficial owner of the lender that does not own a direct interest in the lender),
- any change in corporate name,
- a change in a depository institution's charter from federal to state or vice versa, and
- a significant change in the lender's financial position.

In those situations in which lender either is involved in a merger or acquisition or is changing its name, undergoing a corporate reorganization, experiencing either a direct or an indirect change of control, or having a majority interest in its stock change hands, Fannie Mae will treat the action as a transfer of servicing that must be approved and processed in accordance with the requirements of the *Servicing Guide*. If the lender fails to provide adequate notice of, or obtain approval for, such contemplated actions, Fannie Mae may impose a compensatory fee and exercise any other available remedies.

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# 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 describes the documentation required in application packages for loans to be delivered to Fannie Mae.

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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.

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### **Subpart B7, Insurance**

This subpart provides requirements for mortgage, title, and other types of insurance.

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### **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:

Subpart B1, Loan Application Package .....	138
Subpart B2, Eligibility .....	144
Subpart B3, Underwriting Borrowers .....	254
Subpart B4, Underwriting Property .....	489
Subpart B5, Unique Eligibility and Underwriting Considerations .....	645
Subpart B6, Government Programs Eligibility and Underwriting Requirements .....	827
Subpart B7, Insurance .....	839
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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 acceptable forms of verification and 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:

B1-1, Application Package Documentation .....	139
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# Chapter B1-1, Application Package Documentation



## Application Package Documentation

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### Introduction

This chapter describes the requirements for loan application documentation.

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### In This Chapter

This chapter contains the following topics:

B1-1-01, Contents of the Application Package (09/20/2010) .....	139
B1-1-02, Acceptable Forms of Verification (04/01/2009) .....	141
B1-1-03, Blanket Authorization Form (04/01/2009) .....	142
B1-1-04, Allowable Age of Credit Documents (10/30/2009) .....	143

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## B1-1-01, Contents of the Application Package (09/20/2010)

---

### 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 (Form 1008) 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.

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## Requirements for the Loan Application Package

The table below provides the requirements for the loan application package.

	<b>The loan application package must include ...</b>
	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.

---

## Uniform Underwriting and Transmittal Summary ([Form 1008](#)) 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. The [Form 1008](#) must be retained in the mortgage file for manually underwritten mortgage loans. Lenders may, but are not required to, retain the [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 happen before underwriting begins based on predictive risk factors that are incorporated into the *Eligibility Matrix*, specifically:

- loan-to-value/combined loan-to-value,
- representative credit score,
- product type,
- purpose,
- occupancy, and
- number of units.

---

## 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-20010-13</a>	September 20, 2010
<a href="#">Announcement SEL-2010-11</a>	August 13, 2010



## **B1-1-02, Acceptable Forms of Verification (04/01/2009)**

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### Introduction

This topic contains information on acceptable forms of verification.

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### Acceptable Forms of Verification

Lenders may use the following Fannie Mae forms to verify a borrower's employment, income, and assets:

- Verification of Employment ([Form 1005](#) or [Form 1005\(S\)](#))
- Verification of Deposit ([Form 1006](#) or [Form 1006\(S\)](#))

Equivalent forms or other types of documentation are acceptable if they provide all of the essential information that is required by Fannie Mae forms.

Acceptable types of documentation include facsimiles, photocopies, computer images, and computer-generated documents (e.g., downloaded through the Internet or included in an e-mail message).



## **B1-1-03, 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 1005/Form 1005\(S\)](#) or [Form 1006/Form 1006\(S\)](#) must be signed and dated, and must be sent directly from the verifying institution.

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## **B1-1-04, Allowable Age of Credit Documents (10/30/2009)**

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### **Introduction**

This topic contains information on the allowable age of credit documents.

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### **Allowable Age of Credit Documents**

Credit documents include credit reports and employment, income, and asset documentation. For existing construction, the credit documents must be no more than 90 days old on the date the note is signed. For new construction, the credit documents must be no more than 120 days old on the date the note is signed. If the credit documents are older than allowed, the lender must update them. For age requirements related to appraisals, see B4-1.2-01, Age of Appraisal or Age of Property Inspection.

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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 09-19</a>	June 8, 2009

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# Subpart B2, Eligibility

## Eligibility

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### Introduction

This subpart provides Fannie Mae eligibility policies.

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### In This Subpart

This subpart contains the following chapters:

B2-1, Mortgage Eligibility .....	145
B2-2, Borrower Eligibility .....	219
B2-3, Occupancy and Property Eligibility .....	237

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# Chapter B2-1, Mortgage Eligibility



## Mortgage Eligibility

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### Introduction

This chapter describes mortgage eligibility.

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### In This Chapter

This chapter contains the following topics:

B2-1.1, LTV, CLTV, HCLTV, and Subordinate Financing .....	146
B2-1.2, Loan Purpose .....	157
B2-1.3, Loan/Amortization Types .....	172
B2-1.4, Other Loan Attributes and Related Policies .....	201

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## Section B2-1.1, LTV, CLTV, HCLTV, and Subordinate Financing



### B2-1.1-01, Loan-to-Value (LTV) Ratios (03/31/2011)

#### 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:

- 96.01% will be delivered as 97%
- 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
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</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	Divide 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 unencumbered by the unit's <i>pro rata</i> share of the project's blanket mortgage.
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.)

**Note:** The LTV ratio calculations shown above may differ for certain mortgage loans. For details on these differences, see B2-1.2-04, Continuity of Obligation, B2-1.2-06, Payoff of Installment Land Contract Requirements, B5-2.3-03, Manufactured Housing Underwriting Requirements, B5-3.1-02, Conversion of Construction-to-Permanent Financing Loan Eligibility, B5-3.3-01, Mortgage Loans with Energy Improvement Features on Existing Properties, B5-3.2-03, HomeStyle Renovation Mortgages: Underwriting and Collateral Considerations, and B5-5.1-02, Community Seconds Loan Eligibility.

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 and Adverse Market Delivery Charge \(AMDC\) 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.

Announcement	Issue Date
<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 (03/31/2011)**

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### Introduction

This topic contains information on CLTV ratios, including:

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### 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 B2-1.2-04, Continuity of Obligation, B2-1.2-06, Payoff of Installment Land Contract Requirements, B5-2.3-03, Manufactured Housing Underwriting Requirements, B5-3.1-02, Conversion of Construction-to-Permanent Financing Loan Eligibility, B5-3.3-01, Mortgage Loans with Energy Improvement Features on Existing Properties, B5-3.2-03, HomeStyle Renovation Mortgages: Underwriting and Collateral Considerations, and B5-5.1-02, Community Seconds Loan Eligibility.

Refer to the *Eligibility Matrix* for allowable CLTV ratios.

---

## 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 and Adverse Market Delivery Charge (AMDC) Information*.

---

## 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-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



## B2-1.1-03, Home Equity Combined Loan-to-Value (HCLTV) Ratios (03/31/2011)

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### Introduction

This topic contains information on HCLTV ratios.

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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 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.)

**Note:** The HCLTV ratio calculation may differ for certain mortgage loans. For details on these differences, see B2-1.2-04, Continuity of Obligation, B2-1.2-06, Payoff of Installment Land Contract Requirements, B5-2.3-03, Manufactured Housing Underwriting Requirements, B5-3.1-02, Conversion of Construction-to-Permanent Financing Loan Eligibility, B5-3.3-01, Mortgage Loans with Energy Improvement Features on Existing Properties, B5-3.2-03, HomeStyle Renovation Mortgages: Underwriting and Collateral Considerations, and B5-5.1-02, Community Seconds Loan Eligibility.

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.

Announcement	Issue Date
<a href="#">Announcement SEL-2011-03</a>	March 31, 2011
<a href="#">Announcement SEL-2010-16</a>	December 1, 2010



## B2-1.1-04, Subordinate Financing (06/28/2011)

### 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 B2-3-03, Co-op Properties). 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.

---

### **Acceptable Subordinate Financing Types**

The table below provides the requirements for acceptable subordinate financing types.

	<b>Acceptable Subordinate Financing Types</b>
	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.

---

### **Unacceptable Subordinate Financing Terms**

The table below describes unacceptable subordinate financing terms. Refer to B5-5.1-05, DU Refi Plus and Refi Plus Eligibility for acceptable subordinate financing that may be resubordinated in connection with a DU Refi Plus or Refi Plus transaction.

	<b>Unacceptable Subordinate Financing Terms</b>
	Subordinate financing with "wraparound" terms that combine the indebtedness of the first mortgage with that of the subordinate mortgage.

<b>Unacceptable Subordinate Financing Terms</b>	
	Mortgages with negative amortization (with the exception of employer subordinate financing that has deferred payments).
	<p>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 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>
	<p>Subordinate financing that restricts prepayment (that is, subordinate liens with prepayment penalties).</p> <p><b>Note:</b> When lenders offer HELOCs or closed-end second mortgages that pay for some or all of the borrower's closing costs with terms that allow the lender to recoup the closing costs paid on behalf of the borrower if the borrower pays the HELOC or second mortgage off early, Fannie Mae will not define these recouped fees as a prepayment penalty for the purpose of subordinate financing eligibility. Thus, subordinate financing with these terms is eligible in conjunction with a first-lien mortgage loan sold to Fannie Mae. Recouped fees may be deemed a prepayment penalty under state law. Lenders are responsible for compliance with all federal, state, and local laws and must consult with their own legal counsel if they have questions about prepayment penalties.</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).

---

### **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.

---

### **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 lender represents and warrants that the subordinate lien satisfies any specified criteria of the applicable statutes.

**Note:** Insurance 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 financing must be factored into the comprehensive risk assessment based on the CLTV, HCLTV, and total debt-to-income ratio.  The subordinate lien must be resubordinated to the new first mortgage loan.
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-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 (07/26/2011)

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#### Introduction

This topic contains information on purchase transaction eligibility requirements.

- General Purchase Transaction Eligibility Requirements
- Non-Arm's Length Transactions
- Purchase of Preforeclosure or Short Sale Properties — Allowable Fees and Payments

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#### 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.

	<b>General Requirements</b>
	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>

<b>General Requirements</b>	
	<p>Proceeds from the transaction may not be used to give the borrower cash back other than an amount representing reimbursement for the borrower's overpayment of fees and/or a legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears.</p> <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.</p>

---

### **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. 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 primary 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 and Payments**

Borrowers may pay additional fees 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 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 lien holder; and
- payment of delinquent taxes or delinquent HOA fees.

The following requirements apply:

- The borrower (buyer) must be provided with written details of the additional fees 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 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 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 HUD-1 Settlement Statement must include all fees and payments included in the transaction.

---

### 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
<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 (07/26/2011)**

---

### **Introduction**

This topic contains information on limited cash-out refinance transactions, including:

- Eligibility Requirements
  - Ineligible Transactions
  - Acceptable Uses
  - 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 by obtaining a new first mortgage secured by the same property,
- Only subordinate liens used to purchase the property may also be paid off and included in the new mortgage.

**Note:** For certain transactions on properties with a Property Assessed Clean Energy (PACE) loan, Fannie Mae will waive the prohibition against using the proceeds of a limited cash-out refinance to pay off a loan not used to purchase the property if the loan being paid off is a PACE loan. See B5-3.4-01, Property Assessed Clean Energy Loans for additional information.

- Continuity of obligation must be demonstrated (see B2-1.2-04, Continuity of Obligation).

- The subject property must not be currently listed for sale. It must be taken off the market on or before the application date, and the borrowers must confirm their intent to occupy the subject property (for principal residence transactions).

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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 cash-out refinance (see B2-1.2-05, Prohibited Refinancing Practices):

- No continuity of obligation.
- No outstanding first lien on the subject property.
- The proceeds are used to pay off a subordinate lien that was not used to purchase the property.

**Note:** See B5-3.4-01, Property Assessed Clean Energy Loans for an exception for certain PACE loans.

- 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.

When the following conditions exist, the transaction is not eligible for delivery to Fannie Mae:

- The subject property is currently listed for sale.
- The existing mortgage is a “restructured mortgage” as defined in B2-1.4-02, Mortgage Loan Eligibility. Mortgage loans that have previously been restructured may be eligible for delivery to Fannie Mae on a bulk basis. Refer to Bulk Transaction Options under C1-1-01, Execution Options.

---

### **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).
- Financing the payment of closing costs, prepaid items, and points.
- Receiving cash back in an amount that is not more than the lesser of 2% of the balance of the new refinance mortgage or \$2000.

- 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.
- Paying off the unpaid principal balance of certain PACE loans. See B5-3.4-01, Property Assessed Clean Energy Loans for additional information.

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### **Documentation Requirements**

To treat a transaction as a limited cash-out refinance, the lender must document that all proceeds of the existing subordinate lien were used to fund part of the subject property purchase price. Written confirmation must be maintained in the mortgage file.

The following are acceptable forms of documentation:

- A copy of the HUD-1 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.

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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.

---

### **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.

**Note:** It is acceptable for borrowers to obtain cash from the proceeds of the new subordinate mortgage.

---

### **Refinances to Buy Out An Owner's Interest**

A transaction that requires one owner to buy out the interest of another owner (e.g., 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 date of the mortgage application.

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 date of the mortgage application.

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. For example, the borrower is not permitted to pay off any existing subordinate liens with the proceeds a new DU Refi Plus or Refi Plus transaction, the borrower may only receive up to \$250 cash back at closing, and the subject property may be listed for sale at the time of application. See B5-5.1-05, DU Refi Plus and Refi Plus Eligibility and B5-5.1-06, DU Refi Plus and Refi Plus Underwriting Considerations for additional exceptions.

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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
<a href="#">Announcement SEL-2010-16</a>	December 1, 2010
<a href="#">Announcement SEL-2010-12</a>	August 31, 2010
<a href="#">Announcement 09-32</a>	October 30, 2009
<a href="#">Announcement 09-04</a>	March 4, 2009



## **B2-1.2-03, Cash-Out Refinance Transactions (07/26/2011)**

---

### **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.
- Continuity of obligation must be demonstrated. (See B2-1.2-04, Continuity of Obligation.)
- Properties listed for sale in the six months preceding the application date for new financing are limited to 70% LTV/CLTV/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 application date.

- The property must have been purchased by the borrower at least six months prior to the loan application for new financing except if delayed financing guidelines are met. See Delayed Financing Exception below.

For the maximum allowable LTV/CLTV/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 application for new financing except if delayed financing guidelines are met. See Delayed Financing Exception below.
- The subject property is currently listed for sale.
- The existing mortgage is a “restructured mortgage.” See B2-1.4-02, Mortgage Loan Eligibility.
- 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.

See also B2-1.2-05, 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, prepaid items, and points.
- 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.

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### Delayed Financing Exception

Borrowers who purchased the subject property within the past six months are eligible for a cash-out refinance if all of the following requirements are met:

- 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 (subject to the maximum LTV/CLTV/HCLTV ratios for the transaction).
- The purchase transaction was an arms-length transaction.
- The transaction is documented by the HUD-1, which confirms that no mortgage financing was used to obtain the subject property.
- The sources of funds for the purchase transaction are documented (such as, bank statements, personal loan documents, HELOC on another property).
- All other cash-out refinance eligibility requirements are met and cash-out pricing is applied.

**Note:** The preliminary title search or report must not reflect any existing liens on the subject property. If the source of funds to acquire the property was an unsecured loan or HELOC (secured by another property), the new HUD-1 must reflect that source being paid off with the proceeds of the new refinance transaction.

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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 and Adverse Market Delivery Charge \(AMDC\) 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.

Announcement	Issue Date
<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, Continuity of Obligation (06/28/2011)**

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### **Introduction**

This topic contains information on continuity of obligation, including:

- Requirements for Continuity of Obligation
  - No Acceptable Continuity of Obligation
- 

### **Requirements for Continuity of Obligation**

For a refinance transaction (either limited cash-out or cash-out) to be eligible for sale to Fannie Mae, there must be a continuity of obligation if there is currently an outstanding lien that will be satisfied through the refinance transaction.

Continuity of obligation is met when any one of the following exist:

- At least one borrower is obligated on the new loan who was also a borrower obligated on the existing loan being refinanced.
- The borrower has been on title and residing in the property for at least 12 months and has either paid the mortgage for the last 12 months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor.
- The loan being refinanced and the title to the property are in the name of a natural person or a limited liability company (LLC) as long as the borrower was a member of the LLC prior to transfer. Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.
- The borrower has recently inherited, or was legally awarded, the property (divorce, separation, or dissolution of a domestic partnership).

Loans with an acceptable continuity of obligation may be underwritten, priced, and delivered as either cash-out or limited cash-out refinance transactions based on the requirements for each type of transaction.

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### **No Acceptable Continuity of Obligation**

If the borrower is currently on title but is unable to demonstrate an acceptable continuity of obligation, or if there is no outstanding lien against the property, the loan is still eligible for

delivery but with the additional restrictions described in the following table. The loans must be underwritten, priced, and delivered as a cash-out refinance transaction. (See B2-1.2-03, Cash-Out Refinance Transactions.)

<b>Outstanding Liens</b>	<b>Purchase Date</b>	<b>LTV Ratio Requirements</b>
No (the property was purchased for cash, previous mortgages have been paid off, and so on).	Within the 6- to 12-month period prior to the application date for the new financing.	The LTV/CLTV/HCLTV ratios must be based on the lesser of the original sales price/ acquisition cost (documented by the HUD-1 Settlement Statement) or the current appraised value.
	More than 12 months prior to the application date for the new mortgage.	The LTV/CLTV/HCLTV ratios must be based on the current appraised value.
Yes	The borrower has been on title for at least 6 months.	The maximum LTV/CLTV/ HCLTV ratios are limited to 50% based on the current appraised value.

For information on refinances to buy out an owner's interest, see B2-1.2-02, Limited Cash-Out Refinance 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>Announcement</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2011-05</a>	June 28, 2011
<a href="#">Announcement SEL-2010-07</a>	May 27, 2010

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## **B2-1.2-05, Prohibited Refinancing Practices (04/01/2009)**

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### **Introduction**

This topic contains information on prohibited refinancing practices, including:

- Overview
  - Lender Solicitation for Refinancing
  - Prearranged Refinancing Agreements
  - Agreements to Advance Borrower Payments
- 

### **Overview**

Fannie Mae restricts refinancing practices that might inappropriately affect the prepayment pattern for Fannie Mae mortgages, whether delivered for whole loan or MBS.

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.

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### **Lender Solicitation for Refinancing**

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/her mortgage loan.

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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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## **B2-1.2-06, Payoff of Installment Land Contract Requirements (03/31/2011)**

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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 original 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 original 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>Announcement</b>	<b>Issue Date</b>
<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, Loan/Amortization Types Overview (04/30/2010)

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#### Introduction

This topic contains information on loan/amortization types.

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#### Loan/Amortization Types Overview

In this section of the *Selling Guide*, Fannie Mae refers to “Loan/Amortization Type” as either a fixed-rate or adjustable-rate mortgage with a specific amortization type (for example, fully amortizing, interest-only, etc.).

**Note:** “Loan Type” is a data field included in the 2000–Character Format that is used to identify either a conventional or government 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-2010–06</a>	April 30, 2010
<a href="#">Announcement 09-29</a>	September 22, 2009

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### B2-1.3-02, Fully Amortizing Fixed-Rate Mortgages (12/30/2009)

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#### Introduction

This topic contains information on fully amortizing fixed-rate mortgages.



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### Fully Amortizing Fixed-Rate Mortgages

The eligibility requirements described in this section 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 that have an original term ranging from 10 to 40 years. 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 B2-1.3-07, 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 09-29</a>	September 22, 2009



## **B2-1.3-03, Adjustable-Rate Mortgages (ARMs) (08/30/2011)**

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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
- Lender Warranties Regarding Interest Rate and Monthly Payment Adjustments
- ARM Payment Shock
- DU Generic ARM Plans
- Generic ARM Underwriting Guidelines
- Loan-Level Price Adjustments

### Adjustable-Rate Mortgages

Fannie Mae purchases or securitizes ARMs that have original terms ranging from 10 to 30 years, and up to 40 years if the initial fixed period is 3 years or more. Fannie Mae purchases or securitizes 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](#).

### 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.
	The security property for an ARM can be a principal residence, second home, or investment property. <p>Exceptions:</p> <ul style="list-style-type: none"> <li>• Two-Step® ARMs (ARM Plan 975 or 1029) must be secured by a principal residence.</li> <li>• ARMs subject to temporary interest rate buydowns must be secured by a principal residence or second home.</li> </ul>

### 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>
	Are not permitted for ARMs with an interest-only feature.
	Must be secured by principal residences or second homes only.  <b>Note:</b> ARM Plans 2722 and 2723 must be secured by a one- or two-unit property if there is a temporary buydown.
	Are only permitted under an ARM plan that has an initial interest rate period of three years or more.

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### **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 B2-1.3-07, Temporary Interest Rate Buydowns):

- ARM Plans 659, 660, 661
- ARM Plans 750 and 751
- ARM Plan 975
- ARM Plan 1029
- 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

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### **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:

<b>Index</b>	<b>Description</b>
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:

<b>Index</b>	<b>Description</b>
London Interbank Offered Rate (LIBOR)	The average rate for U.S. dollar-denominated deposits in the London market based on quotations of major banks.  <b>Note:</b> Fannie Mae uses both a 6-month LIBOR index and a 1-year LIBOR index as published in <i>The Wall Street Journal</i> .
“Cost of funds” (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.
Certificate of deposit	The weekly average of secondary market interest rates on 6-month negotiable certificates of deposit as made available by the Federal Reserve Board.

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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* (available on eFannieMae.com) 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 lookback 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.
- 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.
- Whether the ARM provides for an interest-only feature.

**Note:** An ARM with an interest-only feature must be underwritten through DU. See B5-2.1-01, Mortgages with an Interest-Only Feature for additional information.

Lenders must refer to the Standard ARM Plan Matrix for specific requirements related to the above characteristics. The *Matrix* is available on eFannieMae.com and is incorporated by reference into this *Guide*.

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## ARM Committing and Delivery Restrictions

ARM plans must meet the following committing and delivery restrictions:

Committing and Delivery Restrictions	ARM Plans
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Certain ARMs are available for whole loan committing only on a negotiated basis.	See the Standard ARM Plan Matrix.
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 C3-5-01, Creating Stated-Structure ARM MBS. Contact the lead Fannie Mae regional office (see E-1-03, List of Contacts 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.

**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%

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### Mortgage Margin

The mortgage margin is the “spread” that is added to the index value to develop the interest accrual rate for the mortgage.

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.

The loan may have a maximum mortgage margin of no more than 300 basis points with the following exceptions:

Mortgage Type	Maximum Mortgage Margin
Two-Step ARMs	250 basis points
Mortgages secured by co-op units	The margin is increased by 25 basis points to reflect the increased risk of the co-op form of ownership

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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 lookback 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 40 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 pursuant to the Homeowners Protection Act of 1998 as they relate to ARMs.

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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 and the certificate of deposit index are published in the Federal Reserve Board’s Statistical Release H. 15 (519); a specific index value goes into effect and becomes the “most recently available index” on the release date of H. 15 (519).
- 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; a specific index value becomes the “most recently available index” on the day this Bulletin is released.
- 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 either 30 days (for the 6-month index) or 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.

<b>Requirement: Conversion Disclosures Must Include</b>	
	The time frame within which conversion requests must be received.
	The time frame within which the borrower must return executed conversion documents.
	Any fees that will be charged for processing the conversion.  <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.

---

### **Lender Warranties Regarding Interest Rate and Monthly Payment Adjustments**

By delivering an ARM to Fannie Mae for purchase or securitization, lenders warrant that:

- The mortgage being delivered is not subject to any current litigation with respect to the manner in which the interest rate and/or payment adjustments were calculated or implemented, and
- They are not 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, Borrower’s Monthly Housing Expense for Qualifying Purposes for additional qualifying payment requirements.

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## DU Generic ARM Plans

Generic ARM plans for 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
- FM-GENERIC, NEGATIVE AMORTIZATION

**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.

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### 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.

	<b>For generic ARM plans, DU will ...</b>
	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.
	Evaluate the risk assessment based on the initial interest rate adjustment period for the ARM.
	Return a message stating that the lender must ensure that the loan is eligible for delivery.

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### 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 and Adverse Market Delivery Charge \(AMDC\) Information](#).

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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-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



## **B2-1.3-04, Convertible ARMs (07/26/2011)**

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### 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
- Lender Warranties for Converted ARMs

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## **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.

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## **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 mortgage 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.

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## **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 (see B1-1-02, Acceptable Forms of Verification),
- 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>Requirement</b>
	The ARM must have been at least 12 months old when the conversion occurred.
	The mortgage must satisfy Fannie Mae requirements for mortgages that are more than one year old.
	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.
	The modified mortgage must provide for a fixed-interest rate, level monthly payments, and amortization within the term of the original mortgage.
	<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><i>EXCEPTION: For the delivery of a converted ARM that Fannie Mae initially securitized in an ARM MBS pool</i></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</p>



	<b>Requirement</b>
	<p>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><b>BACKGROUND</b></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> <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 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.

<b>Modification Agreement Requirements</b>	
	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.

### **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.

### **Lender Warranties for Converted ARMs**

By delivering a fixed-rate loan that converted from an ARM, a lender warrants that:

	<b>Requirement</b>
	<p>The converted mortgage meets 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.</p> <p><b>Note:</b> The age of the mortgage is calculated from the date the ARM was originated. These specific eligibility criteria appear in B2-1.4-02, Mortgage Loan Eligibility.</p>
	<p>The mortgage is current</p> <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 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>

	<b>Requirement</b>
	The title insurance policy or any endorsements to it will not be impaired because of the option to convert to a fixed-rate mortgage or the actual conversion.
	If the original title policy did not include the ARM endorsements currently required, lenders must provide an indemnification agreement to protect against any future title disputes related to the years in which the mortgage was an ARM.

### Related Announcements

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

<b>Announcement</b>	<b>Issue Date</b>
<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



## **B2-1.3-05, Refinanced Balloon Mortgages (07/26/2011)**

### Introduction

This topic contains information on refinanced balloon mortgages, including:

- Refinanced Balloon Mortgages — Original Balloon Mortgage Owned by Fannie Mae
- Lender Warranties for Refinanced Balloon Mortgages
- 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.

	<b>Requirement</b>
	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.
	All eligibility requirements at the time of the balloon maturity date must be met, as outlined in the <i>Servicing Guide</i> , Part 3, Chapter 8.
	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.

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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### **Lender Warranties for Refinanced Balloon Mortgages**

By delivering a new refinance mortgage that is originated in connection with the exercise of a conditional refinance option for a balloon mortgage, lenders warrant that:

	<b>Requirement</b>
	The eligibility criteria (with respect to mortgage interest rate, borrower payment history, property ownership, occupancy status, and lien status) for approving a conditional refinancing transaction has been satisfied (as outlined in the <i>Servicing Guide</i> ).
	The legal documents used for the new refinance mortgage are valid and enforceable in the jurisdiction in which the security property is located.
	The LTV ratio or CLTV ratio for the original balloon mortgage did not exceed 95%.

	<b>Requirement</b>
	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, lenders further warrant that borrowers made no more than one payment that was 30 days late in the past 12 months.

### **Pricing**

Upon redelivery of a refinanced balloon mortgage, the Adverse Market Delivery Charge will be assessed. Mortgage loans secured by investment properties will also 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 and Adverse Market Delivery Charge \(AMDC\) Information](#) for applicable investment property LLPAs. No other LLPAs will be assessed for refinanced balloon mortgages.

### **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.

### **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 [2000-Character Loan Delivery File Format and Field Definitions](#) 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.

<b>2000-Character Loan Delivery Field Name</b>	<b>Source of the Delivery Data Upon Redelivery</b>
Type of Amortization	Refinanced balloon loan
Loan Type	Refinanced balloon loan
Original Term	Refinanced balloon loan
Note Rate	Refinanced balloon loan
Original Loan Amount	Refinanced balloon loan

<b>2000–Character Loan Delivery Field Name</b>	<b>Source of the Delivery Data Upon Redelivery</b>
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
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 Score ID/Co-Borrower Credit Score ID	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).

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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
<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



## **B2-1.3-06, Growing-Equity Mortgage (GEM) Loans (04/01/2009)**

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### **Introduction**

This topic contains information on growing-equity mortgage loans.

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### **Growing-Equity Mortgages**

On a negotiated basis, Fannie Mae purchases or securitizes conventional growing-equity first mortgages that have original terms of no more than 15 years.

A growing-equity mortgage (GEM) is any mortgage that has an initial monthly payment sufficient to fully amortize the mortgage over its term and that provides for scheduled payment increases for a specific portion of the mortgage term (which are applied to reduce the unpaid principal balance of the mortgage at a faster-than-normal rate of amortization). A GEM also permits interest-only payments for a set period during the mortgage term. However, the mortgage may not include an option to convert to a fixed-payment schedule.

Lenders must contact their lead Fannie Mae regional office (see E-1-03, List of Contacts) to obtain a negotiated contract.

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## **B2-1.3-07, Temporary Interest Rate Buydowns (08/30/2011)**

### **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

### **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.



<b>General Requirements for Mortgage Loans with Temporary Interest Rate Buydown Plans</b>	
	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:

<b>Transaction Type</b>	<b>Eligibility</b>
Principal residence	Eligible

<b>Transaction Type</b>	<b>Eligibility</b>
Second homes	Eligible
Investor properties	Ineligible
Cash-out refinance transactions	Ineligible
ARMs	Restricted

For specific ARM plan restrictions, refer to the following:

- B2-1.3-03, Adjustable-Rate Mortgages (ARMs), and
- B5-4-02, Texas Section 50(a)(6) Mortgage 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 greater of the note rate or the fully indexed rate. The lender may not qualify the borrower based on the bought-down rate.

For additional qualifying requirements, see B3-6-04, Borrower's Monthly Housing Expense for Qualifying Purposes.

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### **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%.

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### **Buydown Funds**

The table below provides Fannie Mae requirements for treatment of buydown funds.

	<b>Requirement</b>
	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.  <b>Note:</b> Buydown funds cannot be included in accounts with the lender's other corporate funds.
	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:

<b>Status of Mortgage</b>	<b>Disposition of Funds</b>
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.

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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-2011-09</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 eFannieMae.com.

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 B2-1.3-02, Fully Amortizing 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 (07/26/2011)

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### Introduction

This topic contains information on mortgage loan eligibility requirements, including:

- Acceptable Mortgage Loan Terms
- Higher-Priced Mortgage Loans
- Impact of Special Assessments on Maximum Mortgage Loan Amount
- Property Valuation Representation and Warranty Requirements
- Seasoned Mortgages
- Modified Mortgages
- Restructured Mortgage Loans
- Nonstandard Payment Collection Options

---

### Acceptable Mortgage Loan Terms

The term of a first mortgage may not extend more than 40 years beyond the date that is one month prior to the date of the first payment.

All guidelines for loans with a term of 30 years also apply to those with a term of 40 years, unless otherwise specified by Fannie Mae.

An LLPA applies to certain mortgage loans with a 40-year term. 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 and Adverse Market Delivery Charge \(AMDC\) Information](#).

### 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. A “residential mortgage transaction,” as defined under the Truth-in-Lending Act (a purchase-money loan secured by borrower’s principal residence), that has either an annual percentage rate (APR) or total points and fees payable by the borrower that exceed the applicable thresholds under HOEPA also 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 (“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 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



State	Loan Type	Description
		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 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

State	Loan Type	Description
		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-l.
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 § 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.

State	Loan Type	Description
		Code Ann. §§ 45-20-101 et seq.), notwithstanding the preemption provision contained in § 45-20-111 of the Tennessee law.

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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 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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### Property Valuation Representation and Warranty Requirements

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 lender must warrant that the current value of the property is not 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 B2-1.3-03, 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.  <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 lender must represent and warrant that the current value of the property is not less than the original value. If the lender is unable to provide this representation and 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 <i>Guide</i> as described below under Modified Mortgages.

<b>Seasoned Mortgage Loan Requirements</b>	
	Except to the extent otherwise expressly permitted in the <i>Selling Guide</i> (A2-3.2-02, Repurchases Resulting From Warranty Violations) or <i>Servicing Guide</i> with respect to the redelivery of mortgages to Fannie Mae, the lender represents and warrants that the mortgage being delivered does not represent 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.

### 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>Selling Guide or Servicing Guide Reference</b>
Converted ARMs	Yes	Yes	See B2-1.3-04, Convertible

			ARMs, for convertible ARMs that are redelivered to Fannie Mae after their removal from an MBS pool
	No	No	N/A
Maturing Balloon with Conditional Right to Refinance	Yes	Yes	See B2-1.3-05, Refinanced Balloon Mortgages, 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	See <i>Servicing Guide</i> Part III, Section 102.01, Additional Principal Payments
	No	No	N/A
Changes to Borrowers Due to Death, Marriage, or Other Allowable Property Transfers	Yes	N/A — No redelivery required	See <i>Servicing Guide</i> Part III, Section 408.02, Exempt Transactions
	No	No	N/A
Single-Closing Construction-to- Permanent Financing	No	Yes	See B5-3.1-02, Conversion of Construction-to- Permanent Financing Loan Eligibility
New York Consolidation,	No	Yes	See B8-2-02, Special- Purpose Security Instruments

Extension, and Modification			
Restructured Loans	No	No	See Restructured Loans, below
Modifications that Result in Material Changes to Loan Terms	No	No	See Modified Loans, above

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### Restructured Mortgage Loans

A restructured loan is a mortgage loan in which the terms of the original transaction have been changed, resulting in absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan that results in:

- forgiveness of a portion of principal and/or interest on either the first or second mortgage;
- application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness;
- conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage; or
- conversion of any portion of the original mortgage debt from secured to unsecured.

Mortgage loans that have previously been restructured are not eligible for delivery to Fannie Mae.

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### 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:

- Plans for nonstandard payment collection that result in collection of unscheduled principal must not be in place prior to the sale of the loan to Fannie Mae. Such agreements may be signed by the borrower only after the mortgage loan has been sold to Fannie Mae;

- 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.

**Note:** Unscheduled principal is additional principal paid during the month that exceeds the principal portion of the scheduled monthly payment.

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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-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 (07/26/2011)**

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### **Introduction**

This topic contains information on legal requirements, including:

- First Mortgage Lien Position
  - Personal Property
  - Rental Property Leases
  - Points and Fees Limitation
  - 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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### **Points and Fees Limitation**

Fannie Mae will not purchase or securitize mortgages if the total points and fees charged to the borrower exceeds the greater of 5% of the mortgage amount or \$1,000 regardless of the party paying the fee.

- Points and fees counted against this limitation include:
  - origination fees,
  - underwriting fees,
  - broker fees,
  - finder's fees,
  - charges imposed by lenders as a condition of making the loan whether they are paid to the lender or a third party.
- Points and fees that do not have to be counted against this limitation include:
  - fees paid for actual services rendered in connection with the origination of the mortgage, such as attorneys' fees, notary's fees, and fees paid for property appraisals, credit reports, surveys, title examinations and extracts, flood and tax certifications, and home inspections;
  - the cost of mortgage insurance;
  - the costs of title, hazard, and flood insurance policies;
  - state and local transfer taxes or fees;
  - escrow deposits for the future payment of taxes and insurance premiums.
- Bona fide discount points are specifically excluded from the points and fees limitation. Discount points will be determined to be bona fide if they:
  - are knowingly paid by the borrower (which can be demonstrated by the discount points being fully disclosed to the borrower); and
  - are funded through any source for the purpose of reducing the interest rate on the loan; and

- result in a meaningful reduction of the interest rate, provided that, prior to discount, the rate was consistent with current market rates based on the credit characteristics of the mortgage. A meaningful reduction is defined as a minimum of 25 basis points reduction in the interest rate for each discount point paid, provided all other terms of the mortgage remain the same.

Generally, if lenders pass on loan-level price adjustments (LLPAs) to the borrower as one or more discount points, such discount points are not considered bona fide and must be counted in the points and fees limitation, as such discount points are neither funded for the purpose of reducing the interest rate on the loan nor result in a meaningful reduction of the interest rate on the loan.

- LLPAs can be recouped by the lender as bona fide discount points if the lender documents the interest rate was reasonably increased to recoup the LLPA, the borrower was offered the opportunity to pay discount points to lower the interest rate, and the discount points otherwise meet the criteria related to bona fide discount points described above.

Examples of documentation include, but are not limited to, rate sheets or other information that documents the relationship between the interest rate prior to application of discount points, the amount of the discount points paid, and the interest rate actually paid by the borrower.

- Credit-risk price adjustments, such as LLPAs, are specifically excluded from the points and fees limitation. However, lenders that pass on LLPAs to borrowers as discrete fees or charges should consult their legal counsel or regulatory compliance expert regarding the appropriate treatment of those fees for federal and state high-cost loan tests.
- Other miscellaneous fees and charges that, in total, do not exceed .25 percent of the loan amount may be excluded from the points and fees limitation. Miscellaneous fees and charges do not include any fees and charges specifically named in the points and fees limitation policy, whether included or excluded.

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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-2011-06</a>	July 26, 2011
<a href="#">Announcement 09-24</a>	July 10, 2009



## **B2-1.4-04, Escrow Accounts (12/01/2010)**

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### Introduction

This topic contains information on escrow accounts, including:

- Escrow Deposit Accounts
- Escrow Waivers

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### Escrow Deposit Accounts

First mortgages generally must provide for the deposit of escrow funds to pay as they come due, including taxes, ground rents, premiums for hazard insurance, and premiums for flood insurance. However, escrow deposits for the payment of premiums for borrower-purchased mortgage insurance (if applicable) are mandatory.

Fannie Mae does not require an escrow deposit for hazard 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.

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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.

Lenders may waive escrow deposit account requirements for an individual first mortgage, provided the standard escrow provision remains in the mortgage loan legal documents. Escrow deposit accounts for the payment of premiums for borrower-purchased mortgage insurance (if applicable) may not be waived.

When the requirement for an escrow deposit account is waived, the lender must retain Fannie Mae's right to enforce the requirement in appropriate circumstances.

When a lender permit 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.

Lenders must have a written policy governing the circumstances under which escrow accounts may be waived. If an escrow account is not established, lenders must provide borrowers with a timely, clearly written disclosure that advises them of the implications of not establishing an escrow account. The disclosure must:

- inform borrowers of any applicable fees associated with the waiver of escrows;
- advise borrowers that in most cases they may contact their servicer to set up an escrow account if they decide to do so even after the closing of their mortgage loan;
- advise borrowers that they are responsible for personally and directly paying the non-escrowed items, in addition to paying the mortgage loan payment; and
- explain the consequences of a failure to pay non-escrowed items, including the requirement for the lender placement of insurance and the potentially higher cost, including any potential commission payments to the lender and/or reduced coverage for borrowers under lender-placed insurance.

In addition, Fannie Mae encourages lenders to disclose to borrowers an estimate of the first year's real estate taxes and insurance payment, including estimated due dates.

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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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# Chapter B2-2, Borrower Eligibility



## Borrower Eligibility

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### Introduction

This chapter describes borrower eligibility.

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### In This Chapter

This chapter contains the following topics:

B2-2-01, General Borrower Eligibility Requirements (03/29/2010) . . . . .	219
B2-2-02, Non-U.S. Citizen Borrower Eligibility Requirements (03/02/2010) . . . . .	222
B2-2-03, Multiple Financed Properties for the Same Borrower (08/30/2011) . . . . .	223
B2-2-04, Guarantors, Co-Signers, or Non-Occupant Co-Borrowers (07/26/2011) . . . . .	228
B2-2-05, <i>Inter Vivos</i> Revocable Trusts (04/01/2009) . . . . .	230
B2-2-06, Home-buyer Education and Counseling (03/31/2011) . . . . .	233

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## B2-2-01, General Borrower Eligibility Requirements (03/29/2010)

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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

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## General Borrower Eligibility Requirements

Fannie Mae purchases or securitizes mortgages made to borrowers who are natural persons that 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.

Exceptions to the requirement that borrowers be natural persons are:

- *inter vivos* revocable trusts,
- land trusts in some states if the beneficiary is an individual. Contact the lead Fannie Mae regional office to determine acceptability of a land trust as a borrower, and
- HomeStyle Renovation mortgages.

See the following for additional information:

- B2-1.2-05, Prohibited Refinancing Practices,
- E-1-03, List of Contacts for the Fannie Mae regional office, and
- B5-3.2-02, HomeStyle Renovation Mortgages: Borrower Eligibility.

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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 first borrower whose name appears 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 all borrowers to have a valid Social Security number or Individual Taxpayer Identification Number (ITIN) (in addition to meeting existing legal residency and documentation requirements). Deliveries of mortgage loans for borrowers without Social Security numbers or



ITINs require a variance to the *Selling Guide*, and must be delivered under a Master Agreement for identification and tracking. For additional information, see B2-2-02, Non-U.S. Citizen Borrower Eligibility Requirements.

DU and Fannie Mae's Loan Delivery system 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, borrower age/issue date discrepancies, or Social Security numbers associated with deceased individuals. If a lender cannot resolve any Social Security number inconsistencies:

- Lenders must validate the Social Security number with the Social Security Administration (SSA). Direct validation with SSA by a third party is acceptable. SSA Form 89 may be used for this purpose.
- Upon positive validation of the Social Security number with the SSA, the lender must deliver the loan with SFC 162.
- 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 can not 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 released that are related to this topic.

Announcement	Issue Date
<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 (03/02/2010)**

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### **Introduction**

This topic contains information on non-U.S. citizen borrower eligibility requirements.

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### **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.

For borrowers lacking a Social Security number or ITIN, 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 released that are related to this topic.

<b>Announcement</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2010-01</a>	March 2, 2010

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## **B2-2-03, Multiple Financed Properties for the Same Borrower (08/30/2011)**

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### **Introduction**

This topic contains information on multiple financed properties for the same borrower, including:

- Loan and Borrower Requirements
  - Limits on the Number of Financed Properties
  - Applying the Multiple Financed Property Policy to DU Loan Casefiles
  - Eligibility Requirements for Investor and Second Home Borrowers With Five to Ten Financed Properties
  - Underwriting and Delivery Requirements for Investor and Second Home Borrowers with Five to Ten Financed Properties
- 

### **Loan and Borrower Requirements**

A borrower may finance multiple properties if he or she is qualified and if the following requirements are met:

- The loan must comply with Fannie Mae's limitations on the maximum number of financed properties, including ownership interests in financed properties, as well as eligibility, underwriting, delivery, and reserve requirements.
- The borrower must have sufficient assets to close after calculating reserve requirements. For minimum reserve requirements, see B3-4.1-01, Minimum Reserve Requirements.

DU Refi Plus and Refi Plus mortgage loans are exempt from these policies. See B5-5.1-06, DU Refi Plus and Refi Plus Underwriting Considerations for additional information.

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### **Limits on the Number of Financed Properties**

If the mortgage being delivered to Fannie Mae is secured by the borrower's principal residence, there are no limitations on the number of properties that the borrower can currently be financing. If the mortgage is secured by a second home or an investment property, the borrower may own or be obligated on up to ten financed properties (including his or her principal residence).

Fannie Mae's standard eligibility and underwriting policies apply if the borrower is financing a second home or investment property and will have one to four financed properties; however, if the borrower will have five to ten financed properties, the mortgage loan must comply with the eligibility, underwriting, and delivery requirements described herein.

*Exception:* HomeStyle Renovation mortgage loans are subject to the one to four financed property limitations (that is, the five to ten financed property limitation is not applicable).

For additional policy considerations, see B3-3.2-07, Rental Income, B3-4.1-01, Minimum Reserve Requirements, and B3-6-05, Monthly Debt Obligations.

The financed property limit applies to the borrower's ownership of one- to four-unit financed properties or mortgage obligations on such properties and is cumulative for all borrowers. These limitations apply 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. Unless otherwise stated, these requirements apply to all mortgage loans whether underwritten manually or through DU.

The following table describes how to apply the limitations based on the type of property ownership:

<b>Type of Property Ownership</b>	<b>Property Subject to Limitations?</b>
Joint ownership of residential real estate. (This is considered to be the same as total ownership of an individual property.)  <b>Note:</b> Other properties owned or financed jointly by the borrower and co-borrower are only counted once.	Yes if the owned property is financed
Ownership of commercial real estate.	No
Ownership of a multifamily property consisting of more than four dwelling units.	No
Joint or total ownership of a property that is held in the name of a corporation, even if the borrower is the owner of the corporation.	No
Ownership in a timeshare.	No
Obligation on a mortgage debt for a residential property (regardless of whether or not the borrower is an owner of the property).	Yes

Examples:

- If the borrower owns two financed investment properties and the co-borrower owns three other financed investment properties, then jointly, the borrowers have five financed investment properties in addition to their principal residence(s), if applicable.
- If the borrower is obligated on a mortgage for a residential property (though is not on title) and the co-borrower owns a second home and an investment property (both of which are financed), then jointly, the borrowers have three financed properties that must be included in the count in addition to their principal residence(s), if applicable.
- If a borrower and a co-borrower are purchasing an investment property and they already own and/or are obligated on five other investment properties that they jointly own and/or are obligated on, the new property being purchased would be considered the borrowers' sixth investment property.

### Applying the Multiple Financed Property Policy to DU Loan Casefiles

DU is not able to determine the exact number of financed properties the borrower owns or is obligated on, but does issue a message on second home and investment property transactions when the borrower appears to have other financed properties. With the exception of DU Refi Plus loan casefiles, which are exempt from these requirements, the lender must apply the eligibility and underwriting requirements manually to investment property and second home transactions that are underwritten through DU, as applicable.

### Eligibility Requirements for Investor and Second Home Borrowers With Five to Ten Financed Properties

With the exception of high-balance mortgage loans, investor and second home borrowers with five to ten financed properties must meet the following eligibility requirements:

Transaction Type	Number of Units	Maximum LTV/CLTV/HCLTV	Minimum Credit Score
<b>Second Home or Investment Property</b>			
Purchase	1 unit	75%/75%/75%	720
Limited Cash-Out Refinance	1 unit	70%/70%/70%	720
Cash-Out Refinance (only if delayed financing exception requirements are met — See B2-1.2-03, Cash-	1 unit	70%/70%/70%	720

Transaction Type	Number of Units	Maximum LTV/CLTV/HCLTV	Minimum Credit Score
Out Refinance Transactions)			
<b>Investment Property</b>			
Purchase and Limited Cash-Out Refinance	2-4 units	70%/70%/70%	720
Cash-Out Refinance (only if delayed financing exception requirements are met — See B2-1.2-03, Cash-Out Refinance Transactions)	2-4 units	65%/65%/65%	720

**Note:** High-balance mortgage loans for borrowers who will have five to ten financed properties are subject to the LTV/CLTV/HCLTV ratio and credit score requirements for high-balance mortgage loans in the [Eligibility Matrix](#).

---

### Underwriting and Delivery Requirements for Investor and Second Home Borrowers with Five to Ten Financed Properties

The following underwriting and delivery requirements must be met for investor and second home borrowers with five to ten financed properties.

Underwriting or Delivery Characteristic	Policy
<b>Bankruptcy or Foreclosure</b>	The borrower cannot have any history of bankruptcy or foreclosure within the past seven years.
<b>Mortgage Delinquencies</b>	The borrower cannot have any delinquencies (30-day or greater) within the past 12 months on any mortgage loans.
<b>Rental Income</b>	Rental income on the subject investment property must be fully documented in accordance with B3-3.2-01, Salary and Commission Income, and B3-3.2-07, Rental Income.

<b>Underwriting or Delivery Characteristic</b>	<b>Policy</b>
	<p>Rental income from other properties owned by the borrower must be supported by two years' most recent signed federal income tax returns. If rental income has not yet been reported on tax returns because the properties were acquired subsequent to the last tax filing, leases may be used to document rental income.</p>
<b>Minimum Reserve Requirements</b>	<p>The borrower must have reserves for the subject property and for other properties in accordance with B3-4.1-01, Minimum Reserve Requirements.</p>
<b>4506-T (or 4506/8821)</b>	<p>The borrower must complete and sign IRS Form 4506, Request for Copy of Tax Return, or 4506-T, Request for Transcript of Tax Return, granting the lender permission to request copies of federal income tax returns directly from the IRS. If the rental income has been reported on the tax returns, the lender must obtain the IRS copies of the returns or the transcript and validate the accuracy of the tax returns provided by the borrower prior to the loan closing. For additional information, see B3-3.1-01, Requirements and Uses of IRS Form 4506-T.</p> <p>If rental income has not been reported on tax returns because the property was acquired subsequent to the last tax filing, the lender is not required to obtain an executed IRS Form 4506 or 4506-T.</p>
<b>Special Feature Code</b>	<p>Mortgage loans secured by second homes or investment properties that meet the five to ten financed property requirements must be delivered with SFC 150.</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.

Announcement	Issue Date
<a href="#">Announcement SEL-2011-09</a>	August 30, 2011
<a href="#">Announcement SEL-2011-05</a>	June 28, 2011
<a href="#">Announcement SEL-2010-06</a>	April 30, 2010
<a href="#">Announcement SEL-2010-02</a>	March 2, 2010
<a href="#">Announcement 09-02</a>	February 6, 2009
<a href="#">Announcement 08-35</a>	December 18, 2008



## **B2-2-04, Guarantors, Co-Signers, or Non-Occupant Co-Borrowers (07/26/2011)**

---

### Introduction

This topic contains information on guarantors, co-signers, or non-occupant co-borrowers, including:

- Definition
- Down Payment and Qualifying Ratio Requirements
- Guarantor, Co-signer, and Non-occupant Co-borrower Occupancy Requirements
- DU and Non-Occupant Co-Borrowers

---

### Definition

Guarantors and co-signers are credit applicants who:

- do not have ownership interest in the security 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.

---

### Down Payment and Qualifying Ratio Requirements

When the guarantor's, co-signer's, or non-occupant co-borrower's income 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.

For manually underwritten loans, the occupying borrower(s) must demonstrate sole financial qualifying capacity for the mortgage by not exceeding a total debt-to-income ratio of 43%.

**Note:** This policy applies even if the combined qualifying ratios for the borrower and the guarantor or co-signer are well below Fannie Mae's standard qualifying ratio benchmark.

For additional information, see B3-6-02, Debt-to-Income Ratios.

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### Guarantor, Co-signer, and Non-occupant Co-borrower Occupancy Requirements

If the income of a guarantor, co-signer, or non-occupant co-borrower is used for qualifying purposes, the combined LTV ratio determines whether the guarantor or co-signer is required to occupy the subject property, as summarized in the following table:

Combined LTV Ratio	Occupancy Required?
Less than or equal to 90%, manually underwritten loans	No
Greater than 90%, manually underwritten loans	Yes
Less than or equal to 97%, DU loan casefiles	No

---

## DU and Non-Occupant Co-Borrowers

DU analyzes the risk factors in the loan casefile without the benefit of the non-occupant co-borrower's income or liabilities. DU does not require verification of employment or income for non-occupant co-borrowers.

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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-2011-06</a>	July 26, 2011
<a href="#">Announcement SEL-2010-13</a>	September 20, 2010

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## B2-2-05, Inter Vivos Revocable Trusts (04/01/2009)

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### Introduction

This topic contains information on *inter vivos* revocable trusts, including:

- Lender Representations and Warranties
  - Trust Requirements
  - Eligible Property and Occupancy Types
  - Underwriting Considerations
  - Title and Title Insurance Requirements
- 

### Lender Representations and Warranties

In addition to standard representations and warranties, by delivering a mortgage that has an *inter vivos* revocable trust as the borrower, the lender further represents and warrants that:

- both the trust and the mortgage satisfy Fannie Mae eligibility criteria and documentation requirements,

- it has determined 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
- it has completed 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 and that it can make the warranties required by Fannie Mae.

**Note:** Required legal document requirements are described in B8-5-02, Revocable Trusts.

---

### **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.

---

### **Eligible Property and Occupancy Types**

Standard property types are eligible. The following occupancy types are eligible:

- one- to four-unit principal residences (at least one individual establishing the trust must occupy the security property and sign the loan documents),
- one-unit second homes, or
- one- to four-unit investment properties.

---

## 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).

---

## 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.

Regarding title and title insurance requirements, lenders represent and warrant that:

- 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, and
- 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.



## **B2-2-06, Home-buyer Education and Counseling (03/31/2011)**

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### **Introduction**

This topic contains information on home-buyer education and counseling, including:

- Overview
  - Compliance With Law
  - Borrowers Required to Complete Pre-purchase Home-buyer Education and Counseling
  - Standards for Pre-purchase Home-buyer Education and Counseling
  - Providers of Pre-purchase Home-buyer Education and Counseling
  - Evidence of Completion of Pre-purchase Home-buyer Education and Counseling
  - Landlord Counseling
  - Post-purchase Early Delinquency Counseling
  - Borrower's Authorization for Post-purchase Early Delinquency Counseling
  - Additional Resources
- 

### **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 counseling provides the borrower with the additional information and resources necessary to make informed decisions that ultimately lead to 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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### **Borrowers Required to Complete Pre-purchase Home-buyer Education and Counseling**

At least one borrower must complete pre-purchase home-buyer education and counseling if:

- all borrowers obtaining an MCM® loan are first-time home buyers, regardless of the number of units in the subject property (see Chapter B5-6, MyCommunityMortgage (MCM)), or
- all borrowers on the loan are relying solely on nontraditional credit to qualify, regardless of product or home-buyer status.

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### **Standards for Pre-purchase Home-buyer Education and Counseling**

Fannie Mae endorses standards to ensure quality pre-purchase home-buyer education and counseling is provided in a consistent manner.

To ensure quality and consistency, the pre-purchase home-buyer education and counseling must meet the standards defined by the *National Industry Standards for Homeownership Education and Counseling* or those of comparable quality as established by other organizations. Counseling and education sessions that adhere to these standards are deemed acceptable.

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### **Providers of Pre-purchase Home-buyer Education and Counseling**

All pre-purchase home-buyer education and counseling must be provided by a third party that is independent of the lender. Mortgage insurance companies can provide counseling, without regard to whether they provide mortgage insurance coverage for the particular transaction.

Fannie Mae encourages face-to-face group education and counseling; however, telephone and online counseling is also permitted from eligible providers. These types of sessions should cover the same topics as face-to-face sessions, even though they typically provide individual borrower counseling without a group or classroom education session.

Online counseling is permitted if it is developed and provided by a mortgage insurance company. Telephone and online options provide flexibility to borrowers who are unable to attend face-to-face sessions or who do not have an eligible provider within their area.

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### **Evidence of Completion of Pre-purchase Home-buyer Education and Counseling**

The lender must represent and warrant that the pre-purchase home-buyer education and counseling program meets the standards and requirements outlined above. Evidence of completion of the home-buyer education session must be documented in the individual loan file by a certificate or letter from the counseling provider.

---

## Landlord Counseling

Landlord counseling is required for borrowers purchasing two-, three-, or four-unit properties in connection with MCM loans. Prior to closing, all borrowers must participate in a landlord counseling program conducted by a recognized community counseling organization or by the lender.

The lender's landlord counseling program must use Fannie Mae's publication *Becoming a Landlord: Rewards, Risks, and Responsibilities* or must include similar topics. If the Fannie Mae publication is not used, the lender must maintain a copy of the program conducted and furnish a copy to Fannie Mae upon request.

The lender must place in the mortgage file a letter or other evidence verifying that the borrower completed the program.

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## Post-purchase Early Delinquency Counseling

Post-purchase early delinquency counseling must be provided for all MCM loans, regardless of the property type.

Post-purchase early delinquency counseling, which is provided the first time the borrower is delinquent, must remain available for any delinquency that occurs during the seven years following the date the mortgage is originated.

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## Borrower's Authorization for Post-purchase Early Delinquency Counseling

Borrowers must be informed that a Borrower's Authorization for Counseling form must be signed to authorize mortgage servicers to refer them to a third-party counseling agency or mortgage insurer for early delinquency counseling, should such counseling ever become necessary. This form must be signed even if the lender will be the provider of the early delinquency counseling.

The Borrower's Authorization for Counseling may be signed at loan closing or earlier in the application process. See E-2-01, Borrower's Authorization for Counseling.

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## Additional Resources

The U.S. Department of Housing and Urban Development (HUD) sponsors housing counseling agencies throughout the country. Lenders and borrowers can search for counseling providers

by state and view the types of counseling sessions available by accessing HUD's website at [HUD.gov](http://HUD.gov).

Fannie Mae provides additional resources to lenders, borrowers, and counseling agencies in support of homeownership education and 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.
- [Home-buyer Education Policies](#) outlines Fannie Mae's counseling requirements relative to pre-purchase and post-purchase home-buyer education and counseling.

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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.

Announcement	Issue Date
<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, Occupancy and Property Eligibility



## Occupancy and Property Eligibility

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### Introduction

This chapter describes occupancy and property eligibility.

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### In This Chapter

This chapter contains the following topics:

B2-3-01, Occupancy Type Requirements (08/30/2011) .....	237
B2-3-02, One- to Four-Unit Properties (10/30/2009) .....	240
B2-3-03, Co-op Properties (03/31/2011) .....	243
B2-3-04, Leasehold Estates (08/12/2010) .....	248
B2-3-05, Factory-Built Housing (04/01/2009) .....	252

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## B2-3-01, Occupancy Type Requirements (08/30/2011)

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### Introduction

This topic contains information on occupancy type requirements, including:

- Overview
- Principal Residence Properties
- Second Home Properties
- Investment Properties
- Mixed-Use Properties

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## 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 B2-1.2-04, Continuity of Obligation.)
Parents 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 is considered the owner/occupant.
Children wanting to provide housing for elderly 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.

<b>Second Home Requirements</b>	
	Must be located a reasonable distance away from the borrower's principal residence.
	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.
	Must not be rental property or a timeshare arrangement.
	Cannot be subject to any agreements that give a management firm control over the occupancy of the property.

For additional guidance on entering housing expenses in DU for second home properties, see the related [DU Quick Steps](#).

---

### **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 and Adverse Market Delivery Charge \(AMDC\) Information](#).

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 Quick Steps](#).

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### **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, a doctor's office, a small neighborhood grocery or specialty store, etc.

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.

See B4-1.3-04, Special Appraisal Considerations for Mixed-Use Properties, for appraisal considerations for mixed-use properties.

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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-2011-09</a>	August 30, 2011
<a href="#">Announcement 09-32</a>	October 30, 2009



## **B2-3-02, One- to Four-Unit Properties (10/30/2009)**

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### Introduction

This topic contains information on one- to four-unit properties, including:

- One- to Four-Unit Properties
- Multiple Parcels
- Loan-Level Price Adjustments
- Properties Located on the Island of Hawaii

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### One- to Four-Unit Properties

Fannie Mae purchases or securitizes first mortgages that are secured by residential properties when the dwelling consists of one to four units.

The security property must be located within

- 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).

Under some circumstances, Fannie Mae limits the number of dwelling units for certain types of mortgages or transactions.

Dwelling units for security properties may be located

- on an individual lot,
- in a condo project (see Section B4-2.2, Condo Project Eligibility ),
- 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.

For the maximum allowable LTV/CLTV/HCLTV ratios and credit score requirements based upon the property type and number of units, see the [Eligibility Matrix](#).

Borrowers must hold title to the property as fee simple estate. However, Fannie Mae purchases or securitizes mortgages secured by leasehold estates in areas where leasehold estates receive market acceptance. (See B2-3-04, Leasehold Estates.)

---

## Multiple Parcels

The table below provides the requirements when the security property consists of more than one parcel of real estate.

	<b>Multiple Parcels Requirements</b>
	Each parcel must be conveyed in its entirety.
	Parcels must be adjoined to the other.
	Each parcel must be zoned as residential.
	Only one parcel may have a dwelling unit (limited nonresidential improvements such as a garage are acceptable).

<b>Multiple Parcels Requirements</b>	
	The mortgage must be a valid first lien on each parcel.

---

### **Loan-Level Price Adjustments**

An 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 and Adverse Market Delivery Charge \(AMDC\) Information](#).

---

### **Properties Located on the Island of Hawaii**

Fannie Mae will only purchase or securitize mortgage loans secured by properties located on the island of Hawaii that are located within lava zones 3 through 9. 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 Web site.

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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
<a href="#">Announcement 09–19</a>	June 8, 2009

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## **B2-3-03, Co-op Properties (03/31/2011)**

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### **Introduction**

This topic contains information on co-op properties, including:

- Overview
  - Co-op Property Requirements
  - Blanket Mortgages
  - Acceptable Subordination Conditions for Co-op Share Loans
  - Tenant-Stockholder (Borrower)
  - Eligible Products and Repayment Terms
  - Eligible Co-op Projects
  - Project Requirements
  - Co-op Share Loan Documentation
  - Calculating the LTV Ratio for Co-op Share Loans
  - Whole Loan and MBS Delivery Requirements
- 

### **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.

A co-op share loan is secured by a pledge of the borrower's co-op shares and an assignment of the borrower's rights under a proprietary lease or occupancy agreement with the co-op housing corporation.

Fannie Mae purchases or securitizes first liens secured by co-op units.

Co-op unit properties that secure the loans must be represented by shares, stock, a membership certificate, or other contractual agreement in a co-op housing corporation.

---

## Co-op Property Requirements

The table below provides the requirements for first liens purchased or securitized by Fannie Mae as co-op units.

Co-op Property Requirements	
	Fannie Mae does not purchase or securitize co-op share loans that are subject to subordinate financing.
	Fannie Mae purchases or securitizes co-op share loans regardless of whether Fannie Mae owns the blanket mortgage.
	Loans must meet the blanket mortgage requirements detailed below.
	Co-op housing projects must be designed principally for residential use and must consist of five or more units.
	Co-op housing projects must be located in areas that have a demonstrated market acceptance for the co-op form of ownership.

---

## Blanket Mortgages

The blanket project mortgage may be a market-rate FHA-insured mortgage or a conventional mortgage.

However, if Fannie Mae owns an interest in the blanket co-op project mortgage, the maximum mortgage amount available must be reduced by the portion of the unpaid principal balance of the blanket mortgage(s) that are attributable to the share loan.

---

## Acceptable Subordination Conditions for Co-op Share Loans

Co-op share loans must be liens that have priority over all other liens against the borrower's interest in the property, except when the lien is subordinated to:

- that portion of the co-op corporation's lien against the tenant-stockholder's shares for unpaid assessments that represents the *pro rata* share of the co-op corporation's payments for the blanket mortgage, the current year's real estate taxes, and any special assessments.

**Note:** The *pro rata* share of the blanket mortgage that is related to the co-op share loan cannot exceed 30% of the sum of the related *pro rata* share of the blanket mortgage and the appraised equity interest value of the shares.



- 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.
- 

### **Tenant-Stockholder (Borrower)**

Tenant-stockholders (borrowers) must:

- have a right to occupy the unit for a period that extends at least to the maturity date of the share loan (although this right will be subject to the terms and conditions of a proprietary lease or occupancy agreement that he or she entered into with the co-op housing corporation).
  - own either stock, shares, or membership certificates in the co-op housing corporation.
- 

### **Eligible Products and Repayment Terms**

Acceptable products and repayment terms for co-op share loans include the following:

- fixed-rate fully amortizing first mortgages with a maximum maturity of not more than 40 years;
- if the share loan will be sold to Fannie Mae as a whole first mortgage, any standard ARM plan Fannie Mae offers; and
- Fannie Mae's standard required margin for the ARM Plan under which a co-op share loan is originated must be increased by 25 basis points to reflect the increased risk of the co-op form of ownership.

For credit score requirements in association with products, see the [Eligibility Matrix](#).

---

### **Eligible Co-op Projects**

In order for a co-op share loan to be eligible for delivery to Fannie Mae, the co-op project in which the secured unit is located must qualify as a cooperative housing corporation under the Internal Revenue Service Code . The co-op corporation must provide the lender with a statement about the project's compliance with Section 216 of the Code. If co-op projects do not meet Section 216 requirements, Fannie Mae will not purchase a co-op share loan from within the project. See Chapter B4-2, Project Standards for additional information.

The lender is responsible for determining that the co-op corporation holds title to the property of the co-operative 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, commonly referred to as

“land-home” or “land-lease” co-op projects, can only be delivered by lenders who are approved to deliver co-op share loans and who have a variance in their Master Agreement that permits deliveries of co-op share loans in “land-home” or “land-lease” projects.

---

### Project Requirements

The table below provides the requirements for conventional co-op projects.

Project Type	Requirements
New construction	All construction for the project must be completed before Fannie Mae purchases or securitizes the share loan, unless the lender’s lead Fannie Mae regional office (see E-1-03, List of Contacts) approves delivery at an earlier date.
Conversion of an existing building to a co-op project	All construction and rehabilitation for the project must be completed before Fannie Mae purchases or securitizes the share loan according to Fannie Mae project standards requirements for co-ops.

---

### 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.

On [eFannieMae.com](http://www.efanniemae.com), Fannie Mae publishes state-specific documentation requirements for states in which Fannie Mae purchases co-op share loans. These requirements describe documents that must be delivered to the document custodian (e.g., co-op Recognition Agreement, assignments to Fannie Mae, evidence of share ownership) and documents that the lender must retain in the individual loan file.

---

### Calculating the LTV Ratio for Co-op Share Loans

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)).

For specific limitations regarding maximum LTV, CLTV, and HCLTV ratios for purchase money and refinance transactions, see the [Eligibility Matrix](#).

### Whole Loan and MBS Delivery Requirements

The table below provides whole loan and MBS delivery requirements.

<b>If the co-op share loan is ...</b>	<b>Then Fannie Mae ...</b>
to be delivered as a whole loan	accepts standard commitments.
in an MBS pool comprising co-op share loans that represent more than 10% of the aggregate issue date principal balance for the pool	requires a negotiated contract, generally as separate pools.
in an MBS pool comprising co-op share loans that represent 10% or less of the aggregate issue date principal balance for the pool	permits co-op share loans to be commingled in MBS pools that include other types of mortgages, provided the loans with nonstandard characteristics do not represent more than 15% of the aggregate issue date principal balance for the pool. See C3-2-01, Determining Eligibility for Loans Pooled into MBS, for additional limitations that may apply if other nonstandard characteristics are present.

### 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-2011-03</a>	March 31, 2011
<a href="#">Announcement SEL-2010-13</a>	September 20, 2010
<a href="#">Announcement SEL-2010-10</a>	August 12, 2010
<a href="#">Announcement SEL-2010-06</a>	April 30, 2010
<a href="#">Announcement SEL-2010-02</a>	March 2, 2010



## **B2-3-04, Leasehold Estates (08/12/2010)**

---

### **Introduction**

This topic contains information on leasehold estates.

- Leasehold Estates
  - Community Land Trusts
  - Lender Approval of Lease
  - Term of the Leasehold
  - Additional Requirements for Delivery
  - Lease Requirements
  - Option to Purchase Fee Interest
- 

### **Leasehold Estates**

Fannie Mae purchases or securitizes fixed-rate and adjustable-rate first mortgages that are secured by leasehold estates in areas in which this type of mortgage loan 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, must be subject to the mortgage lien, and must 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 or by any default of a sublessor.

---

### **Community Land Trusts**

Fannie Mae purchases first mortgages secured by leasehold estates and the improvements on the land for properties owned by community land trusts in accordance with the guidelines contained in the Community Land Trust Section. (See B5-5.1-04, Community Land Trusts.)

---

### **Lender Approval of Lease**

Generally, Fannie Mae will allow a lender that does business in areas in which the use of leasehold estates is common practice to approve the leases on Fannie Mae's behalf, as long as Fannie Mae is satisfied that the lender has a good working knowledge of Fannie Mae's leasehold requirements and local legal considerations. Even then, Fannie Mae may reserve the right to approve leases when the property is part of a condo or PUD project. A lender should contact its lead Fannie Mae regional office (see E-1-03, List of Contacts) to determine whether Fannie Mae will delegate the responsibility for approving leases to it. If Fannie Mae does not delegate this responsibility to the lender, the lender must submit all leases for Fannie Mae's prior approval.

---

### **Term of the Leasehold**

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, a homeowners' association, or a co-op corporation.

---

### **Additional Requirements for Delivery**

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.

---

### **Lease Requirements**

The table below provides the requirements for leases associated with leasehold estate mortgage loans.

	<b>Lease and Lender Requirements</b>
	The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times by the lessee 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.

<b>Lease and Lender Requirements</b>	
	The lease must provide that the borrower will pay taxes, insurance, and homeowners' association dues 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.
	The lease must provide lenders with: <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>

### **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.

Status of Property Improvements	Purchase Price of Land
<p>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>	<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 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>Will be constructed after the lease is executed, and the lease is tied to an external index.</p>	<p>The above standards apply; however, the initial land value may not exceed 40% of the combined appraised value of the land and improvements.</p> <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, since it is less than 25% of \$225,000).</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.

Announcement	Issue Date
<a href="#">Announcement SEL-2010-10</a>	August 12, 2010



## **B2-3-05, Factory-Built Housing (04/01/2009)**

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### Introduction

This topic contains information on factory-built housing.

- General Information
- Requirements for Manufactured Housing
- Requirements for Factory-Built Housing Other Than Manufactured Housing

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### General Information

Fannie Mae purchases or securitizes conventional mortgages secured by factory-built housing, including manufactured housing.

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### Requirements for Manufactured Housing

For purposes of Fannie Mae’s guidelines, a “manufactured home” is any dwelling unit built on a permanent chassis and attached to a permanent foundation system. (For additional information, see Section B5-2.3, Manufactured Housing.)

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### Requirements for Factory-Built Housing Other Than Manufactured Housing

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 stated for one-unit properties in this Guide. Other factory-built housing 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) of other factory-built housing 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.

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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 for sale to Fannie Mae.

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### In This Subpart

This subpart contains the following chapters:

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B3-2, Desktop Underwriter (DU) .....	259
B3-3, Income Assessment .....	287
B3-4, Asset Assessment .....	367
B3-5, Credit Assessment .....	421
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# Chapter B3-1, Manual Underwriting



## Manual Underwriting

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### Introduction

This chapter contains information on comprehensive risk assessment.

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### In This Chapter

This chapter contains the following topics:

B3-1-01, Comprehensive Risk Assessment (10/30/2009) .....	255
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## B3-1-01, Comprehensive Risk Assessment (10/30/2009)

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### Introduction

This topic contains information on comprehensive risk assessment, including:

- Overview
- Comprehensive Risk Assessment Worksheet
- Step 1: Primary Risk Assignment
- Step 2: Contributory Risk Assessment
- Step 3: Comprehensive Risk Assessment
- Documenting Comprehensive Risk
- High Comprehensive Risk

---

## Overview

Lenders that choose to manually underwrite are expected to follow the comprehensive risk assessment approach. Under this approach, lenders evaluate certain key elements, called Primary Risk and Contributory Risk factors, to assess the overall level of default risk that is present in each mortgage application. By identifying the level of risk for each of these elements and examining how the elements relate, lenders can determine the comprehensive risk associated with a mortgage application and make an informed decision about the overall risk level for the mortgage.

Lenders are fully responsible for:

- evaluating the default 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 and that the data evaluated was accurate and that the borrower has the ability to repay the debt;
- assessing the adequacy of the property as collateral for the mortgage requested; and
- determining whether or not it is appropriate to deliver the mortgage loan to Fannie Mae.

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## Comprehensive Risk Assessment Worksheet

Lenders are expected to follow the guidelines in Fannie Mae's [Comprehensive Risk Assessment Worksheet](#). Use of the worksheet itself or inclusion of the worksheet in the mortgage file is not required. Note that the worksheet does not represent a specific eligibility recommendation and cannot be used to override a DU recommendation.

The worksheet defines the three steps of a comprehensive risk assessment and provides instructions for each step.

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### Step 1: Primary Risk Assignment

The Primary Risk factors in a mortgage application are:

- the combined equity investment, as measured by the LTV/CLTV/HCLTV ratios, and
- the credit history for all of the borrowers applying for the mortgage, as measured by the representative credit score.

The lender should assess the combined effect of the borrower's equity investment and credit history. A mortgage loan at the maximum eligible LTV ratios and minimum eligible representative credit score is deemed to have high primary risk.

If the credit history for all borrowers consists only of nontraditional credit sources, the credit history must be defined as "high primary risk."

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## **Step 2: Contributory Risk Assessment**

Contributory Risk factors are not of sufficient weight by themselves to use as the basis of an underwriting decision. However, when combined with Primary Risk factors or other Contributory Risk factors, they either increase or decrease the overall risk of a mortgage application.

The Contributory Risk factors that have the greatest influence on mortgage performance, and that have not already been taken into consideration as part of the eligibility review, are:

- mortgage term,
- total debt-to-income ratio,
- liquid reserves,
- previous mortgage payment history,
- prior bankruptcy or foreclosure, and
- presence of co-borrowers.

The lender must review the applicable Contributory Risk factors to determine the impact on the Primary Risk assessment.

Certain Contributory Risk factors may have greater influence on mortgage loan performance than others. However, while no one single factor would cause the risk of default to be unacceptable, Contributory Risk factors only become meaningful when they are considered with other risk factors.

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## **Step 3: Comprehensive Risk Assessment**

The cumulative effect of the layering of risk factors in a mortgage application—without sufficient offsets to lower the risks—will increase the risk of mortgage loan default. In addition to determining whether the mortgage loan meets Fannie Mae's eligibility criteria and reviewing

the acceptability of the documentation in the file, the lender must assess the comprehensive risk of the mortgage loan before deciding whether to deliver it to Fannie Mae.

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### **Documenting Comprehensive Risk**

The lender must fully document the results of its comprehensive risk assessment with a statement that supports the lender's final underwriting decision, and ensure that the information used to reach its comprehensive risk assessment is valid, accurate, and substantiated.

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### **High Comprehensive Risk**

A mortgage that has a high comprehensive risk has a high probability of default.

If high-risk Contributory Risk factors are layered, they tend to increase the risk associated with the mortgage and may move the comprehensive risk into the high-risk range.

Although a mortgage application with a low Primary Risk generally can have a greater degree of higher-risk Contributory Risk factors, lenders should be cautious when layering multiple higher-risk factors (even if it has been determined that the comprehensive risk for the mortgage is low) since this could potentially increase the default risk associated with the mortgage.

If the lender determines that the mortgage can be delivered to Fannie Mae despite its high comprehensive risk, the lender must fully document the results and substantiate the reasons for delivery.

**Note:** If the lender is not able to identify and document sufficient strength among the Contributory Risk factors to reduce a high comprehensive risk, it may not deliver the mortgage 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 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 (08/30/2011) .....	260
B3-2-02, Risk Factors Evaluated by DU (04/30/2010) .....	265
B3-2-03, DU Documentation Requirements (04/01/2009) .....	270
B3-2-04, Approve/Eligible, EA-I/Eligible, EA-II/Eligible, and EA-III/Eligible Recommendations (12/30/2009) .....	271
B3-2-05, Approve/Ineligible, EA-I/Ineligible, EA-II/Ineligible, and EA-III/Ineligible Recommendations (04/01/2009) .....	273
B3-2-06, Refer/Eligible and Refer/Ineligible Recommendations (12/30/2009) .....	274
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B3-2-08, Out of Scope Recommendations (04/01/2009) .....	278
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B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report (05/24/2011) .....	280
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## **B3-2-01, General Information on DU (08/30/2011)**

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### **Introduction**

This topic contains general information on DU, including:

- Overview
  - Underwriting with DU
  - DU Underwriting Reports
  - Loan Application Sections
  - DU Underwriting Recommendations
  - General Lender Requirements
- 

### **Overview**

Fannie Mae's automated underwriting system, Desktop Underwriter (DU), evaluates mortgage default 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 B3-2-02, 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 default 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 default across all groups.

---

### **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.



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 of Contractual 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 date the note is signed. If the credit report expired prior to the signing of the note, 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); 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 D1-3-04, Lender Post-Closing QC Review of Data Integrity.

---

## 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.

---

## 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 Quick Steps](#) available on eFannieMae.com.

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### **DU Underwriting Recommendations**

The following topics describe the underwriting recommendations returned by DU:

- B3-2-04, Approve/Eligible, EA-I/Eligible, EA-II/Eligible, and EA-III/Eligible Recommendations.
  - B3-2-05, Approve/Ineligible, EA-I/Ineligible, EA-II/Ineligible, and EA-III/Ineligible Recommendations.
  - B3-2-06, Refer/Eligible and Refer/Ineligible Recommendations.
  - B3-2-07, Refer with Caution/IV Recommendations.
  - 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 that have been issued that are related to this topic.

<b>Announcement</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2011-09</a>	August 30, 2011
<a href="#">Announcement SEL-2011-04</a>	May 24, 2011

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## **B3-2-02, Risk Factors Evaluated by DU (04/30/2010)**

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### **Introduction**

This topic contains information on the risk factors evaluated by DU, including:

- Risk Factors Evaluated by DU
  - Credit History
  - Delinquent Accounts
  - Mortgage Accounts
  - Revolving Credit Utilization
  - Public Records, Foreclosures, and Collection Accounts
  - Inquiries
  - Borrower's Equity and LTV
  - Liquid Reserves
  - Loan Purpose
  - Loan Term
  - Loan Type/Amortization Type
  - Occupancy Type
  - Total Expense Ratio
  - Property Type
  - Co-borrowers
- 

### **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, mortgage accounts, revolving credit utilization, public records, foreclosures, and collection accounts, and inquiries.

The non-credit risk factors evaluated by DU include: the borrower's equity and LTV, liquid reserves, loan purpose, loan term, loan type/amortization type, occupancy type, total expense ratio, property type, and co-borrowers.

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:

---

### **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. Making payments as agreed on newly established accounts signifies lower risk than not making payments as agreed.

---

### **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, the number of accounts that were not paid as agreed, and the type of accounts with delinquencies.

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. A history of paying a mortgage loan late will have an even more negative impact on the 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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### **Mortgage Accounts**

Research has shown that borrowers who have no history of mortgage obligations represent a higher risk than borrowers who have had mortgage obligations. In addition, the relationship

between the original mortgage balance and the current unpaid balance has proven to be an indicator of risk. The lower the percentage of principal that has been paid down on the mortgage, the higher the risk. The length of time since a delinquency (if any) has occurred, the severity of delinquency, and the age of the mortgage accounts are also factored into the credit analysis.

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### **Revolving Credit Utilization**

The establishment, use, and amount of revolving credit a borrower has available are important. Generally, the lower the balances are on revolving credit as a percentage of the credit limit, the lower the risk. A borrower whose revolving credit utilization is high is considered a greater risk than someone who has a history of managing his or her credit card accounts more conservatively.

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### **Public Records, Foreclosures, and Collection Accounts**

A credit history that includes any significant derogatory credit event that was reported as a public record, such as bankruptcy filings, foreclosures, deeds-in-lieu of foreclosure, judgments, tax liens, or accounts that have been turned over to a collection agency, is considered a high risk.

The more recently 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 six months of the credit report date. Historically, a high number of inquiries can indicate a higher degree of risk. However, multiple inquiries made by several creditors within a short time frame because a borrower was attempting to obtain the most favorable loan rate or terms generally do not indicate higher risk and are not considered as such in the credit evaluation. Borrowers who have frequently applied for, or obtained, new or additional credit represent 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 equity in his or her property is less likely to default 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 proposed monthly housing expense.

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 default 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 continue to 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, and lower LTV/CLTV refinance transactions will be viewed as representing less risk than higher LTV/CLTV refinance transactions.

On construction-to-permanent transactions, DU will continue to determine 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 Type/Amortization Type**

Research has shown that there is a difference in loan performance based on the manner in which the mortgage amortizes. The level of risk associated with each amortization type is as follows, starting with those loan types representing the least amount of risk:

- fully amortizing fixed-rate mortgages;
- fully amortizing five-year, seven-year, and ten-year ARMs;



- six-month, one-year, and three-year ARMs as well as fixed-rate interest-only mortgages; and
  - interest-only ARMs.
- 

### **Occupancy Type**

Performance statistics on investor loans are notably worse than those of owner-occupied or second home loans, especially at higher LTVs. Therefore, DU will assign a higher level of risk to all investment property transactions.

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### **Total Expense Ratio**

In DU's evaluation, generally, the lower the borrower's total expense 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 and cooperative properties).

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 that are not in a cooperative project and are not attached condos,
  - attached condos, units in cooperative projects, and two-unit properties,
  - three- and four-unit properties,
  - manufactured homes, including those in a condo or cooperative project.
- 

### **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 with traditional credit helps to reduce risk. Research has shown that mortgages that have more than one borrower tend to have a lower default rate than mortgages with one borrower. However, additional borrowers tend to reduce risk only when they have good credit histories.

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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-2010-06</a>	April 30, 2010



## B3-2-03, DU Documentation Requirements (04/01/2009)

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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

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### 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. The mortgage seller (if it is not the lender that submitted the loan casefile to DU for evaluation, but rather acquired the mortgage from that lender or another lender) must identify the mortgage by inserting SFC 214 on one of the following:

- FRM/GEM Loan Schedule ([Form 1068](#))
- ARM/GPARM Loan Schedule ([Form 1069](#))
- Schedule of Mortgages ([Form 2005](#))

See also:

- B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report, and
- B4-1.1-01, General Information on Appraisal Requirements.



### **B3-2-04, Approve/Eligible, EA-I/Eligible, EA-II/Eligible, and EA-III/Eligible Recommendations (12/30/2009)**

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#### **Introduction**

This topic contains information on Approve/Eligible, EA-I/Eligible, EA-II/Eligible, and EA-III/Eligible recommendations.

### Approve/Eligible, EA-I/Eligible, EA-II/Eligible, and EA-III/Eligible Recommendations

The following tables describe these recommendations.

<b>Approve/Eligible</b>	
Eligible for Fannie Mae's limited waiver of certain mortgage eligibility and underwriting representations and warranties?	Yes, as long as the mortgage satisfies the applicable requirements related to limited waivers as described in this Guide. (See A2-2.1-03, Document Warranties.)
Satisfies Fannie Mae's credit risk standards/assessment?	Yes
Satisfies Fannie Mae's mortgage eligibility criteria?	Yes
Eligible for delivery to Fannie Mae?	Yes, if all approval conditions have been met.

<b>EA-I/, EA-II/, and EA-III/Eligible</b>	
Eligible for Fannie Mae's limited waiver of certain mortgage eligibility and underwriting representations and warranties?	Yes, as long as the mortgage satisfies the applicable requirements related to limited waivers as described in this Guide. (See A2-2.1-03, Document Warranties.)
Satisfies Fannie Mae's credit risk standards/assessment?	Yes
Satisfies Fannie Mae's mortgage eligibility criteria?	Yes
Eligible for delivery to Fannie Mae?	Yes, if all approval conditions have been met.

**Note:** EA-II/ and EA-III/Eligible recommendations are only issued on DU Refi Plus loan casefiles. See B5-5.1-05, DU Refi Plus and Refi Plus Eligibility.

### Related Announcements

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

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">DU Version 8.0</a>	September 22, 2009
<a href="#">Announcement 09-29</a>	September 22, 2009



## **B3-2-05, Approve/Ineligible, EA-I/Ineligible, EA-II/Ineligible, and EA-III/Ineligible Recommendations (04/01/2009)**

### **Introduction**

This topic contains information on Approve/Ineligible, EA-I/Ineligible, EA-II/Ineligible, and EA-III/Ineligible recommendations.

### **Approve/Ineligible, EA-I/Ineligible, EA-II/Ineligible, and EA-III/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 tables provide 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 A2-2.1-03, Document Warranties)
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).

### **EA I, II, III/Ineligible**

Eligible for Fannie Mae's limited waiver of certain mortgage eligibility and underwriting representations and warranties?	No (see A2-2.1-03, Document Warranties)
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).



## **B3-2-06, Refer/Eligible and Refer/Ineligible Recommendations (12/30/2009)**

### **Introduction**

This topic contains information on Refer/Eligible and Refer/Ineligible recommendations, including:

- Refer/Eligible and Refer/Ineligible Recommendations
- Lender Response to Refer Recommendations

**Note:** Currently, DU does not issue a Refer recommendation. The references in this Guide to Refer recommendations are intended to assist lenders in working with loan casefiles that received a Refer recommendation in the past.

### **Refer/Eligible and Refer/Ineligible Recommendations**

A Refer/Eligible or Refer/Ineligible recommendation indicates that, based on the data submitted, DU is not able to recommend approval of the loan. If the loan receives a Refer/Eligible recommendation, it satisfies Fannie Mae's mortgage eligibility criteria and may be eligible

for delivery to Fannie Mae if certain credit risk requirements are met. The Refer/Ineligible recommendation does not take into consideration any additional credit risk or other factors that might be associated with the ineligibility condition.

The DU Underwriting Findings report will identify the overriding factor(s) that resulted in the referral recommendation. These overriding factor(s) or reason(s) will be specific to a particular risk factor.

The following table provides further information about these recommendations.

<b>Refer/Eligible</b>	
Eligible for Fannie Mae's limited waiver of certain mortgage eligibility and underwriting representations and warranties?	No (see A2-2.1-03, Document Warranties)
Satisfies Fannie Mae's credit risk standards/assessment?	DU could not determine
Satisfies Fannie Mae's mortgage eligibility criteria?	Yes
Eligible for delivery to Fannie Mae?	No, unless the underwriter determines that the mortgage meets the credit risk requirements Fannie Mae applies to manually underwritten mortgage loans and all requirements on the DU Underwriting Findings Report have been met

<b>Refer/Ineligible</b>	
Eligible for Fannie Mae's limited waiver of certain mortgage eligibility and underwriting representations and warranties?	No (see A2-2.1-03, Document Warranties)
Satisfies Fannie Mae's credit risk standards/assessment?	DU could not determine
Satisfies Fannie Mae's mortgage eligibility criteria?	No
Eligible for delivery to Fannie Mae?	No, unless the lender determines that the loan meets the credit risk requirements Fannie Mae applies to manually underwritten mortgage loans, the lender has a negotiated variance that specifically permits delivery of the mortgage, and all DU Underwriting Findings report requirements have been met.

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## Lender Response to Refer Recommendations

To determine whether the loan represents an acceptable credit risk and deliver the loan to Fannie Mae, the lender's underwriter must:

- review the conditions that resulted in the referral,
- determine whether the mortgage meets the credit risk requirements Fannie Mae applies to manually underwritten mortgage loans,
- evaluate the accuracy of the data submitted,
- evaluate any factors outside of the data considered by DU when determining whether to approve the loan,
- employ prudent underwriting judgment in assessing whether a loan that received a Refer recommendation should be approved by the lender and delivered to Fannie Mae,
- evaluate the risk factors in a comprehensive manner,
- document the loan file with the rationale that was applied in the course of making the final decision,
- request additional verifications or documentation, as appropriate, and include this information in the loan file if the factors supporting the final decision cannot be delivered from the verifications listed in the DU Underwriting Findings report, and
- comply with all of the verification messages and conditions specified in the DU Underwriting Findings report.

For a Refer/Ineligible recommendation, the lender must also:

- consider any additional risk associated with the ineligibility condition,
- determine (and consider) if additional layering of risk might be associated with the ineligibility condition(s).

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## Related Announcements

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

Release Notes	Issue Date
<a href="#">DU Version 8.0</a>	September 22, 2009





## **B3-2-07, Refer with Caution/IV Recommendations (03/02/2010)**

### **Introduction**

This topic contains information on Refer with Caution/IV recommendations, including:

- Refer with Caution/IV Recommendations
- Lender Response to a Refer with Caution/IV Recommendation

### **Refer with Caution/IV Recommendations**

The layering and degree of risk factors that result in a Refer with Caution/IV recommendation represent a greater risk of default than for those loan casefiles that receive an Approve, EA-I, EA-II, and EA-III.

Any loan casefile that receives a Refer with Caution/IV 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/IV</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/IV Recommendation**

When a loan casefile receives a Refer with Caution/IV 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/IV 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 that have been released that are related to this topic.

Announcement	Issue Date
<a href="#">Announcement SEL-2010-01</a>	March 2, 2010



### **B3-2-08, Out of Scope Recommendations (04/01/2009)**

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#### Introduction

This topic contains information on Out of Scope recommendations.

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#### 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 (03/02/2010)**

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### **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
- 

### **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/IV 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 that have been released that are related to this topic.

<b>Announcement</b>	<b>Issue Date</b>
<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 (05/24/2011)**

### **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

### 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>	The result of these changes cause 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>	Loan casefile must be resubmitted to DU
Interest rate on fixed-rate and adjustable-rate mortgages	Interest rate decreases, not as the result of a permanent interest rate buydown	No resubmission required
Interest rate on fixed-rate and adjustable-rate mortgages	Interest rate decreases as the result of a permanent interest rate buydown.	Loan casefile must be resubmitted to DU
Verified income used to qualify the borrower for	Income is greater than the loan application indicates	Loan casefile must be resubmitted to DU

<b>Data Attribute and Description</b>	<b>Trigger</b>	<b>Action Required</b>
loans subject to HUD median income limits; for example, as with community lending mortgages.		
Assets	DU returns a message that a specific amount of assets must be verified	The lender must verify, at a minimum, the specified amount
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.

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 that have been issued that are related to this topic.

Announcements	Issue Date
<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 (07/26/2011)

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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, including Expanded Approval recommendations, while other messages are returned only on Refer with Caution/IV 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 as well as potentially fraudulent transactions.

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 and potentially fraudulent transactions. Furthermore, the absence of any of these messages does not indicate or imply Fannie Mae’s acceptance of the data submitted to DU, including the appraised value.

The following lists potential red flag messages.

- **Rapid appreciation:** Messages help identify purchase and refinance transactions with subject property values that, according to a recent prior sale, appear to have an excessive rate of appreciation.
- **Quality control:** Messages identify transactions that have risk characteristics that historically have been found to contribute to inflated property valuation.
- **Excessive resubmissions:** A message alerts lenders when an unusually high number of loan resubmissions may be the result of data manipulation.
- **Excessive value:** A message helps identify refinance transactions submitted to the system where the lender’s initial value estimate appears to be excessive.
- **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 Flag 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-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 Fannie Mae's policies regarding income assessment.

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### In This Chapter

This chapter contains the following sections:

B3-3.1, General Information on Income Assessment . . . . .	288
B3-3.2, Salary, Commissions, and Other Sources of Income . . . . .	295
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## Section B3-3.1, General Information on Income Assessment



### **B3-3.1-01, Requirements and Uses of IRS Form 4506-T (04/30/2010)**

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#### **Introduction**

This topic contains information on the use of IRS Form 4506-T (Request for Transcript of Tax Return), 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 all borrowers (regardless of income source) complete and sign IRS Form 4506-T at both application and closing, and
- have the execution of IRS Form 4506-T with the IRS (directly or through an authorized designee) on their written quality control (QC) plan. See D1-3-03, Lender Post-Closing QC Review of Underwriting Documents for details concerning QC requirements.

If the IRS Form 4506-T is executed, the transcript received back from the IRS should be used to validate the income documentation provided by the borrower and used in the underwriting process. Completion of IRS Form 4506-T at both application and closing will allow lenders to perform pre-funding and/or post-closing reviews.

**Note:** Loans originated and underwritten in accordance with the policies pertaining to certain borrowers with five to ten financed properties must have IRS Form 4506-T executed with the IRS (or designee) prior to closing. See B2-2-03, Multiple Financed Properties for the Same Borrower.

---

### **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 the applicable federal income tax documents directly from the IRS (or designee) by using IRS Form 4506-T.

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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 receive borrower's income tax information electronically. It is also acceptable for lenders to use either IRS Form 4506 (Request for Copy of Tax Return) or IRS Form 8821 (Tax Information Authorization); however, these forms are not supported electronically by the IRS.

---

### **Completing and Submitting the IRS Authorization Form**

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 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 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-2010-06</a>	April 30, 2010
<a href="#">Announcement 09-19</a>	June 8, 2009



## **B3-3.1-02, Verbal Verification of Employment (09/20/2010)**

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### Introduction

This topic contains information on verbal verification of employment requirements for all borrowers.

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### Verbal Verification of Employment

Lenders must obtain a verbal verification of employment (verbal VOE) for all borrowers within 10 business days prior to the note date for employment income, and within 30 calendar days prior to the note date for self-employment income.

The following table describes verbal VOE requirements:

<b>Verbal VOE Requirements for Hourly, Salary, and Commission Income</b>	Requirements: <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></ul>
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	<ul style="list-style-type: none"> <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> <li>• The conversation must be documented. It should include the name and title of the person who confirmed the employment, the date of the call, and the source of the phone number.</li> <li>• Exception: If the borrower is in the military, a military Leave and Earnings Statement dated within 30 calendar days of the note date is acceptable in lieu of a verbal or written VOE (or 31 days for longer months.)</li> <li>• In lieu of a verbal VOE, the lender can obtain a written verification confirming the borrower's current employment status within the same timeframe as the verbal VOE requirements. The written documentation should also include the name and title of the person who performed the verification for the employer.</li> </ul>
<p><b>Verbal VOE Requirements for Self-Employed Income</b></p>	<p>Requirements:</p> <ul style="list-style-type: none"> <li>• The lender must verify the existence of the borrower's business within 30 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; and</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</li> </ul>

	of the lender's employee who obtained the information.
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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-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, Non-U.S. Citizen Borrowers (12/01/2010)**

### Introduction

This topic contains information on verification of income for borrowers who are non-U.S. citizens.

### 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 B3-3.2, Salary, Commissions, and Other Sources of Income.
Self-employed	Same as for a U.S. citizen. See Section B3-3.3, Self-Employment Income.
Employed by a foreign corporation or a foreign government and paid	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> </ul>



<b>Employment Type</b>	<b>Employment and Income Verification Requirements</b>
in foreign currency (“foreign income”)	<ul style="list-style-type: none"><li>documentation to satisfy the standard documentation requirements in Chapter B3-3, Income Assessment.</li></ul> <p><b>Note:</b> All income must be translated to U.S. dollars.</p>

For information of U.S. citizens earning foreign income, refer to B3-3.2-08, Other Sources of Income.

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### **Related Announcements**

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

<b>Announcement</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2010-16</a>	December 1, 2010
<a href="#">Announcement SEL-2010-13</a>	September 20, 2010



## **B3-3.1-04, Using Nontaxable Income to Adjust the Borrower’s Gross Income (04/01/2009)**

### **Introduction**

This topic provides information on using nontaxable income to adjust the borrower’s gross 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, disability retirement payments, 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.

**Printed copies may not be the most current version. For the most current version, go to the online version at <http://www.efanniemae.com/sf/guides/ssg/>.**

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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## Section B3-3.2, Salary, Commissions, and Other Sources of Income



### B3-3.2-01, Salary and Commission Income (12/01/2010)

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#### Introduction

This topic contains information on salary and commission income, including:

- Length of Employment
  - Stable and Predictable Income
  - Adequacy of Income
  - Continuity of Income
  - Documenting Employment and Income
  - Determining the Need for Federal Income Tax Returns
- 

#### Length of Employment

Fannie Mae generally requires at least a two-year history of the receipt of stable income.

Typically, when a borrower has been generating income for two or more years from either part-time or full-time work with any number of employers, the lender may base its underwriting decision on the borrower's current income.

To better understand the nature of the borrower's income, its stability, and the likelihood of its continuing, the lender must obtain two years of documentation for a borrower's employment and income history.

A borrower who has an income history of less than 24 months may be considered if the lender is able to define and document the borrower's income as being stable, predictable, and likely to continue.

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### **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 contributes to successful homeownership, rather than the stability of the borrower's employment. Individuals who change jobs frequently, but who are nevertheless able to earn consistent and predictable income, perform equally with those who have been employed by a single employer.

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 verify robust 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 tradespersons.

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### **Adequacy of Income**

The lender must document and assess the borrower's affirmative ability to repay the mortgage.

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### **Continuity of Income**

The lender must document the likelihood of continued receipt of income for at least three years.

Unless there is evidence that the income will no longer be received, the lender should conclude that the income will continue.

For example, if income from alimony and child support are used to qualify a borrower and the documentation (divorce decree, an agreement from the dissolution of a domestic partnership, and/or separation agreement) specifically states that payments will cease once the child reaches 18 years of age and the child is listed on the application as 17 years of age, then the lender should assume that income will not continue for three years.

Certain types of income do not have defined expiration dates—for example, Social Security Disability Insurance benefits or Veterans Disability Compensation benefits. For such cases, the documentation should indicate the income type.

When a lender believes or knows that the income falls in a category that does not have a defined expiration date, it may conclude that the income is considered stable, predictable, and likely to continue and is not expected to request additional documentation from the borrower.

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## Documenting Employment and Income

For income to be used for qualifying purposes, the lender must substantiate employment and income by documenting all of the following:

- The employment or source of income for any borrower whose income is used in qualifying for the mortgage.
- The continuity of employment and income history for the two years that precede the date of the mortgage application, or the length of time the borrower has been employed if the borrower is new to the workplace.
- The current earnings of all borrowers whose income is used in qualifying for the mortgage.
- The affirmative likelihood (or lack of information to the contrary) of continued receipt of income over a 3-year period.

Some forms of salaried earnings require the lender to confirm the borrower's employment and income over the past two years by obtaining copies of the individual signed federal income tax returns from the borrower or directly from the IRS.

**Note:** Income received from any source that the lender cannot verify is not acceptable for the purpose of qualifying a borrower.

---

## Determining the Need for Federal Income Tax Returns

The lender must obtain copies of the individual signed federal income tax returns filed with the IRS for the past two years for the following types of salaried or commissioned borrowers:

- borrowers earning 25% or more of their income from commissions
- borrowers employed by family members
- borrowers employed by interested parties to the property sale, purchase, or financing transaction
- borrowers receiving rental income from an investment property
- borrowers claiming unreimbursed business expenses

- borrowers receiving income from periodic employment or employment that is subject to time limits, such as a contract employee or a tradesperson
- borrowers who receive income from partnerships or corporations in which they have a 25% or greater ownership interest. (Such a borrower is considered self-employed. The lender must document and underwrite the loan application using the requirements for self-employed borrowers, as described in Section B3-3.3, Self-Employment Income.)
- borrowers receiving income from capital gains, royalties, real estate, or other miscellaneous non-employment earnings reported on IRS Form 1099
- borrowers receiving income that cannot otherwise be verified by an independent and knowledgeable source
- borrowers using foreign income to qualify

See B3-3.1-01, Requirements and Uses of IRS Form 4506-T for information about obtaining tax return transcripts.

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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-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

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## **B3-3.2-02, Verification of Salary and Commission Income (12/01/2010)**

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### **Introduction**

This topic contains information on the verification of salary and commission income, including:

- Standards for Verification of Employment and Income
- Documentation Provided by the Borrower
- Documentation Provided by the Borrower's Employer
- Documentation Provided by a Third-Party Employment Verification Vendor
- Verbal Verification of Employment

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### **Standards for Verification of Employment and Income**

The lender must verify employment and income for salaried and commissioned borrowers. This verification can be provided by the borrower, by the borrower's employer, or by a third-party employment verification vendor.

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### **Documentation Provided by the Borrower**

The following table provides requirements for documentation provided by the borrower:

	<b>Requirements</b>
	Obtain a paystub that is dated no earlier than 30 days prior to the initial loan application date that includes all year-to-date earnings. Additionally, the paystub must include sufficient information to appropriately calculate income; otherwise, additional documentation must be obtained.  <b>Note:</b> All income documentation must comply with B1-1-04, Allowable Age of Credit Documents.
	Obtain IRS W-2 forms (if applicable) covering the most recent two-year period. The W-2 forms must clearly identify the borrower as the employee. The lender may accept any of the copies of the W-2 that the borrower did not attach to his or her income tax return.

	<b>Requirements</b>
	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.
	The documents must clearly identify the borrower as the employee and show the employee's gross year-to-date earnings.
	The information must be complete and legible.
	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.

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### **Documentation Provided by the Borrower's Employer**

The lender may use the Request for Verification of Employment ([Form 1005](#) or [Form 1005\(S\)](#)) to determine the adequacy and continuation of income for a salaried or commissioned borrower. The information must be fully completed and legible.

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\(S\)](#).

Alternatively, the lender may have the applicant sign a borrower's signature authorization form, which gives the lender blanket authorization to request the information it needs to evaluate the applicant's creditworthiness (see B1-1-03, Blanket Authorization Form). When the lender uses this type of blanket authorization, it must attach a copy of the authorization form to each copy of [Form 1005](#) or [Form 1005\(S\)](#).

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### **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 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.

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### Verbal Verification of Employment

For requirements regarding verbal VOEs, see B3-3.1-02, Verbal Verification of Employment.

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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-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



### **B3-3.2-03, Commission Income (09/20/2010)**

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#### Introduction

This topic contains information on commission income, including:

- Commission Income
- Verbal Verification of Employment

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#### Commission Income

The following table provides verification requirements for commission income:

Verification of Commission Income	
	Develop an average of the last two years of income.  <b>Note:</b> Commission 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 to reasonably offset

<b>Verification of Commission Income</b>	
	the shorter income history and there is a likelihood that the borrower will continue to receive such income.
	If commission income represents 25% or more of the borrower’s total annual income, obtain copies of the borrower’s signed federal income tax returns that were filed with the IRS for the past two years (see B3-3.1-01, Requirements and Uses of IRS Form 4506-T), and a confirmation of the borrower’s current employment and year-to-date earnings.  <b>Note:</b> In order for the commission income to be used in qualifying the borrower, the commission income reported on the tax returns must cover at least a 12-month period.
	Annual earnings must be level or increasing from one year to the next.
	Any nonreimbursed business expenses must be subtracted from the gross commission income.

### Verbal Verification of Employment

For requirements regarding verbal VOEs, see B3-3.1-02, Verbal Verification of Employment.

### 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-2010-13</a>	September 20, 2010
<a href="#">Announcement 09-19</a>	June 8, 2009



## **B3-3.2-04, Bonus and Overtime Income (09/20/2010)**

### Introduction

This topic contains information on bonus and overtime income, including:

- Bonus and/or Overtime Income
- Verbal Verification of Employment

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### Bonus and/or Overtime Income

The following table provides verification requirements for bonus and overtime income:

<b>Verification of Bonus and/or Overtime Income</b>	
	Document that the borrower received the bonus or overtime income for the last two years.  Projected bonus or overtime pay that has no historical basis is not an acceptable source of income.
	Confirm with the borrower's employer that the bonus or overtime income is likely to continue.
	Develop an average of the last two years' bonus or overtime income to determine the amount of income that may be considered in qualifying the borrower.
	Establish an earnings trend for overtime income. If the annual overtime earnings are level or increasing, the income is acceptable. If the earnings are declining, the income cannot be considered stable.  Bonus income received annually or on another periodic basis is acceptable, even if the amount of the bonus fluctuates.
	If the borrower has recently changed positions (but not employers), determine the effect of the change on the borrower's eligibility and opportunity to receive bonus or overtime pay.

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### Verbal Verification of Employment

For requirements regarding verbal VOEs, see B3-3.1-02, 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.

<b>Announcements</b>	<b>Issue Date</b>
<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



## **B3-3.2-05, Part-Time, Second-Job, Multiple-Job, and Seasonal Income (09/20/2010)**

### **Introduction**

This topic contains information on the following types of income:

- Part-Time Income
- Second-Job Income
- Multiple-Job Income
- Seasonal Income
- Verbal Verification of Employment

### **Part-Time Income**

The following table provides verification requirements for part-time income:

	<b>Verification of Part-Time Income</b>
	Verify that the income has been uninterrupted for the previous two years.  <b>Note:</b> Occasionally a lender can accept less than a two-year history, but no less than a 12-month history, if there is a strong likelihood that the borrower will continue to receive the income, and the lender develops an average monthly income for the part-time job.
	Verify the income with IRS W-2 forms.
	Verify that the income has a strong likelihood of continuation.
	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.

### **Second-Job Income**

The following table provides verification requirements for second-job income:

<b>Verification of Second-Job Income</b>	
	Verify that the income has been uninterrupted for the previous two years.  <b>Note:</b> Occasionally a lender can accept less than a two-year history, but no less than a 12-month history, if there is a strong likelihood that the borrower will continue to receive the income, and the lender develops an average monthly income for the second job.
	Verify the income with IRS W-2 forms.
	Verify that the income has a strong likelihood of continuation.
	Determine if there has been any change in the borrower's overall employment status that might jeopardize the continuance of income from the second job.

### Multiple-Job Income

The following table provides verification requirements for multiple-job income:

<b>Verification of Multiple-Job Income</b>	
	Verify that the income has been uninterrupted for the previous two years.  <b>Note:</b> Occasionally a lender can accept less than a two-year history, but no less than a 12-month history, if there is a strong likelihood that the borrower will continue to receive the income, and the lender develops an average monthly income for the multiple jobs.
	Verify the income with IRS W-2 forms.
	Verify that the income has a strong likelihood of continuation.

### Seasonal Income

The following table provides verification requirements 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

<b>Verification of Seasonal Income</b>	
	reported on the borrower's federal income tax return. Otherwise, unemployment compensation cannot be used to qualify the borrower. (See B3-3.2-08, Other Sources of Income, for more information on unemployment benefits.)

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### **Verbal Verification of Employment**

For requirements regarding verbal VOEs, see B3-3.1-02, 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.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2010-13</a>	September 30, 2010
<a href="#">Announcement 09-19</a>	June 8, 2009



## **B3-3.2-06, Military Income(04/01/2009)**

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### **Introduction**

This topic contains information on military income.

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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 other types of second-job income.



## **B3-3.2-07, Rental Income (09/27/2011)**

[Click to see prior version of topic](#)

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### **Introduction**

This topic provides information on qualifying a borrower's rental income, including:

- **Eligible Properties**
  - **Associated Policies**
  - Ineligible Properties
  - **Calculating Monthly Net Rental Income (or Loss)**
  - Treatment of the Income (or Expense)
- 

### **Eligible Properties**

Rental income is an acceptable source of stable income for the following property types if it can be established that the income is likely to continue:

- **one- to four-unit investment properties; and**
  - **two- to four-unit principal residence properties (the borrower occupies one of the units).**
- 

### **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;**
- B2-2-03, Multiple Financed Properties for the Same Borrower;
- **B3-3.4-03, Income From Rental Property;**
- B3-4.1-01, Minimum Reserve Requirements; and

- B3-6-06, Qualifying Impact of Other Real Estate Owned.

### Ineligible Properties

Rental income from a property classified as a second home cannot be used to qualify a borrower.

### Calculating Monthly Net Rental Income (or Loss)

When the security property for the mortgage being delivered to Fannie Mae will be rented, and that rental income will be used as qualifying income for the transaction, the lender must:

- determine the cash flow and operating income derived from the rental property. Either the borrower or the appraiser should complete an *Operating Income Statement (Form 216)* or a similar form that has the same type of information.
- determine the gross income to be used in determining the income-producing ability of the subject property using the appropriate form:
  - *Single-Family Comparable Rent Schedule (Form 1007)* or
  - *Small Residential Income Property Appraisal Report (Form 1025)*

The lender then calculates the monthly net rental income (or loss) as described in the following table:

<b>Rental Income From the Security Property</b>		
<b>Does Borrower Have History of Receiving Rental Income From Property?</b>	<b>Documentation Requirements</b>	<b>Calculate Monthly Net Rental Income (or Loss)</b>
Yes	Document the rental cash flow by obtaining copies of pages from the borrower's most recent two years of signed federal income tax returns and the related Schedule E.	Analyze the borrower's cash flow and calculate the net rental income (or loss), making sure that depreciation or any interest, taxes, or insurance expenses were added back in the borrower's cash flow analysis.
No	Document the rental income by obtaining an appraiser's opinion of market rent and, if	The gross rental income from the property is equal to the lesser of the market rent established by the



<b>Rental Income From the Security Property</b>		
<b>Does Borrower Have History of Receiving Rental Income From Property?</b>	<b>Documentation Requirements</b>	<b>Calculate Monthly Net Rental Income (or Loss)</b>
	applicable, copies of the current lease agreement(s).	appraiser or the current rent based on the existing lease agreement(s).  Net rental income equals 75% of the gross rent; the remaining 25% of the gross rent is absorbed by vacancy losses and ongoing maintenance expenses.

If the borrower is not using any rental income from the security property to qualify, the gross monthly rent must still be documented for lender reporting purposes. See A3-4-02, Data Quality and Integrity, (Reporting of Gross Monthly Rent).

**Note:** For DU loan casefiles, the term “subject net cash flow” applies to net rental income from the security property, and the term “net rental income” applies to rental income from properties other than the security property.

When the borrower owns additional property that is rented, the lender must calculate the monthly net rental income (or loss) in accordance with the following table:

<b>Rental Income From Property Other Than the Security Property</b>		
<b>Does Borrower Have History of Receiving Rental Income From Property?</b>	<b>Documentation Requirements</b>	<b>Calculating Monthly Net Rental Income (or Loss)</b>
Yes	Obtain copies of the borrower’s most recent two years of signed federal income tax returns and the related Schedule E, or a copy of the current lease agreement(s) (only if a property is not listed on Schedule E because it was acquired subsequent to filing the tax return).	When calculating the net rental income (or loss) from signed federal tax returns (including Schedule E), ensure that depreciation or any interest, taxes, or insurance expenses are added back in the borrower’s cash flow analysis.

<b>Rental Income From Property Other Than the Security Property</b>		
<b>Does Borrower Have History of Receiving Rental Income From Property?</b>	<b>Documentation Requirements</b>	<b>Calculating Monthly Net Rental Income (or Loss)</b>
		<p>Since Schedule E does not account for the full amount of the mortgage payment for the rental property, ensure that any portion of the payment (interest, taxes, and insurance) that needs to be added back in the cash flow analysis to avoid a double counting of the expenses is, in fact, added back.</p> <p>If using the lease agreement, net rental income is 75% of the gross rent from the lease agreements, with the remaining 25% being absorbed by vacancy losses and ongoing maintenance expenses.</p>
No	Obtain copies of current lease agreements.	Net rental income is 75% of the gross rent from the lease agreements, with the remaining 25% being absorbed by vacancy losses and ongoing maintenance expenses.

### **Treatment of the Income (or Expense)**

The amount of monthly net rental income (or loss) that is considered as part of the borrower's total monthly income (or expenses) — and its treatment in the calculation of the borrower's total debt-to-income ratio — will vary depending on whether the borrower occupies the rental property as his or her principal residence.

If the net rental income (or loss) relates to the borrower's principal residence:

- The monthly net rental income (as defined above) must be added to the borrower's total monthly income.
- Any net rental loss must be added to the borrower's total monthly obligations.

- 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 net rental income (or loss) relates to a property other than the borrower's principal residence:

- The monthly net rental income (as defined above, but excluding the full amount of the related mortgage payment) must be added to the borrower's total monthly income.
- Any 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.
- The full PITIA for the borrower's principal residence must be counted as a monthly 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.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2011-10</a>	September 27, 2011
<a href="#">Announcement 09-32</a>	October 30, 2009



## **B3-3.2-08, Other Sources of Income (12/01/2010)**

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### **Introduction**

This topic provides information on qualifying a borrower's income from sources other than wages and salaries, including:

- Alimony or Child Support
- Automobile Allowance
- Boarder Income
- Capital Gains Income
- Disability Income
- Employment-Related Assets as Qualifying Income
- Foreign Income Earned by U.S. Citizens
- Foster-Care Income
- Interest and Dividends Income
- Mortgage Credit Certificates (MCC)
- Mortgage Differential Payments Income
- Non-Occupying Co-Borrower Income
- Notes Receivable Income
- Public Assistance Income
- Retirement, Government Annuity, and Pension Income
- Royalty Payment Income
- Social Security Income
- Tip Income
- Trust Income
- Unemployment Benefits Income
- VA Benefits Income

### 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:</p> <ul style="list-style-type: none"> <li>• A photocopy 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, or</li> <li>• Any applicable state law that mandates alimony, child support, or maintenance payments. The document 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 the borrower's regular receipt of the full payment, as verified by:</p> <ul style="list-style-type: none"> <li>• deposit slips,</li> <li>• court records,</li> <li>• copies of signed federal income tax returns that were filed with the IRS, or</li> <li>• copies of the borrower's bank statements showing the regular deposit of these funds.</li> </ul>
	<p>Review the payment history to determine its suitability as qualifying income.</p> <ul style="list-style-type: none"> <li>• Full, regular, and timely payments must be made:             <ul style="list-style-type: none"> <li>– 12 months or longer for income to be considered stable.</li> </ul> </li> </ul>

<b>Verification of Income From Alimony or Child Support</b>	
	<ul style="list-style-type: none"><li>– between 6 and 12 months for income to be considered stable, provided the income does not represent more than 30% of the total gross income used to qualify the borrower for the mortgage.</li><li>– fewer than six months for income to be considered unstable (although, if the income is adequately documented, the lender may use it to justify a higher qualifying ratio).</li><li>• If full or partial payments are made on an inconsistent or sporadic basis, the income is considered unsuitable for qualifying or justifying higher qualifying ratios.</li></ul>

### **Automobile Allowance**

For an automobile allowance to be considered as acceptable stable income, a 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 debt-to-income ratio.

Automobile allowances received for less than two years should not be used when calculating the borrower’s total debt-to-income ratio. However, this income may be used to justify a higher qualifying 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 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.
  - 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.

### Boarder Income

Rental income from boarders in a one-unit property that is also the borrower's principal residence or second home is not generally 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. Personal assistants typically are paid by Medicaid Waiver funds and include room and board, from which rental payments are made to the borrower.
- MyCommunityMortgage has an additional exception. See Chapter B5-6, MyCommunityMortgage (MCM).

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 last 12 months (such as copies of canceled checks).

### 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 that were filed with the IRS for the past two years, including IRS Form 1040, Schedule D. (See B3-3.1-01, Requirements and Uses of IRS Form 4506-T.)

<b>Verification of Capital Gains Income</b>	
	Develop an average income from the last two years and use the averaged amount as part of the borrower’s qualifying income as long as the borrower provides evidence that he/she owns additional property or assets that can be sold if extra income is needed to make future mortgage payments.

### **Disability Income**

The following table provides verification requirements for disability income:

<b>Verification of Disability Income</b>	
	Verify the amount of disability payments and determine whether there is a contractually established termination or modification date by obtaining a copy of the borrower’s disability policy or benefits statement.
	Confirm the borrower’s current eligibility for the disability benefits by obtaining a statement from the benefit’s payer (insurance company, employer, or other qualified and disinterested party).
	If the benefits have a defined expiration date, verify that the remaining term is at least three years from the date of the mortgage application.  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 long-term benefits must be used as income to qualify the borrower.

### **Employment-Related Assets as Qualifying Income**

The following table provides the requirements for employment-related assets that may be used as qualifying income:

<b>Asset Requirements</b>	
	Assets used for monthly income stream must be owned individually or the co-owner of the asset must be a co-borrower of the subject property.
	Assets must be liquid and available to the borrower with no penalty. <ul style="list-style-type: none"> <li>• Non-self-employed severance package or non-self-employed lump sum retirement package (i.e., a lump sum distribution) must be documented with a distribution letter from the employer (1099R) and deposited to a verified asset account.</li> </ul>



	<b>Asset Requirements</b>
	<ul style="list-style-type: none"> <li>• 401(k) or IRA, SEP, KEOGH retirement accounts – the borrower must have unrestricted access without penalty to the accounts and can only use if distribution is not already set up or the distribution amount is not enough to qualify. The account must be documented with the most recent monthly, quarterly, or annual statement.</li> </ul>
	<p>If the assets are in the form of:</p> <ul style="list-style-type: none"> <li>• Stocks, bonds, and mutual funds: 70% of the value (remaining after costs for the transaction) may be used to determine the income stream.</li> <li>• Retirement accounts: 70% of the value (remaining after costs for the transaction) may be used to determine the income stream.</li> </ul> <p style="text-align: center;"><b>Note:</b> The 10% penalty for early withdrawal is not applicable as the borrower must be eligible to withdraw the funds with no penalty.</p>
	<p>Net documented assets: The sum of eligible documented assets minus discount (if retirement, stocks, bonds, mutual funds) minus any funds that will be used for closing or required for reserves.</p>
	<p>Ineligible assets: Non-employment related assets (e.g., stock options, non-vested restricted stock, lawsuits, lottery winnings, sale of real estate, inheritance, divorce proceeds, etc.)</p>

All of the following loan parameters must be met in order for employment-related assets to be used as qualifying income:

<b>Parameter</b>	<b>Fannie Mae Requirement</b>
Maximum LTV/CLTV/HCLTV	70%
Minimum Credit Score	DU: 620  Standard: Per Eligibility Matrices (40 point tolerance is not allowed)
Loan Purpose	Purchase and limited cash-out refinance only
Occupancy	Principal residence and second home only
Number of units	One- to four-units
Income Calculation/Payout Stream	Divide “Net Documented Assets” by 360 months (30–year term must be used regardless of borrower age or amortization term).

**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 Earned by U.S. Citizens

Foreign income is income that is earned by a U.S. citizen that 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 filed with the IRS for the past two years that include foreign income.
	Documentation to satisfy the standard documentation requirements in Chapter B3-3, Income Assessment.
	<b>Note:</b> All income must be translated to U.S. dollars.

### Foster-Care Income

Income received from a state- or county-sponsored organization for providing temporary care for one or more children may be considered as acceptable stable income if the following requirements are met:

<b>Verification of Foster-Care Income</b>	
	Verify the foster-care income with: <ul style="list-style-type: none"> <li>• letters of verification from the organizations providing the income,</li> <li>• copies of the borrower’s signed federal income tax returns that were filed with the IRS (see B3-3.1-01, Requirements and Uses of IRS Form 4506-T), or</li> <li>• copies of the borrower’s deposit slips or bank statements confirming regular deposit of the payments.</li> </ul>
	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:

<b>Verification of Foster-Care Income</b>	
	<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 the borrower for the mortgage.</li> </ul>
	Verify that the borrower is likely to continue to provide such services at a level that supports the amount of income needed to qualify for the mortgage.

### **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 and/or dividend income was earned.
	Document a two-year history of the income, as verified by: <ul style="list-style-type: none"> <li>• copies of signed federal income tax returns that were filed with the IRS (see B3-3.1-01, Requirements and Uses of IRS Form 4506-T), or</li> <li>• copies of account statements.</li> </ul>
	Develop an average of the income received for the past two years.
	Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application.
	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 (MCC)**

States and other political subdivisions 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 from a lender a market-rate mortgage that will be 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. The borrower is permitted to reduce the withholding on his or her wages by the full amount of the tax credit to ensure that he or she will have an adequate cash flow and the ability to make periodic mortgage payments.

When calculating the borrower's debt-to-income 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 following table provides verification requirements for MCCs:

<b>Verification of Income from Mortgage Credit Certificates</b>	
	<p>Obtain copies of the following documents. They will be required if the mortgage is selected for a post-purchase underwriting performance review.</p> <ul style="list-style-type: none"> <li>• A copy of the MCC.</li> <li>• A copy of the lender's calculation of the adjustment to the borrower's income.</li> <li>• A copy of the IRS Form W-4 that the borrower gave to his or her employer.</li> </ul>

### **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>	
	<p>Obtain written verification from the borrower's employer confirming the subsidy and stating the amount and duration of the payments.</p>

<b>Verification of Income From Mortgage Differential Payments</b>	
	Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application.

### **Non-Occupying Co-Borrower Income**

For manually underwritten loans the income from a non-occupant co-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 financial reserves, limited credit history, or higher-than-normal qualifying ratio. 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 an ability and willingness to make the mortgage payments and maintain homeownership. If the income from a non-occupant co-borrower is used for qualifying, the LTV ratio is limited to 90%. DU does not consider non-occupant co-borrower's income as qualifying income.

The LTV ratio for a manually underwritten mortgage loan with a non-occupant co-borrower must be 90% or less, and 97% or less for loan casefiles underwritten with DU.

DU will analyze the risk factors in the loan casefile without the benefit of the non-occupant co-borrower's income or liabilities and will not require verification of employment or income for the non-occupant co-borrower.

### **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 past 12 months, as verified by: <ul style="list-style-type: none"> <li>• deposit slips,</li> <li>• copies of signed federal income tax returns that were filed with the IRS (see B3-3.1-01, Requirements and Uses of IRS Form 4506-T), or</li> <li>• copies of the borrower's bank statements showing consistent deposits of the funds.</li> </ul>

<b>Verification of Income From Notes Receivable</b>	
	Payments on a newly executed note that specifies a minimum duration of three years may not be used as stable income, but they may be used to justify a higher qualifying ratio.

### **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.
	Document a two-year history of income from public assistance.
	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.  If the income is nontaxable, the lender can develop an adjusted gross income for the borrower. (See B3-3.1-04, Using Nontaxable Income to Adjust the Borrower's Gross Income.)

### **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>	
	Document regular and continued receipt of the income, as verified by:

<b>Verification of Retirement and Pension Income</b>	
	<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 that were filed with the IRS (see B3-3.1-01, Requirements and Uses of IRS Form 4506-T);</li> <li>• IRS W-2 or 1099 forms; or</li> <li>• copies of the borrower’s two most recent bank statements.</li> </ul>
	If retirement income is paid in the form of a monthly 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.

### **Royalty Payment Income**

The following table provides verification requirements for royalty income.

<b>Verification of Income From Royalty Payments</b>	
	Obtain copies of the borrower’s signed federal income tax returns that were filed with the IRS for the past two years, including the related IRS Form 1040, Schedule E. See B3-3.1-01, Requirements and Uses of IRS Form 4506-T.
	Document that the borrower has received royalty payments for at least 12 months and that payments will continue for a minimum of three years after the date of the mortgage application.

### **Social Security Income**

The following table provides verification requirements for Social Security income:

<b>Verification of Social Security Income</b>	
	Document regular receipt of payments, as verified by: <ul style="list-style-type: none"> <li>• a copy of the Social Security Administration’s award letter,</li> <li>• copies of signed federal income tax returns that were filed with the IRS (see B3-3.1-01, Requirements and Uses of IRS Form 4506-T),</li> <li>• IRS W-2 forms, or</li> </ul>

<b>Verification of Social Security Income</b>	
	<ul style="list-style-type: none"> <li>• copies of the borrower’s recent bank statements.</li> </ul>
	If the Social Security benefits have a defined expiration date, confirm that the remaining term is at least three years from the date of the mortgage application.

### **Tip Income**

Tip income may be used to qualify the borrower if the lender verifies that the borrower has received it for the last two years and the employer indicates that the tip income will in all probability continue. The lender must develop an average of the past two years’ tip income to determine the amount of income that may be considered in qualifying the borrower.

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**

Lump-sum distributions made before loan closing may be used for the down payment or closing costs, provided the funds are verified by a copy of the check or a trustee’s letter that shows the distribution amount.

The following table provides verification requirements for trust income.

<b>Verification of Trust Income</b>	
	<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>If the trust documentation does not include information about the historical level of distributions from the trust, the lender may also need to obtain copies of the borrower’s signed federal income tax returns that were filed with the IRS for the past two years, including the related IRS Form 1040, Schedule E. See B3-3.1-01, Requirements and Uses of IRS Form 4506-T.</p>
	Verify that the trust income will continue for at least three years from the date of the mortgage application.

### **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 predictably for at least two years by obtaining copies of signed federal income tax returns that were filed with the IRS. See B3-3.1-01, Requirements and Uses of IRS Form 4506-T.
	Verify that the income is likely to continue.

### 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.

### 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-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

## Section B3-3.3, Self-Employment Income



### **B3-3.3-01, Underwriting Factors and Documentation for a Self-Employed Borrower (09/20/2010)**

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#### **Introduction**

This topic contains general information on underwriting factors and documentation for a self-employed borrower, including:

- 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
  - Income Verification for Self-Employed Co-Borrowers
  - Verbal Verification of Employment
- 

#### **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.

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,

- the ability of the business to continue generating sufficient income to enable the borrower to make the payments on the requested mortgage, and
- the marketability of the property that is security for the mortgage as a private residence (rather than as the location of a business), since the property could be the source of repayment for the mortgage should the borrower's business fail.

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### **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.

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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 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 B3-3.1-01, Requirements and Uses of IRS Form 4506-T.)

The lender may waive the requirement for business tax returns if:

- The borrower is paying the down payment and closing costs with his or her own funds,
- 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.

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### **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 personal 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.

The lender may use Fannie Mae's Cash Flow Analysis ([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 underwriting performance review.

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### **Analysis of Borrower's Business Income**

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 estimate the potential for long-term earnings.

The purpose of this analysis is to:

- 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 presents fairly 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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### **Income Verification for Self-Employed Co-Borrowers**

When a salaried (or commissioned) borrower and a self-employed co-borrower jointly apply for a mortgage and the self-employed co-borrower's income will not be used for qualifying purposes, the self-employed co-borrower's last two years of complete individual and business tax

returns or other financial information related to the business are not required. Instead, the self-employed co-borrower may provide a copy of the first page of his or her latest individual federal income tax return, which will enable the lender to determine whether there was a meaningful business loss. When that is the case, the lender may decide that it needs to request additional information about the self-employed co-borrower's business income in order to reach a final underwriting decision.

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### Verbal Verification of Employment

For requirements regarding verbal VOEs, see B3-3.1-02, 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-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



### **B3-3.3-02, Business Structures (03/02/2010)**

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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

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## 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 evaluating the stability of the business and the degree of the borrower's involvement.

**Note:** Refer to B3-3.3-03, 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 B3-3.3.1-04, 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:

- B3-3.3.1-08, Income or Loss Reported on IRS Form 1065, Schedule K-1
- B3-3.3.2-01, Analyzing 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 must report its profit or loss on IRS Form 1065 and each member-owner's share of the profit or loss on IRS Form 1065, Schedule K-1; 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 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:

- B3-3.3.1-08, Income or Loss Reported on IRS Form 1065, Schedule K-1
- B3-3.3.2-01, Analyzing 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 should 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:

- B3-3.3.1-08, Income or Loss Reported on IRS Form 1065, Schedule K-1
- B3-3.3.2-02, Analyzing Returns for an S Corporation

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## **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:

- B3-3.3.1-08, Income or Loss Reported on IRS Form 1065, Schedule K-1
- B3-3.3.2-03, 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-2010-02</a>	March 2, 2010



### **B3-3.3-03, IRS Forms Quick Reference (04/01/2009)**

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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.

<b>IRS Form Number</b>	<b>Title</b>
Form 1040	U.S. Individual Income Tax Return
Form 1040, Schedule B	Interest and Ordinary Dividends
Form 1040, Schedule C	Profit or Loss from Business (Sole Proprietorship)
Form 1040, Schedule D	Capital Gains and Losses
Form 1040, Schedule E	Supplemental Income and Loss
Form 1040, Schedule F	Profit or Loss From Farming
Form 1065	U.S. Partnership Return of Income
Form 1065, Schedule K-1	Partner's Share of Income, Deductions, Credits, etc.
Form 1099-A	Acquisition or Abandonment of Secured Property
Form 1099-C	Cancellation of Debt
Form 1099-DIV	Dividends and Distributions
Form 1099-MISC	Miscellaneous Income
Form 1120	U.S. Corporation Income Tax Return
Form 1120S	U.S. Income Tax Return for an S Corporation
Form 1120S, Schedule K-1	Shareholder's Share of Income, Deductions, Credits, etc.
Form 2106	Employee Business Expenses
Form 4506-T	Request for Transcript of Tax Return
Form 4506	Request for Copy of Tax Return
Form 4797	Sales of Business Property
Form 6252	Installment Sale Income
Form 8821	Tax Information Authorization
Form 990	Return of Organization Exempt From Income Tax Form
Form W-4	Employee's Withholding Allowance Certificate

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## Section B3-3.3.1, Documentation Requirements for an Individual



### **B3-3.3.1-01, General Information on Analyzing Individual Tax Returns (04/01/2009)**

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#### **Introduction**

This topic contains general information on analyzing individual tax returns, including:

- Analyzing Individual Tax Returns
  - Adjusted Gross Income Approach
  - Cash Flow Analysis: Form 1084
- 

#### **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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### **Cash Flow Analysis: [Form 1084](#)**

When a lender uses Fannie Mae’s Cash Flow Analysis ([Form 1084](#)), there is no need to make adjustments for the items required for an adjusted gross income analysis because the form begins with the borrower’s total reported income.



## **B3-3.3.1-02, Income Reported on IRS Form 1040 (04/01/2009)**

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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 B3-3.2-01, Salary and Commission Income).

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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 is paid under a legal agreement,
- it has been received for 12 months, and
- it will continue for at least three years.

Any reported alimony received that does not satisfy these criteria must be deducted from the borrower's total income reported on IRS Form 1040 since it is not considered to be recurring income.

See B3-3.2-08, Other Sources of Income, for treatment of alimony income.

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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 if it will continue to be received for at least three years.

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 B3-3.1-04, Using Nontaxable Income to Adjust the Borrower's Gross Income. If the income from these sources is determined to be nonrecurring, the taxable portion of the income must be deducted from the borrower's cash flow.

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### **Unemployment Compensation**

Unemployment compensation may be considered as acceptable income if there is a documented two-year history of its regular receipt. This is particularly true when the unemployment compensation supplements regular seasonal employment.

Any reported unemployment compensation that cannot be documented as recurring income must be deducted from the borrower's cash flow.

See B3-3.2-08, Other Sources of Income, for more information on unemployment compensation.

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### **Other Income (or Loss)**

If the borrower reported income from other sources, the lender must verify that the borrower's receipt of the income will be consistent and ongoing for at least three years. If these criteria are not met, the income 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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## **B3-3.3.1-03, Deductions Reported on IRS Form 2106 (04/01/2009)**

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### **Introduction**

This topic contains information on deductions reported on IRS Form 2106, including:

- Business Expenses
  - Automobile Depreciation
- 

### **Business Expenses**

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.
- 

### **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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## **B3-3.3.1-04, Income or Loss Reported on IRS Form 1040, Schedule C (04/01/2009)**

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### **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
- 

### **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 B3-3.3-02, 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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## **B3-3.3.1-05, Income or Loss Reported on IRS Form 1040, Schedule D (04/01/2009)**

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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

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### **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 of assets that produces regular gains and losses, 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. Lenders may add back to the borrower's cash flow any nonrecurring capital losses.

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 or losses 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 or losses.
Schedule D includes gains, losses, or principal payments on an installment sales contract,	lenders must obtain a copy of

If ...	Then ...
	<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.



### **B3-3.3.1-06, Income or Loss Reported on IRS Form 1040, Schedule E (04/01/2009)**

#### **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 B3-3.3.1-08, Income or Loss Reported on IRS Form 1065, Schedule K-1).

#### **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 B3-3.2-08, 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 list of real estate owned in the borrower's loan application should be included.

All regular and ongoing expenses for the properties, such as maintenance, advertising, management fees, utilities, 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 cost of a new roof.

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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### **B3-3.3.1-07, 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 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.



### **B3-3.3.1-08, Income or Loss Reported on IRS Form 1065, Schedule K-1 (04/01/2009)**

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#### **Introduction**

This topic contains information on income or loss reported on IRS Form 1065, Schedule K-1.

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#### **Income or Loss Reported on IRS Form 1065, Schedule K-1**

A borrower's share of income (or loss) from a partnership, LLC, or S corporation is reported on IRS Form 1065, Schedule K-1.

Ordinary income reported on Schedule K-1 may be included in the borrower's cash flow only if:

- the borrower has a documented, consistent, and stable history of withdrawals or cash distributions of income from the business,
- the business has positive sales and earnings trends,
- the business has adequate liquidity to support the withdrawal of earnings, and
- the borrower's ownership and access to the income is documented by a partnership agreement or corporate resolution.

If the borrower has a two-year history of receiving “guaranteed payments to the partner” from a partnership or a LLC, these payments can be added to the borrower’s cash flow.

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## Section B3-3.3.2, Documentation Requirements for a Business



### **B3-3.3.2-01, Analyzing Returns for a Partnership or LLC (04/01/2009)**

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#### **Introduction**

This topic contains information on analyzing returns for a partnership or LLC, including:

- Overview
  - Borrower's Proportionate Share of Income or Loss
  - Adjustments to Cash Flow
  - Income from Partnerships, Estates, and Trusts
- 

#### **Overview**

Partnerships and 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 B3-3.3-02, Business Structures, for more information on partnerships and LLCs.

The lender must evaluate the overall financial position of the borrower's business to determine whether:

- income is stable and consistent,
- sales and earnings trends are positive, and
- liquidity is adequate to support the borrower's withdrawal of cash without a severe negative effect on the business.

If the business does not meet these standards, income from the business 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 percentage of capital ownership in the business as of the end of the year 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 and the adjustments to the business income discussed below.

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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, 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 if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.)
- 

### **Income from Partnerships, Estates, and Trusts**

Income from partnerships, estates, or trusts can only be considered if the lender obtains documentation verifying that:

- the borrower has ownership of and access to the income through a partnership agreement or LLC operating agreement,
- the income was actually distributed to the borrower's business,
- the business has a history of receiving distributions on a consistent basis,
- the business has positive sales and earnings trends, and
- the business has adequate liquidity to support withdrawals.



## **B3-3.3.2-02, Analyzing Returns for an S Corporation (04/01/2009)**

---

### **Introduction**

This topic contains information on analyzing returns for an S corporation, including:

- Overview
  - Evaluating the Income
  - Borrower's Proportionate Share of Income or Loss
  - Adjustments to Cash Flow
- 

### **Overview**

S corporations pass gains and losses on to their shareholders, who are then taxed at the tax rates for individuals. S corporations 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 B3-3.3-02, Business Structures, for more information on S corporations.

---

### **Evaluating the Income**

Ordinary income from an S corporation can be used to qualify the borrower only if the following requirements are met:

- the borrower's business must have a history of receiving such distributions on a consistent basis,
- 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. This is determined by evaluating the S corporation's history of distributions, financial position, and liquidity positions.

---

### **Borrower's Proportionate Share of Income or Loss**

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. The borrower's proportionate share is based on his or her percentage of capital ownership in the business, as shown on Schedule K-1.

---

### **Adjustments to 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 if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.



## **B3-3.3.2-03, 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

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## Overview

Corporations use IRS Form 1120 to report their taxes. See B3-3.3-02, 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.

---

## 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.
- 

## 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.

---

## 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.



### **B3-3.3.2-04, 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 B3-3.4, DU Requirements for Income Assessment



### B3-3.4-01, Documents Used for DU Income Assessment (12/01/2010)

#### Introduction

This topic contains information on the documents used for DU income assessment.

#### Documents Used for DU Income Assessment

The following table describes the documents that are required to confirm a borrower's employment and income.

Document Type	Requirements
Paystub	<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.</p> <p>Additionally, the paystub must include sufficient information to appropriately calculate income; otherwise, additional documentation must be obtained.</p>
W-2	<p>The lender must obtain W-2s for all jobs held in the prior year.</p>
Verification of Employment Form 1005 (VOE) or Form 1005(S)	<p>A VOE with YTD income may be substituted for the paystub or for the paystub and W-2. The VOE must contain the prior year's earnings if it is a substitute for the W-2.</p> <p>Lenders can calculate a monthly average income based on the current YTD earnings of base income; however, bonus and overtime income should be annualized.</p> <p>Any income marked "not likely to continue" on the VOE should not be entered into DU for qualifying purposes.</p>

Document Type	Requirements
Personal federal income tax returns	Copies of tax returns that were filed with the IRS must be signed by the borrowers who filed the returns. All supporting schedules must be included. In addition, the lender must obtain written permission from the borrower to request copies of federal income tax returns as specified in the Underwriting Findings report. (See B3-3.1-01, Requirements and Uses of IRS Form 4506-T.)
Business federal income tax returns	For certain higher risk transactions, DU may return a message requiring two years' business federal income tax returns, along with an additional message allowing the waiver of the business tax returns according to the policy in B3-3.3-01, Underwriting Factors and Documentation for a Self-Employed Borrower. However, business tax returns do not have to be provided unless the business is a corporation, an S corporation, or a partnership.

For detailed income documentation requirements, see B3-3.1-01, Requirements and Uses of IRS Form 4506-T, B3-3.1-02, Verbal Verification of Employment, B3-3.1-03, Non-U.S. Citizen Borrowers, B3-3.1-04, Using Nontaxable Income to Adjust the Borrower's Gross Income, Section B3-3.2, Salary, Commissions, and Other Sources of Income, and Section B3-3.3, Self-Employment Income.

---

### 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-2010-06</a>	April 30, 2010

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## **B3-3.4-02, Income and Employment Documentation and Verbal Verification Requirements for DU (12/01/2010)**

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### **Introduction**

This topic contains information on general income and employment documentation requirements for DU, including:

- General Income Documentation Requirements
  - Salary or Hourly Wage Earnings (Base Income)
  - Bonus and Overtime Income
  - Commission Income
  - Second Job Income
  - Self-Employment Income
  - Other/Non-Employment Income
  - Nontaxable Income
  - Verbal Verification of Employment
- 

### **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 following topics describe DU considerations for specific types of income.

---

### **Salary or Hourly Wage Earnings (Base Income)**

*Documentation Requirements.* DU will recommend one of the following levels of documentation:



- one paystub, or
- one paystub and the previous year's W-2.

*History of Income.* Generally, lenders do not have to verify prior employment history unless the level of documentation specified in the Underwriting Findings report requires the previous year's W-2.

*Notes.* Only actual employer information should be entered in Section IV. For example, do not enter "retired" or "homemaker" as the borrower's current employer.

---

### **Bonus and Overtime Income**

*Documentation Requirements.* DU will recommend one of the following levels of documentation based on the percentage of commission income to salary income:

- one paystub, or
- one paystub and the previous year's W-2.

*Income Calculations.* When using a paystub that reflects year-to-date bonus and overtime income, the bonus and overtime income must be annualized (divided by 12). For example, if the paystub is dated June 30 and the bonus and/or overtime income YTD is \$6,000, enter \$500 on the loan application.

If the lender chooses to average the bonus and overtime income over a longer period of time, additional documentation must be provided. It may also be necessary to obtain additional information or documentation from the borrower to establish the stability of the bonus and overtime income.

---

### **Commission Income**

*Documentation Requirements.* DU will recommend one of the following levels of documentation based on the percentage of commission income to salary income (including base, commission, overtime, and bonus income):

- Commission income less than 25% of borrower's salary income:
  - one paystub, or
  - one paystub and the previous year's W-2.

- Commission income equal to or greater than 25% of borrower's salary income:
  - one year's most recent personal signed federal income tax return, or
  - two years' most recent personal signed federal income tax returns.

The tax returns must include a minimum of six months of commission earnings for the income to be used for qualifying purposes.

If it is more than 60 days from the date of the last filed tax return, obtain a current paystub or IRS Form 1099 and confirm that current earnings support the income on the tax returns.

For loans originated between January 1 and April 15, if the borrower has not yet filed his or her prior year's tax return, the lender must determine if alternative documentation, including IRS Form 1099 or W-2 from the previous year, is sufficient to document the commission income for the year. Taking into consideration business expenses that are deducted from earnings, the lender should develop an average monthly net income for qualifying purposes based on the documentation requested in the Underwriting Findings report.

Additionally, the lender must review a current paystub to confirm that the commission income on the paystub supports the commission income reported on the IRS Form 1099 or W-2 from the prior year.

*History of Income.* There is no stated minimum history requirement for commission income. However, if the documentation level provided by DU requires one or two years' personal signed federal income tax returns, at least six months of commission income must be documented on the filed tax return(s) for it to be used for qualifying purposes.

*Income Calculation.* When using a paystub, calculate an average monthly income based on the year-to-date commission.

When using tax returns, calculate an average monthly income based on the documentation requested by DU. For example, if one year's tax return is requested, and the income reported on the filed tax return reflects only six months of commission income, divide the reported commission income by 12.

---

## Second Job Income

*Documentation Requirements.* DU will recommend one of the following levels of documentation:

- one paystub and the previous year's W-2, or

- two years' most recent personal signed federal income tax returns.

*History of Income.* The borrower must have a 12-month history on all second jobs in order to include the income in DU for qualifying purposes. If the history in Section IV is less than 12 months, DU will issue a message that the income must be removed from Section V and the loan resubmitted.

*Income Calculations.* Income should be calculated based on an average of the paystub and W-2 earnings or the tax returns, as applicable.

*Notes.* The income from second jobs must be included in the Base Income field in Section V.

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### **Self-Employment Income**

*Documentation Requirements.* DU will recommend one of the following levels of documentation:

- one year's most recent personal signed federal income tax return,
- two years' most recent personal signed federal income tax returns, or
- two years' most recent personal and two years' most recent business signed federal income tax returns. Business tax returns do not have to be provided unless the business is a corporation, an S corporation, or a partnership.

The tax returns must include a minimum of six months of self-employment income for the income to be included.

For loans originated between January 1 and April 15, if the borrower has not yet filed his or her prior year's tax return, the lender must determine if alternative documentation, including IRS Form 1099 or W-2 from the previous year, is sufficient to document the self-employment income for that year. Taking into consideration business expenses that are deducted from earnings, the lender should develop an average monthly net income for qualifying purposes based on the documentation requested in the Underwriting Findings report.

*History of Income.* Generally, for DU loans, borrowers must have been self-employed for at least one year. If DU recommends tax returns, at least six months of self-employment income must be reported on the previous year's filed tax return to use the income for qualifying purposes.

If a borrower has not been self-employed for at least one year, and the lender elects to underwrite the loan, the lender must confirm that the borrower is in the same line of work, and the borrower must be able to document a reasonable probability of success based on market feasibility studies and pro forma financial statements for the business.

The lender must carefully analyze the following factors:

- the borrower’s training and experience,
- the location and nature of the business, and
- the demand for that type of business in the area.

If the self-employment does not meet the above guidelines, the lender must remove the income from the application and resubmit the loan casefile.

*Income Calculations.* When using tax returns, the lender should calculate an average monthly net income based on the documentation requested by DU. For example, if one year’s tax return is requested, and the income reported on the filed tax return reflects only six months of self-employment income, divide the reported net self-employment income by 12.

If DU requires two years of tax returns but the borrower has only been self-employed for one year, the lender must verify that the borrower has been self-employed for at least one year, and that at least six months of self-employment income was reported on the previous year’s filed tax return, and there was one year of employment prior to the self-employment. In other words, at least two years of employment must be verified.

Refer to B3-3.3-01, Underwriting Factors and Documentation for a Self-Employed Borrower for required forms and calculations. A copy of the written analysis must be included in the permanent loan file.

*Notes.* 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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### **Other/Non-Employment Income**

Other/non-employment income should be entered as “Other Income” in Section V. The other income types listed below can be selected. Tips, monthly Section 8 Voucher payments, etc., should be entered as “Other Types of Income” in the “Other Income” list.

Unless stated below, qualifying income from the following sources should be verified according to B3-3.2-06, Military Income or B3-3.2-08, Other Sources of Income.

- Alimony and/or child support income — A three-month history of receipt is required and must be documented. In addition, documentation that the income will continue for at least three years should be obtained.
- Automobile/expense account income

- Boarder income
- Foster care
- Military base pay, military clothes allowance, military combat pay, military flight pay, military hazard pay, military overseas pay, military prop pay, military quarters allowance, military rations allowance, military variable housing allowance. All military income can be combined and entered as Base Income in Section V for conventional loans.
- Mortgage Credit Certificates (MCC)
- Notes receivable/installment
- Other types of income
- Pension/retirement income
- Real estate, mortgage differential income
- Social Security/disability income
- Trust income
- Unemployment/public assistance income
- VA benefits (non-education)

*Documentation Requirements.* Unless stated otherwise, qualifying income from other income sources should be verified according to B3-3.2-08, Other Sources of Income.

---

## **Nontaxable Income**

DU does not provide any unique messaging identifying the use of adjusted gross income.

Topic B3-3.1-04, Using Nontaxable Income to Adjust the Borrower's Gross Income describes 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 should 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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## Verbal Verification of Employment

For requirements regarding verbal VOEs, see B3-3.1-02, Verbal Verification of Employment.

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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-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

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## **B3-3.4-03, Income From Rental Property (09/27/2011)**

[Click to see prior version of topic](#)

---

### Introduction

This topic provides information on DU considerations for calculating net rental income and net cash flow for rental property, including:

- **Net Rental Income**
  - Entering Net Rental Income
  - Special Situations
- **Documentation of Net Rental Income**
  - Calculation of Net Rental Income
- **Subject Net Cash Flow**
  - **Documentation of Subject Net Cash Flow**
  - **Calculation of Subject Net Cash Flow**

---

## Net Rental Income

“Net rental income” for DU loan casefiles does not include rental income from the subject (security) 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.

---

### Entering Net Rental Income

To submit net rental income to DU, the lender can either:

- Calculate the total net rental income according to B3-3.2-07, 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 REO data has been entered, DU will ignore a zero value in this 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 [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:

$$(\text{gross rental income} \times 75\%) - \text{mortgage payment} - \text{insurance/maintenance/} \\ \text{taxes/misc.} = \text{net rental income}$$

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 total expense ratio.

---

### 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.

---

### Documentation of Net Rental Income

The documentation of net rental income is the same for loans underwritten through DU as it is for manually underwritten loans, except that the lender may obtain only one year's tax return for DU casefiles (instead of two). Refer to B3-3.2-07, Rental Income, (Rental Income From Property Other Than the Security Property) for additional information.

If the borrower is being qualified with the entire payment, without benefit of rental income, documentation of net rental income is not required.

---

### 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, except that the average income can be calculated over 12 months instead of 24. Refer to B3-6-06, Qualifying Impact of Other Real Estate Owned, for additional information.

---

### Subject Net Cash Flow

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 should 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 total expense ratio.



---

### 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, with the following exceptions for DU casefiles:

- the lender may obtain only one year's tax return (instead of two); and
- [Form 216, Operating Income Statement](#), is not required.

Refer to B3-3.2-07, Rental Income, for additional information.

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 B3-2-08, Out of Scope Recommendations, (Reporting of Gross Monthly Rent), for additional information.

---

### 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 according to B3-3.2-07, Rental Income, 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, MyCommunityMortgage Underwriting Methods and Requirements, for information about rental income on two- to four-unit properties secured by MCM loans.

*Investment properties.* Calculate the subject net cash flow according to B3-3.2-07, Rental Income. 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 total expense 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>Announcement</b>	<b>Issue Date</b>
<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 describes 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 .....	368
B3-4.2, Verification of Depository Assets .....	381
B3-4.3, Verification of Non-Depository Assets .....	388
B3-4.4, DU Requirements for Asset Assessment .....	414

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## Section B3-4.1, General Asset Requirements



### **B3-4.1-01, Minimum Reserve Requirements (09/20/2010)**

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#### **Introduction**

This topic contains information on minimum reserve requirements, including:

- Earnest Money Deposit
  - What Are Liquid Financial Reserves?
  - Acceptable Sources of Reserves
  - Unacceptable Sources of Reserves
  - Supplementing Borrower Funds
  - Determining Required Minimum Reserves
  - Minimum Reserve Requirements Tables
- 

#### **Earnest Money Deposit**

The lender must verify that earnest money deposit funds are from an acceptable source and the borrower has sufficient assets remaining to complete the mortgage transaction (down payment, closing costs, and prepaids) and provide reserves, if required.

---

#### **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's:

- 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 monthly housing expense (PITIA) that a borrower could pay using his or her financial assets. For monthly housing expense see B3-6-03, Monthly Housing Expense.

The definition of reserves applies to both manually underwritten mortgage loans and loan casefiles underwritten through DU.

---

### Acceptable Sources of Reserves

Examples of liquid financial assets that can be used for reserves include:

- 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;
- the cash value of a vested life insurance policy.

**Note:** Certain assets must be “discounted” when used for reserves. Refer to the applicable asset type for additional information.

---

### 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;
- 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.

---

### **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 the transaction;

- the occupancy status and amortization type of the subject property
  - principal residence/interest—only — 24 months
  - second home/fully amortizing — two months
  - second home/interest—only — 24 months
  - investment property — six months
- the number of units in the subject property
  - two- to four-units — six months
- the number of other financed properties the borrower currently owns
  - see Minimum Reserve Requirements Table below
- the status of the primary residence (pending sale, or converting to second home or investment property)
  - see Minimum Reserve Requirements Table below.

For manually underwritten mortgages, lenders must subtract funds to close from available assets when considering sufficient assets for reserves.

For loan casefiles underwritten with DU, DU will determine the reserve requirements based on the overall risk assessment of the loan and the minimum reserve requirement that may be required for the transaction. For second home and investment property transactions underwritten with DU, DU will calculate the reserve requirement for the subject property. When a borrower has multiple financed properties and is financing (or refinancing) a second home or investment property, DU is not able to determine the exact number of financed properties the borrower owns. As a result, the lender must manually apply the applicable reserve requirements for the other financed investment property and second home transactions as applicable. The lender must

subtract the amount of required reserves from the borrower's liquid assets prior to submitting the loan casefile to DU.

**Note:** DU Refi Plus™ and Refi Plus™ mortgage loans are exempt from the minimum reserve requirements.

---

### Minimum Reserve Requirements Tables

Lenders must determine minimum reserve requirements based on the following tables. The required reserves for a financed property are based on the monthly housing expense of the financed property. For mortgage loans with an interest-only feature, the reserves calculation is based on the fully amortizing payment.

For additional information regarding monthly housing expense, see B3-6-03, Monthly Housing Expense. In certain instances, the tables below refer to equity in the previous principal residence. For the calculation, see B3-6-06, Qualifying Impact of Other Real Estate Owned.

In conjunction with the reserve requirements below, the lender must also comply with, as applicable, related policies, including, but not limited to the following:

- B2-2-03, Multiple Financed Properties for the Same Borrower;
- B3-3.2-07, Rental Income;
- B3-4.4-01, Asset Verification; and
- B3-6-06, Qualifying Impact of Other Real Estate Owned.

The following table provides minimum reserve requirements when the mortgage loan being delivered to Fannie Mae is secured by the borrower's principal residence. For exceptions to these requirements, see B5-6-03, MyCommunityMortgage Underwriting Methods and Requirements and B5-6-04, MyCommunityMortgage: Additional Eligibility and Underwriting Requirements for Community Solutions and Community HomeChoice.

<b>Subject Property: Principal Residence</b>	<b>Reserves (PITIA) in Months</b>	
<b>Number of Units and Transaction Type</b>	<b>Borrower will have 1-4 financed properties</b>	<b>Borrower will have 5-10 financed properties</b>
1-unit only	<ul style="list-style-type: none"> <li>• <b>DU:</b> Per DU or</li> <li>• <b>Manual:</b> 0 months</li> </ul>	<ul style="list-style-type: none"> <li>• <b>DU:</b> Per DU or</li> <li>• <b>Manual:</b> 0 months</li> </ul>
2-4 units only	<ul style="list-style-type: none"> <li>• <b>DU:</b> Per DU or</li> </ul>	<ul style="list-style-type: none"> <li>• <b>DU:</b> Per DU or</li> </ul>

<b>Subject Property: Principal Residence</b>	<b>Reserves (PITIA) in Months</b>	
	<ul style="list-style-type: none"> <li>• <b>Manual:</b> 6 months on subject property</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Manual:</b> 6 months on subject property</li> </ul>
However, if the borrower also has a: <ul style="list-style-type: none"> <li>• Current Principal Residence — Pending Sale</li> <li>• Current Principal Residence — Converting to Second Home</li> <li>• Current 1-4 unit Principal Residence — Converting to Investment Property</li> </ul>	<b>DU:</b> Per DU  <b>Manual:</b> If 30% equity or more on previous principal residence: <ul style="list-style-type: none"> <li>• 2 months on subject property, <b>and</b></li> <li>• 2 months on previous primary; or</li> </ul> If less than 30% equity on previous principal residence: <ul style="list-style-type: none"> <li>• 6 months on subject property, <b>and</b></li> <li>• 6 months on previous principal residence.</li> </ul>	<b>DU:</b> Per DU  <b>Manual:</b> If 30% equity or more on previous principal residence: <ul style="list-style-type: none"> <li>• 2 months on subject property, <b>and</b></li> <li>• 2 months on previous principal; or</li> </ul> If less than 30% equity on previous principal residence: <ul style="list-style-type: none"> <li>• 6 months on subject property, <b>and</b></li> <li>• 6 months on previous principal residence.</li> </ul>

The following table provides minimum reserve requirements when the mortgage loan being delivered to Fannie Mae is secured by a second home.

<b>Subject Property: Second Home</b>	<b>Reserves (PITIA) in months</b>	
<b>Number of Units</b>	<b>Borrower will have 1-4 financed properties</b>	<b>Borrower will have 5-10 financed properties</b>
1-unit	Subject property: <ul style="list-style-type: none"> <li>• <b>DU:</b> Per DU</li> <li>• <b>Manual:</b> 2 months on subject property.</li> </ul>	Subject property: <ul style="list-style-type: none"> <li>• <b>DU:</b> Per DU</li> <li>• <b>Manual:</b> 2 months on subject property.</li> </ul>
	Other financed properties: 2 months on each other financed	Other financed properties: 6 months on each other financed



<b>Subject Property: Second Home</b>	<b>Reserves (PITIA) in months</b>	
	second home or investment property.  Must be calculated and documented for loan casefiles underwritten with DU and for manually underwritten mortgage loans.	second home or investment property.  Must be calculated and documented for loan casefiles underwritten with DU and for manually underwritten mortgage loans.

The following table provides minimum reserve requirements when the mortgage loan being delivered to Fannie Mae is secured by an investment property.

<b>Subject Property: Investment</b>	<b>Reserves (PITIA) in months</b>	
<b>Number of Units</b>	<b>Borrower will have 1-4 financed properties</b>	<b>Borrower will have 5-10 financed properties</b>
1-4 Units	<ul style="list-style-type: none"> <li>• <b>DU:</b> Per DU</li> <li>• <b>Manual:</b> 6 months</li> </ul> Other financed properties: 2 months on each financed second home or other investment property.  Must be calculated and documented for loan casefiles underwritten with DU and for manually underwritten mortgage loans.	<ul style="list-style-type: none"> <li>• <b>DU:</b> Per DU</li> <li>• <b>Manual:</b> 6 months</li> </ul> Other financed properties: 6 months on each financed second home or other investment property.  Must be calculated and documented for loan casefiles underwritten with DU and for manually underwritten 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.

Announcements	Issue Date
<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) (04/30/2010)**

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### Introduction

This topic contains information on interested party contributions, including:

- Overview
- IPC Limits
- Lender Checklist for IPCs

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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%
	75.01% – 90%	6%
	75% or less	9%

Occupancy Type	LTV/CLTV Ratio	Maximum IPC
Investment property	All CLTV ratios	2%

### Lender Checklist for IPCs

The lender must ensure that all of the following requirements for an IPC are satisfied:

<b>Lender Checklist for IPCs</b>	
	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 Good Faith Estimate (GFE), the Uniform Residential Loan Application ( <a href="#">Form 1003</a> or <a href="#">Form 1003(S)</a> ) (particularly Section VII, Details of Transaction), the appraisal report, and the HUD-1 Settlement Statement.
	Ensure that all elements of the HUD-1 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.

### 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 09-37</a>	December 30, 2009



## **B3-4.1-03, Types of Interested Party Contributions (IPCs) (06/30/2010)**

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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 HUD-1 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).

IPC funds that flow through a DAP may be used for allowable closing costs and prepaids 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. 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);
- hazard insurance premiums (limited to no more than 14 months);
- homeowner association (HOA) dues 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 HUD-1 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-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 (05/24/2011)

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#### Introduction

This topic contains information on verifying deposits and assets, including:

- Verification of Deposits and Assets
  - Blanket Authorization Form
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#### 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 account activity for the most recent two-month period (or, if account information is reported on a quarterly basis, for 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.

- 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.

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### Blanket Authorization Form

Rather than having the applicant sign multiple forms, the lender may have the applicant sign a borrower's signature authorization form, which gives the lender blanket authorization to request the information it needs to evaluate the applicant's creditworthiness. (See B1-1-03, 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-2011-04</a>	May 24, 2011



## **B3-4.2-02, Checking and Savings Accounts (04/01/2009)**

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### Introduction

This topic contains information on checking and savings accounts.

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## Checking and Savings Accounts

Funds held in a checking or savings account 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 or closing costs unless they satisfy Fannie Mae's requirements for borrowed funds (see B3-4.3-16, Borrowed Funds Secured by an Asset).

The lender must investigate any indications of borrowed funds. They include recently opened accounts, recent large deposits, or account balances that are considerably greater than the average balance over the previous few months.

The lender must obtain a written explanation of the source of funds from the borrower, and must verify the source of funds.



## **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

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### 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:

<b>IDA Repayment Terms</b>	<b>Allowable Use of Matching Funds</b>
<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</li> </ul>

IDA Repayment Terms	Allowable Use of Matching Funds
	borrower's minimum contributions. 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 nonprofit agency <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>	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.

**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:

<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.

### 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



## **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 (10/30/2009)

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#### Introduction

This topic contains information on stocks, stock options, bonds, and mutual funds.

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#### Stocks, Stock Options, Bonds, and Mutual Funds

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. Stock options may also be an acceptable source of funds, but only for down payment and closing costs.

The lender must verify:

- the borrower's ownership of the account or asset,
- the value of the asset at the time of sale or liquidation (see the table below), and
- the borrower's actual receipt of funds realized from the sale or liquidation of the assets if the stocks, stock options, bonds, and mutual funds will be used for the down payment or closing costs.

Asset Type	Determining the Value of the Asset
Stocks and mutual funds	<p>When used for down payment or closing costs, the lender must determine the value of the asset at the time of sale or liquidation (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>



Asset Type	Determining the Value of the Asset
	When used for reserves, the value of stocks and mutual funds must be discounted by 30%.  <b>Note:</b> Non-vested restricted stock is not an acceptable source of reserves.
Stock options	Vested stock options are an acceptable source of funds for down payment and closing costs if they are immediately available to the borrower. The value of vested stock options can be documented by: <ul style="list-style-type: none"> <li>• referencing 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> Vested stock options are not an acceptable source for reserves. Non-vested stock options are not an acceptable source of funds for the down payment, closing costs, or reserves.
Government bonds	The value of government bonds must be based on their purchase price unless the redemption value can be documented. When used for reserves, the value of bonds must be discounted by 30%.

### 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



### **B3-4.3-02, Trust Accounts (04/01/2009)**

#### Introduction

This topic contains information on trust accounts.

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## 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.



## **B3-4.3-03, Retirement Accounts (05/24/2011)**

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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/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for down payment, closing costs, and reserves.

The lender must verify the ownership of the accounts and the borrower's actual receipt of the funds realized from the liquidation of the assets if needed to complete the transaction.

When funds from retirement accounts are used for reserves, Fannie Mae does not require the funds to be withdrawn from the account(s). However, lenders must exercise caution when considering retirement accounts as effective reserves because these accounts often feature significant penalties for early withdrawals, allow limited access, or have vesting requirements. Retirement accounts that do not allow any type of withdrawal may not be considered.

To account for withdrawal penalties and estimated taxes, lenders must include only 60% of the vested amount in its determination of the borrower's available reserves. If the retirement account only allows withdrawals in connection with the borrower's employment termination, retirement

(unless the borrower is of retirement age), or death, the lender must not consider the vested funds as effective reserves.

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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-2011-04</a>	May 24, 2011
<a href="#">Announcement 09-19</a>	June 8, 2009



### **B3-4.3-04, Personal Gifts (09/20/2010)**

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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.

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### Minimum Borrower Contribution Requirements

The following table describes the minimum borrower contribution requirements for transactions that contain gifts:

<b>LTV, CLTV, or HCLTV Ratio</b>	<b>Minimum Borrower Contribution Requirement from Borrower’s Own Funds</b>	
80% or less	One- to four-unit principal residence  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  (Except for high-balance mortgage loans)	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  Second home High-balance mortgage loans	The borrower must make a 5% minimum borrower contribution (or 3% for MCM) 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.  See B5-6-03, MyCommunityMortgage

LTV, CLTV, or HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
		Underwriting Methods and Requirements, for additional information about MCM minimum borrower contribution and down payment requirements.

<sup>3</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-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 (10/30/2009)**

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#### 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 sales price for the property is at market rate. The acceptable donor and minimum borrower contribution requirements for gifts also applies 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 HUD-1 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 09-32</a>	July 1, 2009



### **B3-4.3-06, Donations From Entities (09/20/2010)**

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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 below. 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), and public agencies.

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### Minimum Borrower Contribution Requirements

The following table describes the minimum borrower contribution requirements for transactions that contain donated gifts or grants:

<b>LTV, CLTV, or HCLTV Ratio</b>	<b>Minimum Borrower Contribution Requirement from Borrower's Own Funds</b>	
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  (Except for high-balance mortgage loans)	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  High-balance mortgage loans	The borrower must make a 5% minimum borrower contribution (or 3% for MCM) 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



LTV, CLTV, or HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
		payment, closing costs, and reserves.  See B5-6-03, MyCommunityMortgage Underwriting Methods and Requirements, for additional information about MCM minimum borrower contribution and down payment requirements.

### 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.

### 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



## B3-4.3-07, Disaster Relief Grants or Loans (04/01/2009)

### 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 (09/20/2010)**

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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.

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### 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  (Except for high-balance mortgage loans)	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  High-balance mortgage loans	The borrower must make a 5% minimum borrower contribution (or 3% for MCM) from his or her own funds. After the minimum borrower contribution has been met, employer assistance can be used to supplement the down

LTV, CLTV, or HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
		payment, closing costs, and reserves (except for unsecured loans, which may not be applied to reserves).  See B5-6-03, MyCommunityMortgage Underwriting Methods and Requirements, for additional information about MCM 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).

### 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



## **B3-4.3-09, Sales Contract Deposit (04/01/2009)**

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### **Introduction**

This topic contains information on the sales contract deposit, including:

- Sales Contract Deposit
  - Verification of Source of Funds
  - Documentation for Receipt of the Deposit
- 

### **Sales Contract Deposit**

The deposit on the sales contract 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.

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 cancelled 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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## B3-4.3-10, Anticipated Sales Proceeds (04/01/2009)

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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
  - Corporate Relocation Plans
- 

### 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  <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 fully executed HUD-1 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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### **Corporate Relocation Plans**

When the borrower's employer assumes responsibility for paying off the existing mortgage in connection with a corporate 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.



### **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 B5-2.3, Manufactured Housing.

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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, Credit for Value of Lot (04/01/2009)**

### **Introduction**

This topic contains information on credit for value of lot, including:

- Credit for Value of Lot
- Calculating the Equity Contribution

### **Credit for Value of Lot**

If a borrower holds title to the lot on which a property is being constructed and financed with a construction-to-permanent mortgage, the value of the land may be credited toward the borrower's minimum required contribution.

For manufactured housing, see Section B5-2.3, Manufactured Housing.

### **Calculating the Equity Contribution**

The borrower's equity contribution equals the difference between any outstanding liens against the land and the market value of the land.

The following table describes how to calculate the market value of the land and provides documentation requirements:

<b>When Was Land Acquired?</b>	<b>Market Value of Land</b>	<b>Documentation Requirements</b>
More than 12 months preceding loan application	Its current appraised value.	N/A
Less than 12 months preceding loan application	The lesser of its 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 certified copy of the HUD-1 Settlement Statement (or similar settlement statement), and</li></ul>

When Was Land Acquired?	Market Value of Land	Documentation Requirements
		<ul style="list-style-type: none"> <li>• a copy of a warranty deed showing that there are no outstanding liens against the property, or</li> <li>• a copy of a release of any prior lien(s).</li> </ul>
The borrower acquired the land at any time as a gift, an inheritance, or other non-purchase transaction	Its current appraised value.	If the borrower acquired the land less than 12 months preceding loan application, the lender must document the acquisition of the land and transfer of ownership of the land.



### **B3-4.3-13, 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

#### **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.



### **B3-4.3-14, Sweat Equity (04/01/2009)**

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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, or reserves, since it is difficult to accurately assess the contributory value of sweat equity work.

Sweat equity is accepted on a case-by-case basis. The specific details related to its acceptability will be specified in the lender's Master Agreement or individual negotiated contract. When accepted, sweat equity is considered to be an acceptable source of funds for the down payment, closing costs, and reserves.

See the following for additional eligibility requirements:

- For MyCommunityMortgage mortgages, see Chapter B5-6, MyCommunityMortgage (MCM).
- For HomeStyle Renovation loans, see B5-3.2-03, HomeStyle Renovation Mortgages: Underwriting and Collateral Considerations.

**Note:** Sweat equity is prohibited for manufactured housing transactions.



## **B3-4.3-15, 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.

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## **B3-4.3-16, 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
- 

### **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.
- 

### **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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## **B3-4.3-17, 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.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement 09-19</a>	June 8, 2009

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## **B3-4.3-18, Personal Unsecured Loans (09/20/2010)**

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### **Introduction**

This topic contains information on personal unsecured loans.

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### **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.

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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-2010-13</a>	September 20, 2010

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## **B3-4.3-19, Sale of Personal Assets (04/01/2009)**

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### **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.



## **B3-4.3-20, Cash Value of Life Insurance (04/01/2009)**

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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**

To document borrower receipt of funds from the insurance company, lenders must obtain either a copy of the check from the insurer or copy of the payout statement issued by the insurer.

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## **B3-4.3-21, Anticipated Savings and Cash-on-Hand (04/01/2009)**

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### **Introduction**

This topic contains information on:

- Anticipated Savings
  - Cash-on-Hand
- 

### **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 MyCommunityMortgages, cash-on-hand may be considered an acceptable source of funds for the down payment and closing cost. See Chapter B5-6, MyCommunityMortgage (MCM).

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## Section B3-4.4, DU Requirements for Asset Assessment



### **B3-4.4-01, Asset Verification (04/30/2010)**

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#### **Introduction**

This topic contains information on asset verification for mortgages underwritten with DU, including:

- Reserve Requirements
  - Liquid Assets
  - Non-Liquid Assets
  - Non-Occupant Co-Borrower Asset Requirements
- 

#### **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 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
- 

#### **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 MyCommunityMortgages 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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### **Non-Occupant Co-Borrower Asset Requirements**

Assets that are jointly owned by occupant borrowers and non-occupant co-borrowers are included in the 5% calculation provided the funds are entered on the occupying borrowers' online application.

Total liquid assets for the occupying borrower and non-occupant co-borrower are included in DU's calculation of funds available for closing and reserves.

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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-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

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## **B3-4.4-02, Documentation Requirements (09/20/2010)**

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### **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
- 

### **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.

---

### **Depository Assets**

For depository assets (checking and savings accounts, money market funds, and certificates of deposit), DU will recommend one of the following levels of documentation:

- one monthly bank statement, or
- two consecutive monthly bank statements.

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.

---

### **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.

---

### **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.

---

## 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.

---

## Gifts of Equity

Enter a gift of equity in Section VI A.

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.

---

### **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.

---

### **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-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 .....	422
B3-5.2, Credit Reports .....	428
B3-5.3, Traditional Credit History .....	437
B3-5.4, Nontraditional Credit History .....	457

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## Section B3-5.1, Credit Scores



### **B3-5.1-01, General Requirements for Credit Scores (04/30/2010)**

---

#### **Introduction**

This topic describes Fannie Mae's requirements for borrower credit scores, including:

- Credit Scores
  - Minimum Credit Score Requirements
  - Exceptions to the Minimum Credit Score Requirement
  - DU Credit Score Requirements
  - Underwriting DU Loan Casefiles for Borrowers Without Credit Scores
  - Delivering the Credit Score to Fannie Mae
- 

#### **Credit Scores**

Credit scores are required for most mortgage loans purchased or securitized by Fannie Mae. The lender must attempt to obtain and use the classic FICO credit score for each borrower. The classic FICO 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.

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.

## 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 subject to the general loan limits	Higher of 620 or 40 points below the minimum credit score required for the respective transaction regardless of the documented circumstances or offsetting contributory risk factors from the underwriter's comprehensive risk assessment. See B3-1-01, Comprehensive Risk Assessment
DU loan casefiles subject to the general loan limits	620 — fully amortizing loans 720 — mortgage loans with an interest-only feature
High-balance mortgage loans (applies to both DU and manually underwritten loans)	Minimum credit score for the respective transaction published in the High-Balance Chart of the Eligibility Matrix.
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 :

- mortgages that are manually underwritten with nontraditional credit (both conventional and government loans),
- certain manually underwritten MCM loans (see B5-6-03, MyCommunityMortgage Underwriting Methods and Requirements), and

- DU Refi Plus and Refi Plus mortgage loans.
- 

### **DU Credit Score Requirements**

FICO scores are not an integral part of DU's risk assessment (DU performs its own analysis of the credit report data); however, lenders must request FICO scores for each borrower from each of the three credit repositories when they order the three in-file merged credit report. With the exception of high-balance mortgage loans and mortgage loans with an interest-only feature, at least one borrower must have a credit score and traditional credit reported from at least one repository. 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 FICO 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, or if every borrower on the loan application lacks at least one credit score, then DU will issue an Out of Scope recommendation. The loan may be manually underwritten by establishing a nontraditional credit profile for the borrower(s).

**Note:** All borrowers on high-balance mortgage loans and loans with an interest-only feature must have at least one credit score. See B5-1.1-01, High-Balance Mortgage Loan Eligibility and Underwriting and B5-2.1-01, Mortgages with an Interest-Only Feature.

---

### **Underwriting DU Loan Casefiles for Borrowers Without Credit Scores**

Lenders can use DU to underwrite loan casefiles for borrowers who do not have traditional credit and credit scores if at least one other borrower on the loan application has one or more credit scores and all of the following conditions are met:

- The property is a one-unit, principal residence, and all borrowers will occupy the property.
- The transaction is a purchase or limited cash-out refinance.
- The loan amount meets the general loan limits — high-balance mortgage loans are not eligible.

- The loan does not have an interest-only feature.
- The income used to qualify the borrowers does not come from self-employment.
- The borrower with traditional credit and a credit score is contributing more than 50% of the qualifying income.

---

### Delivering the Credit Score to Fannie Mae

The following data elements are mandatory at delivery for all mortgage loans, including government loans:

- borrower's and co-borrower's credit score,
- borrower's and co-borrower's credit score ID (identifies the source of the representative credit score), and
- number of borrowers.

Lenders should refer to the [Field Definitions for the 2000-Character Loan Delivery File Format](#) document posted on eFannieMae.com for additional information about delivery of these data elements, including data requirements for borrowers who lack credit scores and guidance on delivering credit scores when there are more than two borrowers on 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.

Announcements	Issue Date
<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 (10/30/2009)**

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### **Introduction**

This topic contains requirements associated with determining the representative credit score, including:

- Representative Credit Score
- Borrowers Without Credit Scores
- 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:

<b>Step</b>	<b>Description</b>
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. 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.

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### **Borrowers Without Credit Scores**

When one borrower has traditional credit and one of more credit scores and other borrowers do not have credit scores and are relying on nontraditional credit to qualify:

- **Eligibility:** The representative credit score for the borrower with traditional credit is the representative credit score for the transaction for eligibility purposes (e.g., determining the maximum LTV ratio, occupancy, number of units, etc., per the [Eligibility Matrix](#)).
- **Pricing:** The representative credit score for the transaction will be the same as when no borrowers have traditional credit for pricing purposes and pricing will be charged under the lowest credit score range available in the applicable LLPA table. See the [LLPA Matrix and AMDC Information](#).

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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). The Borrower's and/or Co-Borrower's Credit Score delivery fields must be left blank and the Borrower's and/or Co-Borrower's Credit Score ID fields must be populated with "99" indicating "Not Available." See the [Field Definitions for the 2000-Character Loan Delivery File Format](#) 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 09-32</a>	October 30, 2009
<a href="#">Announcement 09-12</a>	May 4, 2009

## Section B3-5.2, Credit Reports



### **B3-5.2-01, Requirements for Credit Reports (10/30/2009)**

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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
- 

#### **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 (see B3-5.4-01, Nontraditional Mortgage Credit Reports) may be used in the following situations if the borrower:



- does not have sufficient credit to enable the development of a credit score,
- does not use the type of credit that is reported to credit repositories, or
- has an invalid credit score because of erroneous information in the borrower's credit record.

---

## 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.

---

### **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.

---

### **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.

---

### **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.

Borrowers who have experienced credit or financial management problems in the past may have elected to participate in consumer counseling sessions to learn how to correct or avoid such problems in the future. Whether borrowers have or have not completed participation in the sessions before closing on the mortgage transaction is not relevant since it is the borrower's credit history that is of primary importance.

---

### 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 eFannieMae.com, and must maintain in the permanent loan file a printed copy of the credit report used by DU in the final loan casefile submission. A DU observation message will identify all of the credit reports evaluated by DU during the loan submission.

**Note:** For loan casefiles submitted to DU, the borrower's present address must be within the U.S., U.S. territories, or APO military addresses located within the U.S.

For credit score requirements in DU, see B3-5.1-01, General Requirements for 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 09-32</a>	October 30, 2009



### **B3-5.2-02, Types of Credit Reports (09/20/2010)**

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#### 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, the lender must obtain a residential mortgage credit report. This requirement may be waived if the lender is able to obtain a credit score for the borrower and that score is acceptable given the overall risk of the mortgage.

- 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.
- 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 three (or two, if applicable) 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.

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-2010-13</a>	September 20, 2010



## **B3-5.2-03, Accuracy of Credit Information in a Credit Report (10/30/2009)**

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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 and underwriting of the application needs to be completed before the credit files can be corrected,

the lender cannot use a credit score in the underwriting of the application. Instead, the credit risk assessment must be based on a review of the borrower's traditional credit history.

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 concern when considering the impact to the borrower's overall credit profile.

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 and B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report 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 09-32</a>	October 30, 2009



## 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.



## **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.

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### **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.

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### **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 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 (04/01/2009)**

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#### **Introduction**

This topic contains information on credit utilization.

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#### **Credit Utilization**

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.



## **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
- 

### **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.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement 09-32</a>	October 30, 2009
<a href="#">Announcement 08-01</a>	January 31, 2008



## **B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit (05/24/2011)**

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### **Introduction**

This topic contains information on the waiting periods for significant derogatory credit events, including:

- General Information
  - Bankruptcy (Chapter 7 or Chapter 11)
  - Bankruptcy (Chapter 13)
  - Multiple Bankruptcy Filings
  - Foreclosure
  - Deed-in-Lieu of Foreclosure and Preforeclosure Sale
  - Summary — All Waiting Period Requirements
  - Requirements for Re-establishing Credit
- 

### **General Information**

The presence of significant derogatory credit events dramatically increase 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, and short sales.

**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 and Preforeclosure Sale 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.

If not clearly identified in the credit report, the lender must obtain copies of appropriate documentation for the significant derogatory credit event. The documentation must establish the completion date of a previous foreclosure, deed-in-lieu or preforeclosure sale; 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.

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. The waiting period commences on the completion, discharge or dismissal date (as applicable) of the derogatory credit event and ends on the application date of the new loan. See B3-5.3-08, Extenuating Circumstances for Derogatory Credit for additional information.

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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.

*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.

### Deed-in-Lieu of Foreclosure and Preforeclosure Sale

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. 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.

The following waiting period requirements apply:

Waiting Period	Additional Requirements
Two years	80% maximum LTV ratios <sup>a</sup>
Four years	90% maximum LTV ratios <sup>a</sup>
Seven years	LTV ratios per the Eligibility Matrix

<sup>a</sup>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.

#### *Exceptions for Extenuating Circumstances*

A two-year waiting period is permitted if extenuating circumstances can be documented, with maximum LTV ratios of the lesser of 90% or the maximum LTV ratios for the transaction per the Eligibility Matrix.

**Note:** References to LTV ratios include LTV, CLTV and HCLTV ratios.

### Summary — All Waiting Period Requirements

The following table summarizes the waiting period requirements for all significant derogatory credit events.

Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
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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	7 years	3 years  Additional requirements after 3 years up to 7 years: <ul style="list-style-type: none"> <li>• 90% maximum LTV ratios<sup>a</sup></li> <li>• Purchase, principal residence</li> <li>• Limited cash-out refinance, all occupancy types</li> </ul>
Deed-in-Lieu of Foreclosure and Preforeclosure Sale	<ul style="list-style-type: none"> <li>• 2 years — 80% maximum LTV ratios<sup>a</sup></li> <li>• 4 years — 90% maximum LTV ratios<sup>a</sup></li> <li>• 7 years — LTV ratios per the Eligibility Matrix</li> </ul>	2 years — 90% maximum LTV ratios <sup>a</sup>

<sup>a</sup>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.

**Note:** References to LTV ratios include LTV, CLTV, and HCLTV ratios.

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### Requirements for Re-establishing Credit

After a bankruptcy, foreclosure, deed-in-lieu of foreclosure, or preforeclosure sale, 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.

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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-2011-04</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 (04/01/2009)**

### Introduction

This topic provides information on extenuating circumstances for derogatory credit information.

### 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 letter from the borrower explaining the relevance of the documentation. The letter must support the claims of extenuating circumstances, confirm the nature of the event that led to the bankruptcy or foreclosure-related action, and illustrate the borrower had no reasonable options other than to default on their financial obligations.



## **B3-5.3-09, DU Credit Report Analysis (05/24/2011)**

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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
- 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, Garnishments, and Liens
- Mortgage Delinquencies
- Past-Due, Collections, and Charge-Off Accounts
- Prior Bankruptcy, Foreclosure, Deed-in-Lieu of Foreclosure, and Preforeclosure Sales
- Preforeclosure Sales or Short Sales

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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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## **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**

Lenders must confirm the accuracy of disputed tradelines reported on the borrower's credit report. If it is determined that the disputed tradeline information is accurate, lenders must ensure the disputed tradelines are considered in the credit risk assessment.

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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 total expense 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, Garnishments, and Liens**

Open judgments, garnishments, 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.

**Note:** Fannie Mae guidelines regarding the payoff of tax liens and the supporting documentation apply to loan casefiles underwritten through DU as well as manually underwritten loans.

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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/IV recommendation and will be ineligible for delivery to Fannie Mae.
- If an account is reported on the credit report as a non-mortgage tradeline, and yet the account is listed on the loan application as a mortgage, DU will analyze the credit history of the tradeline as a mortgage.



For example, if the credit report identifies an account as a revolving account, and the account is listed as a HELOC on the loan application, DU will evaluate the credit history of the account as a mortgage. Any late payments in the credit report will be treated by DU as delinquent mortgage payments.

- If there is a mortgage that is disclosed on the loan application but not reported on the credit report, 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 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 mobile home loans.

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### **Past-Due, Collections, and Charge-Off Accounts**

Accounts that are reported as past due (not reported as collection accounts) must be brought current.

- For one-unit, owner-occupied properties, borrowers are not required to pay off outstanding collections or charge-offs—regardless of the amount—provided the collection will not threaten Fannie Mae's first-lien position.

**Note:** If the lender marks the collection account Paid By Close in the online loan application, DU will issue a message in the Findings report stating that the collection must be paid.

- For two- to four-unit owner-occupied and second home properties, collections and charge-offs totaling more than \$5,000 must be paid in full prior to or at closing.

- For investment properties, individual 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, and Preforeclosure Sales**

DU applies the following guidelines to prior bankruptcies:

- If a Chapter 13 bankruptcy was discharged within the last 24 months, dismissed within the last 48 months, or filed but neither discharged nor dismissed within the last 48 months, the loan casefile will receive a Refer with Caution/IV recommendation and will be ineligible for delivery to Fannie Mae.
- If a non-Chapter 13 bankruptcy was filed, discharged, or dismissed within the last 48 months, the loan casefile will receive a Refer with Caution/IV recommendation and will be ineligible for delivery to Fannie Mae.
- DU will ignore tradeline accounts that are reported with a bankruptcy status code or manner of payment/MOP code of “7” if there is at least one bankruptcy reported in a public record. 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.
- If the bankruptcy is not reported in a public record, but a tradeline is reported with a bankruptcy status code, 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.

DU applies the following guidelines to prior foreclosures:

- Mortgage accounts, including first liens, second liens, home improvement loans, HELOCs, and mobile home loans, will be identified as a foreclosure if there is a current status or manner of payment/MOP code of “8” (foreclosure) or “9” (collection or charge-off); or if there is a foreclosure-related Remarks Code 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/IV 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.

DU applies the following guidelines to prior deeds-in-lieu of foreclosure:

- DU will determine if a mortgage tradeline is a deed-in-lieu of foreclosure by using specific Remarks Codes that are present in the credit report data and associated to the tradeline.
- If a deed-in-lieu of foreclosure was reported within the two-year period prior to the credit report date, the loan casefile will receive a Refer with Caution/IV and will be ineligible for delivery to Fannie Mae.
- If a deed-in-lieu of foreclosure was reported more than two years before the credit report date, the existence of the deed-of-lieu foreclosure is acceptable provided the loan complies with the LTV ratio requirements that apply after two years and up to seven years following the completion date, as stated in B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit.

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### **Preforeclosure Sales or Short Sales**

DU is not able to identify preforeclosure or short sales in the credit report data. Lenders must manually apply the preforeclosure sale requirements to DU loan casefiles, regardless of the underwriting recommendation received from DU.

DU will issue a message on loan casefiles where the borrower's credit report indicates an account may have been released to a preforeclosure sale. The recommendation on the loan casefile will not be changed when this information appears on the credit report, though as stated above, the lender must ensure the loan complies with all other requirements specific to preforeclosure sales as specified in B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit.

**Note:** B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit, also contains additional requirements pertaining to underwriting borrowers with a preforeclosure sale, short sale, or extenuating circumstances. DU is not able to identify preforeclosure or short sales in the credit report data, or whether the borrower's derogatory credit history was the result of extenuating circumstances. Loan

casefiles that receive a Refer with Caution/IV recommendation due to a bankruptcy or foreclosure action that was caused by extenuating circumstances may be manually underwritten if the lender has the appropriate documentation that these events occurred, the applicable minimum time period has elapsed, and the loan meets all requirements of this *Selling Guide* that pertain to manually underwritten loans.

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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-2011-04</a>	May 24, 2011
<a href="#">Announcement SEL-2011-01</a>	January 27, 2011
<a href="#">Announcement SEL-2010-13</a>	September 20, 2010
<a href="#">DU Version 8.2</a>	September 20, 2010
<a href="#">Announcement SEL-2010-11</a>	August 13, 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 30, 2009
<a href="#">DU Version 8.0</a>	September 22, 2009
<a href="#">DU Version 7.1</a>	October 31, 2008

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## Section B3-5.4, Nontraditional Credit History



### **B3-5.4-01, Nontraditional Mortgage Credit Reports (10/30/2009)**

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#### **Introduction**

This topic contains information on nontraditional mortgage credit reports, including:

- Overview
  - Unacceptable Uses
  - Requirements for Consumer Reporting Agencies
  - Borrowers with Disabilities
  - Non-U.S. Citizen Borrowers
- 

#### **Overview**

If a borrower does not have the types of credit that would appear on traditional credit reports, or if the borrower does not have a sufficient number of credit references to develop a traditional credit report, the lender may use a nontraditional mortgage credit report.

The lender should inform the borrower that a nontraditional mortgage credit report may be developed if information obtained through the standard credit report is not sufficient for the lender to make an underwriting decision. The lender must use its own judgment in determining whether the references on the standard credit report are sufficient for making underwriting decisions without ordering a nontraditional mortgage credit report.

Nontraditional mortgage credit reports must be evaluated under the same standards as those used to assess traditional credit history. However, if the credit history for all borrowers consists only of nontraditional credit sources, the credit history must be defined as “high primary risk” in the lender's comprehensive risk assessment of the mortgage loan.

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#### **Unacceptable Uses**

Nontraditional mortgage credit reports are not acceptable in the following situations:

- When the lender is able to obtain a credit score for the borrower despite limited use of credit, and that score is acceptable given the overall risk of the mortgage.
- With the exception of MCM, when the borrower has a sufficient amount of credit to obtain a credit score and the representative credit score is less than the minimum required. The lender may not establish an acceptable credit profile through the development of a nontraditional mortgage credit report. See B5-6-03, MyCommunityMortgage Underwriting Methods and Requirements for additional information about MCM borrowers with low credit scores.
- When the borrower's traditional credit history indicates derogatory references, such as late payments, collection accounts, or judgments. Nontraditional mortgage credit report cannot be used as a means to offset derogatory references or enhance a poor credit history with the traditional providers of credit.
- When the borrower has no credit history. Nontraditional mortgage credit reports cannot be used to artificially create a credit history.

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### **Requirements for Consumer Reporting Agencies**

A consumer reporting agency must meet the following requirements when preparing a nontraditional mortgage credit report:

- It must check all three major credit repositories in the initial attempt to verify the borrower's credit history.
- It must conduct an informational interview with the borrower to identify all of the different sources from which the borrower obtained credit in one form or another over the most recent past 12 months.

If the lender obtained a listing of the borrower's nontraditional credit sources when the mortgage application was completed, the consumer reporting agency does not need to conduct the interview. Instead, the lender must immediately contact the individual credit providers to verify the borrower's payment histories.

- It must consider only the types of credit that require borrowers to make periodic payments on a regular basis (intervals must be no longer than every three months).
- It must pass on all information collected after contacting all credit references provided by the borrower.
- It must specify whether or not the reports meet Fannie Mae criteria for nontraditional mortgage credit reports.

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### **Borrowers with Disabilities**

If a borrower with disabilities does not have the types of credit that would appear in a traditional credit report, the lender may use documentation provided by a court-appointed guardian or by a Social Security Administration (SSA) representative payee, 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 credit report from a consumer reporting agency, or to establish a nontraditional credit history for the borrower in accordance with the criteria presented in B3-5.4-03, Verification and Documentation of Alternative Credit.

---

### **Non-U.S. Citizen Borrowers**

If a non-U.S. citizen borrower does not have enough tradeline 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 seasoned credit references.

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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 09-12</a>	May 4, 2009



### **B3-5.4-02, Types of Credit (Tiers I, II, and III) (10/30/2009)**

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#### **Introduction**

This topic contains information on the types of credit that can be used to develop a nontraditional mortgage credit report.

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### Types of Credit (Tiers I, II, and III)

The types of credit that can be used to develop a nontraditional mortgage credit report are categorized into three different tiers, which are described in the table below.

The consumer reporting agency should attempt to obtain a 12-month payment history for enough Tier I credit references to develop a credit report that covers at least four sources of credit from either Tier I credit providers by themselves or a combination of Tier I credit providers and sources identified in the borrower's traditional credit report. In all cases, at least one source of nontraditional credit must be housing related. All credit references must be included, not just those that reflect acceptable performance.

If fewer than four sources of credit have been identified at this point, the agency must contact Tier II and Tier III sources for credit until a nontraditional mortgage credit report is developed that includes a credit history using four to six sources of credit, regardless of positive or negative comments.

**Note:** For MCM loans, Fannie Mae permits flexibility by requiring a minimum of three rather than four sources of nontraditional credit. See B5-6-03, MyCommunityMortgage Underwriting Methods and Requirements.

Type of Credit	Description
Tier I	Tier I credit includes payments for: <ul style="list-style-type: none"><li>• Housing related source. Lenders must obtain at least one housing related source for a nontraditional credit history. The credit agency must specify in the report whether verification was obtained from a professional management company or from an individual landlord.</li><li>• Utilities, if the utilities are not included in the rental housing payment. Utilities include electricity, gas, water, and payments for telephone and cable television service.</li></ul>
Tier II	Tier II credit includes payments for: <ul style="list-style-type: none"><li>• medical insurance coverage (excluding payroll deductions),</li><li>• automobile insurance,</li><li>• life insurance policies (excluding payroll deductions), and</li></ul>



Type of Credit	Description
	<ul style="list-style-type: none"> <li>• payments for household or renter’s insurance.</li> </ul>
Tier III	Tier III credit includes: <ul style="list-style-type: none"> <li>• payments to local stores, such as department stores, furniture stores, appliance stores, specialty stores, etc.;</li> <li>• rental payments related to durable goods, such as automobiles;</li> <li>• payment of medical bills;</li> <li>• payment of school tuition;</li> <li>• payments for child care; or</li> <li>• a loan obtained from an individual. The repayment terms must be documented in a written agreement and the borrower must provide copies of canceled checks to indicate the payments are of a continuing nature.</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.

Announcement	Issue Date
<a href="#">Announcement 09-12</a>	May 4, 2009



## **B3-5.4-03, Verification and Documentation of Alternative Credit (04/01/2009)**

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### **Introduction**

This topic contains information on verification and documentation of alternative credit, including:

- Individual Written Credit References
  - Standards for Individual Credit References
  - Verification of Bank Accounts
  - Documenting Rental Housing Payments
- 

### **Individual Written Credit References**

The lender may develop a nontraditional credit history by using a combination of individual written credit references provided directly by the creditors and the borrower's bank statements.

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### **Standards for Individual Credit References**

Individual credit references 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.

As long as there is supporting documentation that describes the terms of the debt repayment or contract, the lender may use 12 consecutive months of the borrower’s canceled checks or copies of bills marked “paid” to reflect the timeliness of the borrower’s payment history.

Withdrawals and debits on the borrower’s bank statements can provide a secondary confirmation of a borrower’s payment of obligations.

Although bank statements do not provide sufficient information to be used as a primary verification of a borrower’s payment of his or her debts, they can be used to validate information reported by other sources.

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### **Verification of Bank Accounts**

The lender can use the borrower’s checking or savings account or wire remittance statements to evaluate the borrower’s willingness to pay the mortgage obligation.

If the savings history includes an increasing balance as the result of periodic deposits over at least a 12-month period, the payment reference is acceptable. If the checking account demonstrates overdrawn activity, the payment reference suggests a weakness in the borrower’s ability to meet financial obligations. The significance of this information must be assessed relative to the borrower’s overall credit risk.

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### **Documenting Rental Housing Payments**

If the source of verification for a borrower’s rental housing payments is a party other than a professional management company, the lender must obtain 12 months of canceled checks or other evidence of timely payment of the rent—for example, bank statements showing the rental payment being paid each month.

If canceled checks or other evidence of timely payment of rent are not available, the lender (or the credit reporting agency) must check appropriate public landlord-tenant records for the past two years for court filings, judgments, evictions, and dismissal of eviction actions. Third-party vendors may be used to conduct the public records checks.

Public record checks that yield no evidence of court findings, judgments, or evictions are only verification that the payments were made at some point. This verification is not considered

to be definitive evidence that rental payments were made in a timely manner. Consequently, the checking of public records cannot be considered as one of the three or four credit sources required to establish a nontraditional credit history. The lender must still verify that the borrower has met the required minimum number of sources of nontraditional credit.

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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:

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## B3-6-01, General Information on Liabilities (09/20/2010)

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### Introduction

This topic contains general information on liabilities.

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### 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,
- non-reimbursed employee expenses,
- 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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## 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-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 (09/20/2010)**

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### **Introduction**

This topic contains information on the use of debt-to-income ratio as a benchmark ratio, including:

- Debt-to-Income Ratios
- Exceptions to the Maximum Debt-to-Income Ratio
- Debt-to-Income Ratio for Manually Underwritten Non-Occupant Co-Borrowers
- Calculating Total Monthly Obligation
- Debt-to-Income Ratio Tolerance and Re-Underwriting Criteria
- Applying the Re-underwriting Criteria

For additional information, see B3-1-01, Comprehensive Risk Assessment.

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### **Debt-to-Income Ratios**

Debt-to-income ratios, which consist of two components—monthly housing expense and the total of other monthly debt obligations—are used to compare the borrower's anticipated monthly housing expense and total monthly debt obligations to his or her stable monthly gross income. Long-term debt—and some that represent significant short-term debt—must be taken into consideration in developing a borrower's qualifying ratio.

For manually underwritten loans, Fannie Mae's benchmark total debt-to-income ratio is 36% of the borrower's stable monthly income. The benchmark can be exceeded up to a maximum of 45% with strong compensating factors.

For loan casefiles underwritten through DU, DU determines the maximum allowable debt-to-income ratio based on the overall risk assessment of the loan casefile. DU will apply a maximum allowable total expense ratio of 45%, with flexibilities offered up to 50% for certain loan casefiles with strong compensating factors.

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### **Exceptions to the Maximum Debt-to-Income Ratio**

Fannie Mae makes exceptions to the maximum allowable debt-to-income ratios for particular mortgage products, including:

- DU Refi Plus and Refi Plus — ratios may exceed 45% (see B5-5.1-06, DU Refi Plus and Refi Plus Underwriting Considerations);
  - Community HomeChoice and Community Solutions — maximum ratios are lower than 45% (see B5-6-04, MyCommunityMortgage: Additional Eligibility and Underwriting Requirements for Community Solutions and Community HomeChoice);
  - non-occupant co-borrowers — maximum ratio is lower than 45% (see below); and
  - government mortgage loans — lenders must follow the requirements for the respective government agency.
- 

### **Debt-to-Income Ratio for Manually Underwritten Non-Occupant Co-Borrowers**

When the income from more than one borrower is used to qualify for a mortgage, and not all of the borrowers will occupy the property, the owner-occupant borrower(s) must satisfy an additional debt-to-income ratio even if the combined incomes and debts of all of the borrowers result in a debt-to-income ratio of 36% or less.

In this case, the owner-occupant borrower(s) must have a total debt-to-income ratio of 43% or less, after excluding the income(s) and debt(s) for the non-occupying borrower(s). (This requirement does not apply to loans underwritten with DU.)

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### **Calculating Total Monthly Obligation**

The total monthly obligation is the sum of the following:

- the monthly housing expense (see B3-6-03, Monthly Housing Expense);
- 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.

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### Debt-to-Income 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, General Information on Lender Prefunding QC 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.

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### 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 B3-6-01, General Information on Liabilities or Chapter B3-3, Income Assessment, 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	The lender must recalculate the DTI ratio. For DU loan casefiles, the DTI ratio should be recalculated outside of DU.
4	<p>If the recalculated DTI ratio exceeds 45%:</p> <ul style="list-style-type: none"> <li>• DU loan casefiles: 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, and for DU Refi Plus on 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	If the recalculated DTI ratio does not exceed 45%, but it increases by 3 percentage points or more, the mortgage loan must be re-underwritten (or resubmitted) with the updated data to determine if the loan is still eligible for delivery.
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 C1-2-02, Loan Data and Documentation Delivery Requirements.)

These requirements are not applicable to Refi Plus loans since lenders are not required to calculate the borrower's DTI ratio to determine eligibility.

For additional information about DU tolerances, see B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report.

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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-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 (10/30/2009)**

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### **Introduction**

This topic contains information on the borrower's monthly housing expense.

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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;
- hazard, 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.

DU calculates reserves in accordance with the above definition. Lenders should enter all components of the monthly housing expense on the application including other financing P&I, hazard insurance, real estate taxes, mortgage insurance, homeowners' association dues, and other proposed housing expenses.

When a mortgage is secured by a second home or an investment property, the monthly principal, interest, taxes, insurance, and other assessments (as listed above) for the mortgage are not considered part of the borrower's monthly housing expense; rather, they are considered one of the borrower's monthly debt obligations.

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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 09-02</a>	February 6, 2009



## B3-6-04, Borrower's Monthly Housing Expense for Qualifying Purposes (09/20/2010)

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### Introduction

This topic contains information on determining the borrower's monthly housing expense for qualifying purposes, including:

- Borrower's Monthly Housing Expense for Qualifying Purposes
- Manually Underwritten Mortgage Loans
- Loan Casefiles Underwritten Through DU
- Additional Qualifying Considerations for Specific Products

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### Borrower's Monthly Housing Expense for Qualifying Purposes

Generally, when the mortgage will be secured by the borrower's principal residence and the loan is manually underwritten, the lender should use the monthly principal and interest installment for the mortgage, based on the actual mortgage interest rate, to determine the borrower's monthly housing expense.

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### Manually Underwritten Mortgage Loans

For manually underwritten mortgage loans, the following table lists circumstances in which the lender must use a different qualifying rate to calculate the monthly principal and interest installment instead of using a payment that is based on the actual mortgage interest rate.

Mortgage Type	Qualifying Interest Rate
Mortgage loans subject to temporary interest rate buydowns.	The lender must qualify the borrower based on:

<b>Mortgage Type</b>	<b>Qualifying Interest Rate</b>
	<ul style="list-style-type: none"> <li>• note rate for a fixed-rate mortgage, or</li> <li>• the greater of the note rate plus 2%, or the fully indexed rate, as applicable for an ARM.</li> </ul> <p>Qualification must consider the borrower's current obligations and other mortgage-related obligations, i.e., PITIA.</p>
ARMs with an initial fixed rate period of five years or less	The lender must qualify the borrower based on the greater of the note rate plus 2% or the fully indexed rate, considering the borrower's current obligations and other mortgage-related obligations (PITIA).
Step-Rate Mortgage Loans (e.g., Two-Step ARMs)	The lender must qualify the borrower based on the fully indexed rate if the payment is fixed for less than seven years, considering the borrower's current obligations and other mortgage-related obligations, i.e., PITIA.
Seven- to Ten-Year ARMs	Note rate

### Loan Casefiles Underwritten Through DU

The proposed monthly housing expense consists of principal, interest, taxes, insurance, and other assessments based on the fully amortizing repayment schedule and is included in the total expense ratio. The following table provides information regarding the interest rate that DU will use to qualify the borrower.

<b>Mortgage Type</b>	<b>Qualifying Interest Rate</b>
<b>Fully Amortizing</b>	
Fixed-rate mortgages	Note rate
6-month to Five-Year ARMs <sup>1</sup>	Greater of the fully indexed rate or the note rate plus 2%
Seven- to Ten-Year ARMs	Note rate
<b>Mortgages with an Interest-Only Feature</b>	
Fixed-rate mortgages	Note rate

Three- to Five-Year ARMs <sup>1</sup>	Greater of the fully indexed or the note rate plus 2%
Seven- to Ten-Year ARMs <sup>1, 2</sup>	Greater of the fully indexed rate or the note rate
<b>Lender ARM Plans</b>	
Lender ARM Plans	Interest rate entered in the <i>ARM Qualifying Rate</i> field. If an interest rate is not entered, DU uses the note rate plus 2%

<sup>1</sup>The fully indexed rate is defined here as the index plus the margin as entered in the online loan application

<sup>2</sup>If the index and/or margin data are not submitted to DU, DU will use the note rate plus 1.5%.

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### Additional Qualifying Considerations for Specific Products

For additional qualifying considerations, refer to the following:

- For additional interest-only requirements, see B5-2.1-01, Mortgages with an Interest-Only Feature.
- For additional MCM requirements, see B5-6-03, MyCommunityMortgage Underwriting Methods and Requirements.
- For additional temporary interest rate buydown requirements, see B2-1.3-07, Temporary Interest Rate Buydowns.

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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-2010-13</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



## **B3-6-05, Monthly Debt Obligations (05/24/2011)**

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### **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
- Home Equity Lines of Credit
- Deferred Installment Debt
- Installment Debt
- Lease Payments
- Loans Secured by Financial Assets
- Nonreimbursed Employee Expenses
- Open 30-Day Charge Accounts
- Revolving Charge/Lines of Credit
- Qualifying Impact of Other Real Estate Owned

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### **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.

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### **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 (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.
- 

### **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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### **Deferred Installment Debt**

Deferred installment debts, such as deferred student loans, must be included as part of the borrower's recurring monthly debt obligations. 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.

Exception: For a student loan, in lieu of obtaining copies of payment letters or forbearance agreements, the lender can calculate a monthly payment using no less than 2% of the outstanding balance as the borrower's recurring monthly debt obligation. However, if any documentation is provided by the borrower or obtained by the lender that indicates the actual monthly payment, that figure must be used in qualifying the borrower.

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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 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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### **Nonreimbursed Employee Expenses**

When a borrower has nonreimbursed business expenses, such as classroom supplies, uniforms, meals, gasoline, automobile insurance, and/or automobile taxes, 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) and net out any automobile depreciation claimed on IRS Form 2106.

Consequently, when calculating the total debt-to-income ratio, the 24-month average for nonreimbursed expenses should be subtracted from the borrower's stable monthly income, unless such expenses are automobile lease payments or automobile loan payments, in which case they are to be considered part of the borrower's recurring monthly debt obligations. If there is not a 24-month history of such expenses, the lender should develop an annualized monthly average for the expenses and add this calculated amount to the borrower's monthly debt obligations.

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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/Prior to Closing for additional information on open 30-day charge accounts.

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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 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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### **Qualifying Impact of Other Real Estate Owned**

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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## 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-2011-04</a>	May 24, 2011
<a href="#">Announcement SEL-2010-13</a>	September 20, 2010
<a href="#">DU Version 8.2</a>	September 20, 2010
<a href="#">Announcement 09-32</a>	October 30, 2009
<a href="#">Announcement 09-02</a>	February 6, 2009



## **B3-6-06, Qualifying Impact of Other Real Estate Owned (10/30/2009)**

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### 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
- Conversion of Current Principal Residence Requirements
- Conversion of Current Principal Residence to a Second Home
- Equity in the Current Principal Residence
- Conversion of Current Principal Residence to Investment Property

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### 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, the borrower must be qualified in accordance with, but not limited to, the policies in topics B3-3.2-07, 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, the PITIA of the existing second home must also be counted as part of the borrower's recurring monthly debt obligations.
- the borrower's current principal residence that is pending sale but will not close (with title transfer to the new owner) prior to the new transaction, the lender must comply with the policies in this topic.
- the borrower's current principal residence that, as a result of the new transaction, is being converted to an investment property or second home, the lender must comply with the qualifying 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, B3-3.2-07, 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.

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 new 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.

The lender must also document required minimum reserves of six months PITIA for both properties. Fannie Mae allows a reduction to two months reserves if 30% equity in the existing principal residence is documented in accordance with the *Equity in the Current Principal Residence* requirements below.

Fannie Mae will not require the current principal residence's PITIA to be used in qualifying the borrower as long as the six months of reserves (or two months with documented equity) for both properties are documented and the following additional documentation is provided:

- the executed sales contract for the current residence, and
- confirmation that any financing contingencies have been cleared.

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### **Conversion of Current Principal Residence Requirements**

The following requirements are applicable to manually underwritten loans and, except for the additional reserve requirements, must also be applied (on a manual basis) to loan casefiles underwritten with DU. (DU determines the level of reserves of each loan casefile.)

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### **Conversion of Current Principal Residence to a Second Home**

If the borrower is converting a current principal residence to a second home, both the current and proposed mortgage payments (PITIA) must be used to qualify the borrower for the new transaction. In addition, the reserve requirements in B3-4.1-01, Minimum Reserve Requirements must be met.

### Equity in the Current Principal Residence

If the current principal residence is retained and converted to a second home or investment property, the lender must document the borrower's equity in the existing principal residence with an appraisal, automated valuation model, or Broker Price Opinion, minus outstanding liens. The resulting percentage is a factor in determining the minimum required reserves and the impact of the current principal residence's PITIA on the borrower's total debt-to-income ratio. See B3-4.1-01, Minimum Reserve Requirements. In addition, for investment properties, see B3-3.2-07, Rental Income.

### Conversion of Current Principal Residence to Investment Property

If the borrower is converting a current principal residence to an investment property, the lender must ensure the borrower has sufficient equity to support both the current PITIA and the new mortgage being originated. The percent of equity in the current principal residence must be documented in accordance with the *Equity in the Current Principal Residence* requirements.

To confirm leasing of the newly converted property or unit (for a two- to four-unit property), the lender must obtain a copy of the:

- fully executed lease agreement,
- security deposit from the tenant, and
- bank statement showing the deposited security funds.

The lender must calculate net rental income and qualify the borrower according to the following requirements:

<b>For a one-unit property, if documented equity in the current principal residence is</b>	<b>Then...</b>
greater than or equal to 30%	75% of gross rental income may be used as income
less than 30%	No rental income will be allowed

<b>For a two- to four-unit property, if documented equity in the current principal residence is</b>	<b>Then, for the unit previously occupied by the borrower</b>	<b>And, for the remaining units, the lender may either...</b>
greater than or equal to 30%	The lender may use 75% of the gross rental income from	Calculate the net rental income (or loss) from the pages of

<b>For a two- to four-unit property, if documented equity in the current principal residence is</b>	<b>Then, for the unit previously occupied by the borrower</b>	<b>And, for the remaining units, the lender may either...</b>
	the newly executed lease agreement	the borrower's most recent 2 years of signed federal income tax returns and the related Schedule E. See B3-3.2-07, Rental Income. Leases are permitted only if the property is not listed on Schedule E because it was acquired subsequent to filing the tax return.
less than 30%	No rental income may be counted	

<b>If the percentage of equity in the current principal residence is...</b>	<b>Then...</b>
greater than or equal to 30% for a one-unit residence	The borrower must be qualified with the new PITIA and 75% of the gross rental income may be credited to offset the current principal residence's PITIA.
less than 30%	The borrower must be qualified with the new PITIA plus the full amount of the current principal residence's PITIA.
greater than or equal to 30% for a two- to four-unit residence	The borrower must be qualified with the new PITIA plus PITIA on the current principal residence minus 75% of gross rental income from the newly leased unit, plus, if applicable, any credit from existing leased units.
less than 30% for a two- to four-unit residence	The borrower must be qualified with the new PITIA plus PITIA on the current residence minus, if applicable, any credit from existing leased units only.



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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
<a href="#">Announcement 09-02</a>	February 6, 2009



## B3-6-07, Debts Paid Off At/Prior to Closing (09/20/2010)

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### Introduction

This topic contains information on debts paid off at/prior to closing, including:

- Payoff or Paydown of Debt for Qualification
- Open 30-Day Charge Accounts
- Collections, Charge-Offs, Judgments, Garnishments, and Liens

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### 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. As a rule of thumb:

- Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments should generally not be included in the borrower's long-term debt.
- If a revolving account is to be paid off and closed, 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 ratio.
- If a revolving debt is to be paid off but not closed, a monthly payment on the current outstanding balance should generally be considered as long-term debt.

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### Open 30-Day Charge Accounts

Open 30-day charge accounts must be paid off at or prior to closing if:

- the borrower is unable to document sufficient assets to cover the unpaid balance, or
- the borrower is unable to document that the charges will be reimbursed by his or her employer.

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### Collections, Charge-Offs, Judgments, Garnishments, and Liens

Delinquent credit—including taxes, judgments, charged-off 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

Collection accounts or charged-off 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 or charged-off accounts that exceed the above limits do not have to be paid off at or prior to closing, provided all of the following are documented:

- a strong credit profile,
- meaningful financial reserves,
- evidence that the accounts pose no threat to Fannie Mae's first mortgage lien, and
- evidence that the outstanding accounts are not likely to affect the borrower's equity position.

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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-2010-13</a>	September 20, 2010
<a href="#">DU Version 8.2</a>	September 20, 2010



## **B3-6-08, DU: Requirements of Liability Assessment (12/01/2010)**

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### **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
- 

### **Reconciling the Loan Application with the Credit Report**

DU uses liabilities from the loan application, not debts from the credit report, to calculate the total expense ratio.

To help ensure that all appropriate liabilities are included in the total expense 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 total expense 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 total expense ratio.

If duplicate accounts or accounts that do not belong to the borrower were copied to the loan application and included in the total expense ratio, they may be omitted from Section VI Liabilities. Debts that are omitted will not be counted in the total expense 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>Reference</b>
<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 eligibility and underwriting policies for conventional loans for sale to Fannie Mae.

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### In This Subpart

This subpart contains the following chapters:

B4-1, Appraisal Guidelines .....	490
B4-2, Project Standards .....	576

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# Chapter B4-1, Appraisal Guidelines



## Appraisal Guidelines

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### Introduction

This chapter describes Fannie Mae appraisal policies, guidelines, and requirements.

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### In This Chapter

This chapter contains the following sections:

B4-1.1, General Appraisal Requirements .....	491
B4-1.2, Appraisal Document Standards, Report, and Property Inspections .....	504
B4-1.3, Special Appraisal Considerations .....	523
B4-1.4, Appraisal Report Assessment .....	537

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# Section B4-1.1, General Appraisal Requirements



## **B4-1.1-01, General Information on Appraisal Requirements (07/26/2011)**

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### **Introduction**

This topic contains general information on appraisal requirements, including:

- Lender Responsibilities
  - Appraiser Independence Requirements
  - Confirmation and Documentation of the Current Owner
  - Acceptable and Unacceptable Areas
  - Examples of Unacceptable Appraisal Practices
  - Additional Resources
- 

### **Lender Responsibilities**

The lender is responsible for:

- the accuracy and completeness of the appraisal and its assessment of the marketability of the property;
- selecting the appraiser;
- underwriting the completed appraisal report to determine whether the subject property presents adequate collateral for the mortgage;
- continually evaluating the quality of the appraiser's work through normal underwriting review of all appraisal reports and spot-check field review of appraisals as part of its quality control system;

- 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;
- ensuring that the appraiser provides an accurate opinion, an adequately supported value, and an accurate description of the property;
- ensuring that the appraiser provides his or her license or certification number on the individual appraisal report forms; and
- complying with the *Appraiser Independence Requirements*.

Lenders must take appropriate action to ensure that appraisers do not engage in unacceptable appraisal practices.

In particular, lenders must not apply pressure or otherwise attempt to influence appraisers to reflect certain results in the appraisal analysis or reporting.

See B4-1.1-03, Appraiser Selection, for information concerning the use of third-party vendors for appraisal services, the lender's responsibility for the quality of the appraisal work, and key appraiser selection criteria.

See B2-1.4-02, Mortgage Loan Eligibility, for information concerning the requirement that lenders must warrant that the current value of the property is not less than the original value for mortgage loans that are more than four months old from the loan closing date to the date the loan is sold to Fannie Mae.

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### **Appraiser Independence Requirements**

By delivering loans to Fannie Mae, lenders represent and warrant that appraisals conducted in connection with single-family mortgage loans, other than government-insured and -guaranteed loans, conform to the *Appraiser Independence Requirements*.

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### **Confirmation and Documentation of the Current Owner**

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 a new appraisal is required. 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.



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 unacceptable property flipping schemes, which typically involve various combinations of transactions and result in a sale of a recently acquired, distressed property for significant profit based on a misleading or fraudulent appraisal with an inflated property value.

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### **Acceptable and Unacceptable Areas**

Fannie Mae does not designate areas as being acceptable or unacceptable. Fannie Mae does business in all markets.

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### **Examples of Unacceptable Appraisal Practices**

The following are examples of unacceptable appraisal practices:

- Development of and/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 who 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 and/or employment for performing the appraisal and/or in anticipation of receiving future assignments;
- Development of and/or reporting an appraisal in a manner that is inconsistent with the requirements of the Uniform Standards of Professional Appraisal Practice in place as of the effective date of the appraisal.
- Failure to address and note adverse factors or conditions that affect value or marketability with respect to the neighborhood, site, or improvements.
- 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 unacceptable 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,”
- “undesirable neighborhood or location.”

Other subjective terminology that can result in erroneous conclusions is equally unacceptable.

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### Additional Resources

For additional guidance on performing appraisals and underwriting appraisals of property that secures mortgage loans delivered to Fannie Mae, see [Guidance for Lenders and Appraisers](#).

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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-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
<a href="#">Announcement 09-32</a>	October 30, 2009
<a href="#">Announcement 09-01</a>	January 7, 2009



## **B4-1.1-02, Lender Disclosure of Information to Appraisers (10/30/2009)**

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### Introduction

This topic contains information on lender disclosure of information to appraisers, including:

- Lender Disclosure of Information to Appraisers
- Information That Must Be Disclosed

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### **Lender Disclosure of Information to Appraisers**

The lender must disclose to the appraiser any and all information about the subject property of which it is aware, if the information could affect either the marketability of the property or the appraiser's opinion of the market value of the property.

The lender must provide the appraiser with all appropriate financing data and sales concessions for the subject property that will be, or have been, granted by anyone associated with the transaction. In addition, the lender must provide the appraiser with a copy of the complete, ratified sales contract and all addenda for the property that is to be appraised, therefore ensuring that the appraiser has been given the opportunity to consider the financing and sales concessions in the transaction and their effect on value. If the lender is aware of additional pertinent information that is not included in the sales contract, the lender must inform the appraiser. If the sales contract is amended during the process, the lender must provide the updated contract to the appraiser.

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### **Information That Must Be Disclosed**

The table below provides a list of required information that must be disclosed to appraisers.

	<b>Requirement</b>
	settlement charges
	loan fees or charges
	discounts to the sales price
	payment of condo or PUD fees
	interest rate buydowns
	below-market-rate financing
	credits or refunds of borrower expenses
	absorption of monthly payments
	assignment of rent payments
	non-realty items included in the transaction
	any environmental hazard information obtained from the borrower, the real estate broker, or any other party to the transaction so the appraiser can consider any influence the hazard may have on the value and marketability of the property.  Lenders must disclose environmental hazard information that is in or on the subject property, or in the vicinity of 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.

Announcement	Issue Date
<a href="#">Announcement 08–30</a>	November 14, 2008



## **B4-1.1-03, Appraiser Selection (12/01/2010)**

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### Introduction

This topic contains general information on appraiser selection, including:

- Definition of the Appraiser
- Lender Responsibilities Regarding Appraiser Selection
- Appraiser Selection Criteria
- Use of Third-Party Vendors

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### Definition of the Appraiser

Fannie Mae's appraisal report forms define 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 definition 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.

### Lender Responsibilities Regarding Appraiser Selection

The following table details the lender’s responsibilities regarding the selection of appraisers.

	<b>Lender Responsibilities</b>
	Lenders must obtain an independent, disinterested examination and valuation of the property that secures a mortgage sold to Fannie Mae.
	Lenders must be aware of, and in full compliance with, state laws for licensing and certification of real estate appraisers.
	<p>Lenders must use appraisers who</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and particular property type;</li> <li>• have the requisite knowledge about, and access to, the necessary and appropriate data sources for the area in which the appraisal assignment is located.</li> </ul> <p>Appraisers who 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 who 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 requires a lender to only use an appraiser who has the appropriate knowledge and experience, and does not allow the USPAP flexibility. Consequently, appraisers who lack the requisite knowledge, experience, and access to appropriate data must not be utilized.</p>
	<p>Lenders must select the appraiser.</p> <p style="text-align: center;"><b>Note:</b> 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.</p>
	Lenders must select appraisers who are currently active in appraisal work.
	<p>Lenders must order and receive the appraisal report for each mortgage transaction.</p> <p>Lenders 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.</p>

<b>Lender Responsibilities</b>	
	Lenders must ensure that appraisers provide accurate descriptions of condo and co-op projects, and include characteristics that may indicate that a project is ineligible.
	Lenders must document that the appraisers it uses are licensed or certified as appropriate under the applicable state law, either by: <ul style="list-style-type: none"><li>• including the license or certification number with the appraiser’s list of qualifications that the lender has on file, or</li><li>• retaining a copy of the license or certification in the file the lender maintains for the appraiser.</li></ul>

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### **Appraiser Selection Criteria**

Lenders are responsible for the qualifications and quality of work provided by the appraisers they select. 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 were performed by an employee of the lender. In addition to knowledge, experience, access to the appropriate data sources, and geographical competence, the quality of appraisal work is a key criterion that the lender should use in selecting an appraiser. Before using an appraiser’s services, lenders should be satisfied that the appraiser has demonstrated the ability to perform high quality appraisals. Lenders should review the appraiser’s education and experience, sample appraisals, professional affiliations, and references from clients and employers. The requirement for an appraiser to produce a high quality work product must always outweigh fee or turnaround time considerations. See B4-1.1-01, General Information on Appraisal Requirements, for additional information concerning the lender’s responsibilities related to evaluating the quality of the appraiser’s work.

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### **Use of Third-Party Vendors**

While Fannie Mae allows lenders to use third-party vendors, such as appraisal management companies (AMC), for appraisal services, neither the *Appraiser Independence Requirements* nor Fannie Mae requires their use. If lenders choose to rely on an AMC to review an appraiser’s qualifications or select the individual to perform appraisals, lenders should establish appropriate procedures and qualifications, including compliance with the previously noted requirements, to ensure that qualified individuals are selected.

The lender delivering the loan to Fannie Mae is ultimately responsible for representations and warranties related to the value, condition, and marketability of the subject property. If a lender uses the services of an AMC, the lender must hold the AMC responsible for complying with

Fannie Mae’s requirements, including those of the Appraiser Independence Requirements, as if the lender had selected the appraiser. Imposing this requirement on the AMC does not relieve the lender of its warranties related to the appraisal or the value, condition, and marketability of 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.

Announcement	Issue Date
<a href="#">Announcement SEL-2010-16</a>	December 1, 2010
<a href="#">Announcement SEL-2010-09</a>	June 30, 2010



## **B4-1.1-04, Use of Supervisory or Review Appraisers (10/30/2009)**

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### Introduction

This topic contains information on use of supervisory or review appraisers, including:

- Property Inspection Must Be Performed by the “Appraiser” Who Signs the Appraisal Report
- Supervisory Appraiser
- Review Appraisers

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### Property Inspection Must Be Performed by the “Appraiser” Who Signs the Appraisal Report

Fannie Mae allows an unlicensed or uncertified appraiser who 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. A supervisory appraiser or any appraiser signing on the left-hand side of the appraisal report as the “Appraiser” must have performed the level of inspection of the subject property required by the



assignment. This does not require the supervisory appraiser to inspect the subject property in all instances. See B4-1.1-03, Appraiser Selection, for the information about the selection and the definition of an appraiser.

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### **Supervisory Appraiser**

If a supervisory appraiser is used, the supervisory appraiser must certify that he or she

- directly supervises the appraiser who prepared the appraisal report,
  - has reviewed the appraisal report,
  - agrees with the statements and conclusions of the appraiser,
  - agrees to be bound by some of the same certifications that the appraiser made, and
  - takes full responsibility for the appraisal report.
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### **Review Appraisers**

If an appraiser performs a review function other than as a supervisory appraiser, the appraiser must prepare a separate review report, attach it to the appraisal report being reviewed, and provide a well-documented report that demonstrates the analysis and supports the reviewer's opinions and conclusions.

If the review appraiser determines that the value opinion expressed in the appraisal report is unreasonable, the review appraiser must develop and report his or her own opinion of value, as of the effective date of the original 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>Announcement</b>	<b>Issue Date</b>
<a href="#">Announcement 09–19</a>	June 8, 2009
<a href="#">Announcement 08–30</a>	November 14, 2008

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## **B4-1.1-05, Field Reviews (04/01/2009)**

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### **Introduction**

This topic contains information on field reviews, including

- Quality Assurance of Appraisal Field Reviews
  - Fannie Mae's Examination of Independent Appraisal Field Review Reports
  - Refusal to Accept Appraisals From Specific Appraisers
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### **Quality Assurance of Appraisal Field Reviews**

Fannie Mae recommends that lenders use one of the following appraisal field review report forms for the appraisal component of its quality control reviews (see Part D, Ensuring Quality Control (QC)), however lenders may use other forms they consider appropriate.

- For one-unit properties, One-Unit Residential Appraisal Field Review Report ([Form 2000](#)).
  - For two- to four-unit properties, Two- to Four-Unit Residential Appraisal Field Review Report ([Form 2000A](#)).
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### **Fannie Mae's Examination of Independent Appraisal Field Review Reports**

Fannie Mae performs independent appraisal field review reports. 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 who 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 who appear to be unethical and/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, Fannie Mae allows the lender a certain amount of time to clear its mortgage pipeline. After that, the lender is prohibited from submitting mortgages to Fannie Mae secured by properties appraised by that individual.

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## Section B4-1.2, Appraisal Document Standards, Report, and Property Inspections



### **B4-1.2-01, Age of Appraisal or Age of Property Inspection (07/26/2011)**

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#### **Introduction**

This topic contains information on the age of appraisal and the age of the property inspection, including:

- Age of Appraisal or Age of Property Inspection
- Updating the Original Appraisal Report or Property Inspection
- Completing an Appraisal Update

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#### **Age of Appraisal or Age of Property Inspection**

Properties must be appraised or inspected (if that is the level of property fieldwork recommended for a loan casefile underwritten through DU) within the 12 months that precede the date of the note and mortgage.

<b>When...</b>	<b>Then ...</b>
appraisal reports are 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,	appraisers must perform an update which includes: <ul style="list-style-type: none"><li>• inspect the exterior of the property and</li><li>• review current market data to determine whether the property has declined in value since the date of the original appraisal.</li></ul>
a property inspection report for a loan casefile underwritten with DU is more than four months old on the date of the note and mortgage,	appraisers must prepare a new DU Property Inspection Report ( <a href="#">Form 2075</a> ).

**Note:** The inspection and the appraisal update must occur within the four months that precede the date of the note and mortgage.

For information regarding property valuation representation and warranty requirements, see B2-1.4-02, Mortgage Loan Eligibility.

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### Updating the Original Appraisal Report or Property Inspection

The following table details requirements for determining appraisal update requirements:

<b>If ...</b>	<b>Then ...</b>
the appraiser indicates the property value has declined,	the lender must obtain a new appraisal for the property.
the appraiser indicates the property has not declined in value,	the lender should request the appraiser to provide an update to the appraisal, based on the appraiser's exterior inspection of the property and knowledge of current market conditions. The inspection and the appraisal update must occur within the four months that precede the date of the note and mortgage.

Updates can be reported in the following formats:

- Appraisal Update and/or Completion Report ([Form 1004D](#)),
- Uniform Residential Appraisal Report ([Form 1004](#)), or
- in a letter.

See B4-1.2-06, Appraisal Forms and Report Exhibits, for more information.

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### Completing an Appraisal Update

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 B4-1.4-21, Appraisal Report Review: Valuation Analysis and Final Reconciliation, for information concerning changes to the appraised value.

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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-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



## **B4-1.2-02, Objective and Unbiased Appraisals (04/01/2009)**

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### Introduction

This topic contains information on objective and unbiased appraisals.

- Requirements for Appraisers and Lenders
- Reporting Unfavorable Conditions

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### Requirements for Appraisers and Lenders

Fannie Mae expects all appraisers to observe the following requirements. Consequently, lenders must:

- ensure that appraisers consider all factors that have an effect on value and the development of the opinion of market value in the appraisal report is objective and unbiased.
- ensure that unsupported assumptions or interjections of personal opinions or perceptions about factors—whether or not the factors affect the use and value of the property—are not used.
- ensure that the appraiser has not based (either partially or completely) the analysis and/or opinion of market value 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.

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### **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 and/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.

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### **B4-1.2-03, Definition of Market Value (04/01/2009)**

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#### **Introduction**

This topic contains information on definition of market value.

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#### **Fannie Mae’s Definition of Market Value**

Fannie Mae’s definition of market value is intended to ensure that appraisals reflect an opinion of market value after adjustments for any special or creative financing or sales concessions have been made—such as seller contributions, interest rate buydowns, etc.

Lenders must ensure that appraisers certify that the following definition of market value was used:

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 or 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.

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 since 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 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.

This definition provides consistent interpretation for the appraiser. Specifically, Fannie Mae wants to emphasize that the phrases "...those costs that are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions" refer to all of the sellers in a specific market area.

No distinction is made between a specific group of sellers, builders, developers, or individuals in the resale market—they all are considered to be individual sellers in the market.



## **B4-1.2-04, Requirements for Postponed Improvements (07/26/2011)**

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### **Introduction**

This topic contains information on postponed improvements, including:

- Overview
- Postponed Improvements for New or Proposed Construction
- Requirements for Existing Construction
- Requirements for the Energy Improvement Feature on Existing Construction



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## Overview

Generally, 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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## Postponed Improvements 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>
Mortgages may be delivered before postponed items are complete if the lender represents and warrants that the postponed improvements will be complete within 180 days of the date of the mortgage note. Acceptable postponed items include items that: <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>
A certification of completion must be obtained to verify the work was completed and must: <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>
The cost of completing improvements must not represent more than 10% of the “as completed” appraised value of the property.
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.

<b>Requirements for New or Proposed Construction</b>
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.
The mortgage insurance and title insurance may not be adversely affected during or after the time the completion escrow is in effect.
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.
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.

### **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 B4-1.4-15, Appraisal Report Review: Property Condition and Quality of Construction, 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 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 their 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.

**Requirements for Existing Construction When There are Incomplete Items or Conditions that Do Affect the Safety, Soundness, or Structural Integrity of the Property**

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 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.

See B4-1.2-01, Age of Appraisal or Age of Property Inspection, for certifications completed by substitute appraisers.

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.

**Requirements for the Energy Improvement Feature on Existing Construction**

The table below provides the postponed improvement requirements for a loan with energy improvement features. See B5-3.3-01, Mortgage Loans with Energy Improvement Features on Existing Properties, for other requirements related to loans with energy improvement features.

Mortgages may be delivered before the energy improvements are complete if the lender represents and warrants that the postponed improvements will be complete within 180 days of the date of the mortgage note. Acceptable postponed items include items that will not require an occupancy permit.

A certification of completion must be obtained to verify the work was completed and must:

- be completed by the appraiser,
- state that the improvements were completed in accordance with the requirements and conditions in the original appraisal report, and
- be accompanied by photographs of the completed improvements.

The cost of the improvements must not represent more than 10% of the “as completed” appraised value of the property.

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.

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.

The mortgage insurance and title insurance may not be adversely affected during or after the time the completion escrow is in effect.

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.

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.

### 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-2010-15</a>	December 1, 2010
<a href="#">Announcement 08-30</a>	November 14, 2008



## **B4-1.2-05, Requirements for the Appraisal Report (07/26/2011)**

### Introduction

This topic contains information on requirements for the appraisal report, including:

- Lender Responsibilities Related to the Appraisal Report
- Uniform Appraisal Dataset
- Uniform Collateral Data Portal

## Lender Responsibilities Related to the Appraisal Report

The table below provides lender responsibilities related to the appraisal report.

	<b>Requirement</b>
	<p>Lenders are responsible for</p> <ul style="list-style-type: none"> <li>• the accuracy of the information,</li> <li>• the integrity of the documents, and</li> <li>• ensuring that the appraisal is complete and prepared in accordance with Fannie Mae appraisal guidelines.</li> </ul>
	Lenders must ensure that appraisal reports are completed on Fannie Mae’s forms (see B4-1.2-06, Appraisal Forms and Report Exhibits).
	Lenders must ensure that the appraisal report reflects a thorough investigation and analysis of the market value and provides the rationale for the appraiser’s opinion of the market value.
	<p>Lenders must upgrade to an interior and exterior appraisal inspection if an exterior-only inspection does not provide sufficient information about the property to perform the inspection.</p> <p>For example, if the following conditions exist, the appraisal must be upgraded:</p> <ul style="list-style-type: none"> <li>• the appraiser cannot adequately view the property from the street,</li> <li>• apparent adverse physical deficiencies or environmental conditions are observed,</li> <li>• the appraiser needs additional information about the physical conditions of the property.</li> </ul> <p>See B4-1.2-06, Appraisal Forms and Report Exhibits, for information concerning the exhibits that are required for an interior and exterior appraisal.</p>
	Lenders must retrieve and reproduce complete and clear copies of appraisal reports at any time in response to a request from Fannie Mae.
	Lenders must ensure all applicable appraisals have been completed in compliance with the Uniform Appraisal Dataset (UAD) Specification.
	Lenders must ensure all applicable appraisal reports have been submitted to the Uniform Collateral Data Portal™ (UCDP™) prior to delivery of the loan. When

	<b>Requirement</b>
	submitting an appraisal report to the UCDP, lenders must ensure that it is the unaltered report submitted by the identified appraiser.

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### **Uniform Appraisal Dataset**

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 the UAD Specification when reporting the results of an appraisal for a conventional mortgage loan:

- Uniform Residential Appraisal Report (Fannie Mae [Form 1004](#)),
- Individual Condominium Unit Appraisal Report (Fannie Mae [Form 1073](#)),
- Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Fannie Mae [Form 1075](#)), and
- Exterior-Only Inspection Residential Appraisal Report (Fannie Mae [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 the [UAD Specification](#) on eFannieMae.com.

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### **Uniform Collateral Data Portal**

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 forms including all exhibits, addenda (including the Market Conditions Addendum to the Appraisal Report ([Form 1004MC](#))), and photographs, must be submitted to the UCDP prior to delivery of the loan:

- Uniform Residential Appraisal Report (Fannie Mae [Form 1004](#)),
- Manufactured Home Appraisal Report (Fannie Mae [Form 1004C](#))
- Small Residential Income Property Appraisal Report (Fannie Mae [Form 1025](#)),
- Individual Condominium Unit Appraisal Report (Fannie Mae [Form 1073](#)),
- Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Fannie Mae [Form 1075](#)),
- Exterior-Only Inspection Residential Appraisal Report (Fannie Mae [Form 2055](#)),

- Individual Cooperative Interest Appraisal Report (Fannie Mae [Form 2090](#)), and
- Exterior-Only Inspection Individual Cooperative Interest Appraisal Report (Fannie Mae [Form 2095](#)).

Appraisal report forms not listed above must not be delivered through UCDP. Lenders may obtain detailed information on the [UCDP](#) on eFannieMae.com.

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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



## **B4-1.2-06, Appraisal Forms and Report Exhibits (09/27/2011)**

[Click to see prior version of topic](#)

### Introduction

This topic contains information on appraisal forms and report exhibits, including:

- List of Appraisal Forms
- Manually Underwritten Loans
- Exhibits for Appraisals with Interior and Exterior Property Inspections
- Exhibits for Appraisals with Exterior-Only Property Inspections
- Desktop Underwriter Property Inspection Report (Form 2075)
- Desktop Underwriter Appraisals Based on Exterior-Only Property Inspections

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### List of Appraisal Forms

Appraisers must use the most recent version of the appraisal forms and include any other data—either as an attachment or addendum to the appraisal report form—needed to adequately support the opinion of market value.

The following table lists Fannie Mae’s appraisal forms (see *Single-Family Forms* for a complete list):

<b>Form</b>	<b>Purpose</b>
<i>Uniform Residential Appraisal Report (Form 1004)</i>	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. <a href="#">Form 1004</a> also may be used for two-unit properties, if each of the units is occupied by one 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 <a href="#">Form 1004</a> , 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 <a href="#">UAD Specification</a> .
<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 Condo 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 <a href="#">UAD Specification</a> .
<i>Exterior-Only Inspection Individual Condo 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 <a href="#">UAD Specification</a> .
<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.



<b>Form</b>	<b>Purpose</b>
<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.
<i>Market Conditions Addendum (Form 1004MC)</i>	Required for all mortgage loans delivered to Fannie Mae with appraisals of 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.

### Manually Underwritten Loans

All manually underwritten mortgage loans sold to Fannie Mae require an appraisal based on an interior and exterior property inspection and must be completed on the appropriate form depending on the property type, unless the specific product guidelines permit a less than full appraisal.

### Exhibits for Appraisals with Interior and Exterior Property Inspections

The following exhibits must accompany appraisals with interior and exterior property inspections:

- an exterior building sketch that indicates the dimensions.

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.

- calculations demonstrating how the estimate for gross living area is derived.

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 on the plat are acceptable).

- a street map that shows the location of the subject property and of all comparables that the appraiser used.
- clear, descriptive, original photographs showing the front, back, and a street scene of the subject property and the front of each comparable sale.

The subject and all comparables must be appropriately identified. Photographs of comparable rentals and listings are not required.

Acceptable photographs include clear, descriptive, original images from photographs or electronic images, copies of photographs from a multiple listing service, or copies from the appraiser's files.

- interior photographs, which must, at a minimum, include:
  - the kitchen;
  - all bathrooms;
  - main living area;
  - examples of physical deterioration, if present; and
  - examples of recent updates, such as restoration, remodeling, and renovation, if present.
- *Operating Income Statement* ([Form 216](#)) or a similar cash flow and operating income statement — required for investment property, including a two- to four-unit property in which the applicant will occupy one unit as a principal residence.

**Note:** The form may be prepared by the applicant or the appraiser.

- When the applicant prepares [Form 216](#), the appraiser's comments on the reasonableness of the projected operating income must be included on the form.
- When the appraiser prepares [Form 216](#), the lender must ensure that the appraiser has operating statements; expense statements related to mortgage insurance premiums, homeowners' association dues, leasehold payments, or subordinate financing payments; and any other pertinent information related to the property.

- *Single-Family Comparable Rent Schedule* (Form 1007), 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 A3-4-02, Data Quality and Integrity.)
- any other data—as an attachment or addendum to the appraisal report form—that are necessary to provide an adequately supported opinion of market value.

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### Exhibits for Appraisals with Exterior-Only Property Inspections

The following exhibit is 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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### Desktop Underwriter Property Inspection Report (Form 2075)

The *Desktop Underwriter Property Inspection Report* (Form 2075) is not an appraisal report. It is a property inspection report that requires an exterior-only inspection of the subject property, completed by a state-licensed or -certified appraiser, which includes comments on:

- zoning regulations,
- other properties in the neighborhood,
- highest and best use of the property as improved,
- any apparent adverse physical deficiencies or environmental conditions.

Lenders must obtain an appraisal of the property if the property inspection reveals:

- apparent adverse physical deficiencies or conditions,
- apparent adverse environmental conditions, or
- the subject property does not conform to the neighborhood.

**Note:** When DU recommends [Form 2075](#), lenders are not responsible for the traditional warranties regarding the valuation of the property. However, lenders are responsible for determining the acceptability of [Form 2075](#) for a particular property.

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### Desktop Underwriter Appraisals Based on Exterior-Only Property Inspections

When DU recommends an appraisal with an exterior-only inspection, lenders must ensure that appraisers:

- provide descriptions of the physical characteristics of the property based on reliable data sources for the property and location, and
- use the same type of data sources used for comparable sales.

**Note:** Lenders are required to obtain an appraisal with an interior and exterior inspection if:

- the property does not conform to the neighborhood,
- adverse physical deficiencies or environmental conditions are observed, or
- data sources do not provide sufficient information about the property to perform 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.

Announcements	Issue Date
<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
<a href="#">Announcement 08-30</a>	November 14, 2008



## **B4-1.2-07, Certifications and Statements of Assumptions and Limiting Conditions (04/01/2009)**

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### **Introduction**

This topic contains information on certifications and statements of assumptions and limiting conditions.

- Alterations to Appraiser Certifications and Limiting Conditions
  - Lender Responsibilities Associated with Additional Certifications
- 

### **Alterations to Appraiser Certifications and Limiting Conditions**

Each Fannie Mae appraisal (or property inspection) report form includes an appraiser's certification (and, if applicable, a supervisory appraiser's certification) and a statement of assumptions and limiting conditions.

The lender must ensure that the appraiser does not make changes or deletions to the appraiser's certifications.

Appraisers may make additional certifications 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.

Appraisers may not add limiting conditions.

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### **Lender Responsibilities Associated with Additional Certifications**

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 often 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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## Section B4-1.3, Special Appraisal Considerations



### **B4-1.3-01, Special Appraisal Considerations for Properties Affected by Environmental Hazards (04/01/2009)**

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#### **Introduction**

This topic contains information on special appraisal considerations for properties affected by environmental hazards, including:

- Disclosure Regarding Environmental Hazards
  - Environmental Hazards: Eligible Properties
  - Environmental Hazards: Ineligible Properties
  - Well Water and Hazardous Waste
  - Other Hazards
- 

#### **Disclosure Regarding Environmental Hazards**

If real estate brokers, property sellers, property purchasers, or any other parties to the mortgage transaction inform the lender that an environmental hazard exists in the property, on the property, or in the vicinity of the property, then the lender must disclose the information to the appraiser and note the individual mortgage file accordingly.

Fannie Mae also requires lenders to disclose such information to the borrower, and to comply with any state or local environmental laws regarding disclosure.

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#### **Environmental Hazards: Eligible Properties**

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.

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### **Environmental Hazards: Ineligible Properties**

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; such as sales, contract sales, or active listings 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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### **Well Water and Hazardous Waste**

When the lender has reason to believe that private well water that is on or available to a property might be contaminated as the result of the proximity of the well to hazardous waste sites, the lender must obtain a well certification to determine whether the water meets community standards.

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### **Other Hazards**

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)—such as the presence of hazardous wastes, toxic substances, asbestos-containing materials, urea-formaldehyde insulation, radon gas, etc.—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), and
- make appropriate adjustments in the overall analysis of the property's value.

**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. However, the appraiser 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.



## **B4-1.3-02, Special Appraisal Considerations for Factory-Built Housing (04/01/2009)**

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### **Introduction**

This topic contains information on special appraisal considerations for factory-built housing.

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### **Overview**

Factory-built housing includes manufactured homes, modular homes, and other types of prefabricated housing.

Fannie Mae purchases mortgages secured by factory-built housing that:

- is designed as a one-family dwelling,
- assumes the characteristics of site-built housing,
- is legally classified as real property,
- is permanently affixed to a foundation system that is appropriate for the soil conditions of the site, and
- is designed to meet local and state codes.

For appraisal requirements concerning manufactured housing, see Section B5-2.3, Manufactured Housing.

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## **B4-1.3-03, Special Appraisal Considerations for Modular, Prefabricated, Panelized, or Sectional Housing (04/01/2009)**

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### **Introduction**

This topic contains information on special appraisal considerations for modular, prefabricated, panelized, or sectional housing.

- Acceptable Modular Homes
  - Appraisal Requirements for Modular Homes
  - Acceptable Prefabricated, Panelized, or Sectional Housing
  - Appraisal Requirements for Prefabricated, Panelized, or Sectional Housing
- 

### **Acceptable 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.

Fannie Mae does not have minimum requirements for width, size, roof pitch, or any other specific construction detail for modular homes. Each such home must have sufficient square footage and room dimensions to be acceptable to typical purchasers in the subject market area.

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### **Appraisal Requirements for Modular Homes**

The appraiser must be familiar with the features that affect the quality of the home and must include this information in the appraisal if necessary to support his or her opinion of value.

The appraisal must address both the marketability and comparability of modular homes.

The appraiser must include the most appropriate comparable sales to support the opinion of value for the subject property.

The process of selecting comparable sales for factory-built housing is generally the same as that for selecting comparable sales for site-built housing. When the subject property is modular, prefabricated, panelized, or sectional housing, Fannie Mae does not require 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.

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### **Acceptable Prefabricated, Panelized, or Sectional Housing**

Fannie Mae purchases loans secured by prefabricated, panelized, or sectional housing. 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.

Fannie Mae does not have minimum requirements for width, size, roof pitch, or any other specific construction detail for prefabricated, panelized, or sectional housing. Each such home must have sufficient square footage and room dimensions to be acceptable to typical purchasers in the subject market area.

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### **Appraisal Requirements for Prefabricated, Panelized, or Sectional Housing**

The appraiser must be familiar with the features that affect the quality of the home and must include this information in the appraisal if necessary to support his or her opinion of value.

The appraisal must address both the marketability and comparability of prefabricated, panelized, or sectional homes.

The appraiser must include the most appropriate comparable sales to support the opinion of value for the subject property.

The process of selecting comparable sales for factory-built housing is generally the same as that for selecting comparable sales for site-built housing. When the subject property is modular, prefabricated, panelized, or sectional housing, Fannie Mae does not require 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.



## **B4-1.3-04, Special Appraisal Considerations for Mixed-Use Properties (04/01/2009)**

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### **Introduction**

This topic contains information on special appraisal considerations for mixed-use properties.

- Fannie Mae Acceptance of Mixed-Use Properties
- Appraisal Requirements for Mixed-Use Properties

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### **Fannie Mae Acceptance of Mixed-Use Properties**

Fannie Mae purchases or securitizes mortgage loans secured by properties that have a business use in addition to their residential use provided special eligibility criteria are met. Examples include, but are not limited to, properties with space set aside for day care facilities, beauty or barber shops, doctor's offices, and small neighborhood groceries or specialty stores.

Lenders must make sure that the mixed-use criteria are considered and adequately addressed in the assessment of the property.

For eligibility criteria, see B2-3-01, Occupancy Type Requirements.

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### **Appraisal Requirements for Mixed-Use Properties**

The table below describes lender requirements pertaining to appraisals for mixed-use properties.

	<b>Lenders must ensure that ...</b>
	Appraisers provide an adequate description of the mixed-use characteristics of the subject property.
	The mixed use of the property represents a legal, permissible use of the property under the local zoning requirements.
	The market value of the property is primarily a function of its residential characteristics, rather than of the business use or any special business-use modifications that were made.



## **B4-1.3-05, Special Appraisal Considerations for Properties in Special Assessment Districts (04/01/2009)**

### **Introduction**

This topic contains information on special appraisal considerations for properties in special assessment districts.

- Lender Appraisal Responsibilities Related to Special Assessment or Community Facilities Districts
- Evaluating Properties in Special Assessment or Community Facilities Districts
- Lender Requirements Pertaining to Community Facilities Districts

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### **Lender Appraisal Responsibilities Related to Special Assessment or Community Facilities Districts**

A community facilities district is a district in which a special tax is created to fund a wide variety of public improvements, as well as the ongoing operation and maintenance costs of a limited number of public services.

Lenders must:

- know whether a property is located in a special assessment district or a community facilities district and the effect this has on the marketability of the subject property,
- be aware of the effect that assessments levied by the district could have on property values, and
- ensure that appraisers give special consideration to the valuation of properties located in these districts.

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### **Evaluating Properties in Special Assessment or Community Facilities Districts**

The table below provides conditional considerations when evaluating properties in special assessment or community facilities districts.

<b>If ...</b>	<b>Then ...</b>
the property being appraised is located in a special assessment district,	lenders must require appraisers to report on any special assessments that affect the property.
If the special assessment district is experiencing financial difficulty and that difficulty has an effect on the value or marketability of the subject property,	lenders must ensure that appraisers <ul style="list-style-type: none"><li>• reflect the difficulty in the analysis and</li><li>• note the difficulty and impact in the appraisal report.</li><li>• reflect market reaction to the potential liabilities that may arise within a financially troubled special assessment districts</li><li>• consider the following within the district<ul style="list-style-type: none"><li>– current and expired listings of properties for sale</li></ul></li></ul>

If ...	Then ...
	<ul style="list-style-type: none"> <li>– pending contract sales, and</li> <li>– recent closed sales</li> </ul>
If 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 are no comparable market data available to enable the appraiser to arrive at a reliable opinion of market value	the mortgage secured by such property will not be eligible for delivery to Fannie Mae until an active market develops enabling the appraiser to demonstrate the value and marketability of the subject property.

### Lender Requirements Pertaining to Community Facilities Districts

The table below lists lender requirements pertaining to community facilities districts.

	Requirement
	Lender originating mortgages in community facilities districts must disclose to the appraiser any information that it becomes aware of regarding special assessments on a given property.
	Lender must caution appraisers about the need to be aware of whether the subject property and the comparable sales are located within or affected by a community facilities district.  <p style="text-align: center;"><b>Note:</b> Properties subject to an assessment by one of these districts often compete against properties that are either subject to a significantly different special assessment or to no assessment at all.</p>
	Lender must ensure that appraisers <ul style="list-style-type: none"> <li>• consider the reaction of the market, if any, to the assessment for the applicable community facilities district by analyzing similarly affected comparable sales, and</li> <li>• note the effect of the assessment in the appraisal report.</li> </ul>



## **B4-1.3-06, Special Appraisal Considerations for Properties Subject to Leasehold Interests (04/01/2009)**

### **Introduction**

This topic contains information on special appraisal considerations for properties subject to leasehold interests.

### **Appraisal Requirements Pertaining to Leasehold Interests**

The table below lists appraiser requirements for leasehold interest properties.

	<b>Requirements</b>
	Appraisers must develop a thorough, clear, and detailed narrative that identifies the terms, restrictions, and conditions regarding lease agreements or ground leases:  Appraisers must include this information as an addendum to the appraisal report.
	Appraisers must discuss the effect, if any, the lease agreement or ground lease has on the value and marketability of the subject property.
	The appraiser's sales comparison approach to value must use comparable property sales that have similar leasehold interests.
	When there are sufficient numbers of closed comparable property sales with similar leasehold interests available, the appraiser should: <ul style="list-style-type: none"><li>• use the property sales in the analysis of market value of the leasehold estate for the subject property, and</li><li>• report the property sales in the "sales comparison analysis" grid on the applicable appraisal report form.</li></ul>
	If comparable sales with the same lease terms and restrictions are not available, appraisers may use sales of similar properties with different lease terms or, if necessary, sales of similar properties that were appraised as fee simple estates.  Appraisers must explain why the use of these sales is appropriate, and make appropriate adjustments on the "sales comparison analysis" grid to reflect the market reaction to the different lease terms or property rights appraised.



## **B4-1.3-07, Special Appraisal Considerations for Units in Co-op Projects (04/01/2009)**

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### **Introduction**

This topic contains information on special appraisal considerations for units in co-op projects.

- Co-op Corporation
  - Co-op Interest
  - Determining the Value of the Co-op Interest
  - Appraisal Requirements for Co-op Share Loans
- 

### **Co-op Corporation**

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.

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### **Co-op Interest**

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).

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### **Determining the Value of the Co-op Interest**

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 information listed below.

- 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;
- 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;
- 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.

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### Appraisal Requirements for Co-op Share Loans

The table below provides requirements lenders must fulfill upon review of appraisals for co-op share loans.

	<b>Lenders must ensure that appraisers meet the following requirements</b>
	Appraisers must use reliable sources to obtain data on the co-op project, the individual subject unit, and the comparable properties.

	<b>Lenders must ensure that appraisers meet the following requirements</b>
	Appraisers must indicate the name of each source in the appraisal report or in an addendum to the appraisal report.
	Appraisers must address factors that could result in an increase to the monthly debt service for the subject unit.
	For comparison purposes, appraisers should indicate in the “sales comparison analysis” 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 <i>pro rata</i> share of the blanket mortgage(s).  <p><b>Note:</b> This value reflects the market value for the co-op interest of the unit.</p> <p>For example, when the indicated value of the unit encumbered by the blanket mortgage(s) is \$100,000 and its <i>pro rata</i> share of the blanket mortgage(s) is \$25,000, the value estimate that the appraiser should report for the co-op interest of the unit is \$75,000.</p>
	Appraisers must certify in the appraisal report that the <i>pro rata</i> 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.
	Appraisers must comment on the acceptance of housing co-ops in the market area. The degree of acceptance generally is reflected in the availability of similar comparable sales data for co-op units.  <p>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 marketability and value of the unit that is being appraised.</p>
	Appraisers must compare the subject unit to the general market area and other units in the subject co-op project.  <p><b>Note:</b> This comparison should help demonstrate market acceptance of co-op units in the area.</p> <p>If submission of more than three required comparable sales is appropriate to support the market value opinion, appraisers must submit other comparable sales—including contracts for sale—as additional supporting data.</p>
	Comparable sales must be from similar types of projects—townhouses, mid-rise, high-rise, etc.—that have similar common amenities and recreational facilities.

	<b>Lenders must ensure that appraisers meet the following requirements</b>
	Appraisers should use sales of co-op units as comparables.  However, appraisers may use condo units as comparables sales if co-op unit sales are not available, provided the appraiser explains why those types of comparables were used.
	Appraisers must adjust 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.
	If the subject property is a unit in a new or recently converted co-op project, appraisers should select as comparables <ul style="list-style-type: none"><li>• one closed or settled sale from the subject project (if one is available) and</li><li>• two closed or settled sales from outside of the project.</li></ul>
	If closed or settled sales are not available in the subject project, appraisers must use comparable sales from competing projects.
	When the subject property is a unit in an established co-op project—one that has resale activity—appraisers should use the following as comparables: <ul style="list-style-type: none"><li>• two closed or settled sales from within the subject project (if available), and</li><li>• one closed or settled sale from a competing project.</li></ul>



## **B4-1.3-08, Special DU Property Fieldwork Requirements for Foreclosure and REO Properties (10/30/2009)**

### **Introduction**

This topic contains information on DU property fieldwork requirements for previously foreclosed and REO properties.

### **Special DU Property Fieldwork Requirements for Foreclosure and REO Properties**

Property foreclosures result in some REO properties being neglected or sitting vacant for an extended period of time before they are sold to new homeowners. In these cases an exterior-only

property inspection or appraisal may not provide the most accurate assessment of the condition of the property.

For properties underwritten through DU, lenders must obtain an appraisal based on an interior and exterior property inspection for purchase transactions when the transaction is the result of the sale of an REO property, or the last transaction on the property being purchased was a foreclosure.

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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="#">DU 7.1 December Update</a>	October 16, 2008

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## Section B4-1.4, Appraisal Report Assessment



### **B4-1.4-01, Reviewing the Appraisal Report (04/01/2009)**

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#### **Introduction**

This topic contains information on reviewing the appraisal report.

- Mandatory Appraisal Report Analysis
  - Lender Responsibilities Pertaining to Appraisal Report Review
- 

#### **Mandatory Appraisal Report Analysis**

The lender must perform an underwriting analysis of the

- current contract for sale for purchase money transactions,
  - current offering or listing for sale for both purchase and refinance transactions,
  - comparable sales for both purchase and refinance transactions,
  - current ownership for the subject property, and
  - when the information is reasonably available, the sale or transfer history of the subject property and of comparable sales for both purchase and refinance transactions.
- 

#### **Lender Responsibilities Pertaining to Appraisal Report Review**

When a new appraisal is required for a mortgage that a lender delivers to Fannie Mae, the lender must perform an underwriting analysis of:

- the appraisal report to ensure that the report is of professional quality and is prepared in a way that is consistent with Fannie Mae's appraisal standards. See B4-1.4-21, Appraisal Report Review: Valuation Analysis and Final Reconciliation, for guidance on addressing appraisal deficiencies;
- the property based on the appraisal;

- the property's acceptability as security for the mortgage requested in view of its value and marketability;
  - the current contract for sale for the subject property for purchase money transactions;
  - the current offering or listing for sale for the subject property for both purchase and refinancing transactions, if applicable;
  - the current ownership for the subject property for both purchase and refinance transactions;
  - the sale or transfer history of the subject property, and comparable sales for both purchase and refinance transactions;
  - the sale(s) of the subject property and the sale price trend in relation to the appraiser's opinion of value to confirm that they are reasonable and representative of the market.
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## **B4-1.4-02, Appraisal Report Review: Urban Properties (04/01/2009)**

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### **Introduction**

This topic contains information on special appraisal considerations for urban properties.

- Appraisal Considerations for Urban Properties
  - Appraisal Requirements for Urban Properties
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### **Appraisal Considerations for Urban Properties**

Block-by-block underwriting and appraisal analysis is acceptable in cases in which rehabilitation has started in the block in which the subject property is located (or in facing blocks that are visible to the property), but has not yet spread to the rest of the neighborhood.

This enables appraisers and lenders to place weight on the positive influences of the rehabilitation efforts.

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### **Appraisal Requirements for Urban Properties**

The table below describes lender requirements pertaining to appraisals for urban properties

	<b>Lenders must ensure that ...</b>
	appraisers demonstrate that local market conditions make block-by-block analysis appropriate.
	appraisers analyze and use comparable sales of not only less similar properties from the subject neighborhood but also from competing neighborhoods if there is a lack of comparable sales in the neighborhood—either because of the level of rehabilitation or the relatively low number of sales transactions.



## **B4-1.4-03, Appraisal Report Review: Property Location (04/01/2009)**

### **Introduction**

This topic contains information on appraisal report review: property location.

- Property Location
- Adjoining Properties
- Properties with Outbuildings

### **Property Location**

Fannie Mae will purchase or securitize mortgages that are secured by residential properties in urban, suburban, or rural areas.

To be eligible for purchase or securitization, mortgage loans must be secured by properties that are residential in nature—based on the characteristics of the subject property, zoning, and the present land use.

Fannie Mae does not purchase or securitize mortgages on the following property types:

- agricultural-type properties such as farms, orchards, or ranches,
- undeveloped land,
- land development-type properties,

- properties that are not suitable for year-round occupancy regardless of location, and

**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.

- properties that are not readily accessible by roads that meet local standards

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### Adjoining Properties

Appraisers must consider present or anticipated uses of adjoining properties that may adversely affect the value or marketability of the subject property.

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### Properties with Outbuildings

Properties with outbuildings require special consideration in the underwriting and appraisal review.

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 property is acceptable provided the outbuildings are typical of other residential properties in the subject area.
A small barn or stable.	The appraiser must demonstrate that the improvements are typical of properties for which an active, viable residential market exists, and must present similar improvements in comparable sales.
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 improvements are residential or agricultural in nature, regardless of whether the appraiser assigns value to the outbuildings.





## **B4-1.4-04, Appraisal Report Review: Trend of Neighborhood Property Values, Demand/Supply, and Marketing Time (10/30/2009)**

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### **Introduction**

This topic contains information on trend of neighborhood property values, demand/supply, and marketing time, including:

- Overview
- Market Conditions Addendum to the Appraisal Report (Form 1004MC)
- Assessment of Market Conditions

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### **Overview**

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:

<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>

**Note:** The appraiser must provide their conclusions for the reasons a market is experiencing declining property values, an over-supply of properties, or marketing times over six months.

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 market areas that are experiencing significant fluctuations in property values including sub-markets for particular types of housing within the market area.

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## Market Conditions Addendum to the Appraisal Report (Form 1004MC)

[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. For additional information concerning Form 1004MC, see B4-1.2-06, Appraisal Forms and Report Exhibits.

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### Assessment of Market Conditions

If the lender determines the property is located within a declining market, the lender must ensure that current market conditions are identified and analyzed in the valuation process and described 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.

Announcement	Issue Date
<a href="#">Announcement 09–19</a>	June 8, 2009
<a href="#">Announcement 08–30</a>	November 14, 2008



## B4-1.4-05, Appraisal Report Review: Site Analysis Parameters (10/30/2009)

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### Introduction

This topic contains information on Appraisal Report Review: Site Analysis Parameters, including:

- Site Analysis Parameters
- Evaluating the Subject Property Site

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### Site Analysis Parameters

The subject property site should generally conform to and be acceptable in the market area in terms of size, shape, and topography.

The appraisal must include the actual size of the site and not a hypothetical portion of the site for the subject property.

### 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.

In addition, the property must have comparable utilities, street improvements, adequate vehicular access, and other amenities.

**Note:** Subject property amenities, easements, and encroachments must be reflected in the appraisal analysis and evaluation since they can either detract from or enhance the marketability of a site.

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### Evaluating the Subject Property Site

If the site has adverse or atypical conditions for the neighborhood, the appraisal must provide comments on the conditions.

If there is market resistance to a property because its site is not compatible with the neighborhood or with the requirements of the competitive market, lenders are expected to underwrite the mortgage loan more carefully and, if appropriate, impose more conservative mortgage terms.

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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 08-30</a>	November 14, 2008



## **B4-1.4-06, Appraisal Report Review: Subject Property Zoning (12/01/2010)**

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### **Introduction**

This topic contains information on Appraisal Report Review: Subject Property Zoning.

- Subject Property Zoning
  - Permissible Use of Land
  - Highest and Best Use
- 

### **Subject Property Zoning**

Lenders must ensure that the specific zoning class has been reported in the appraisal, along with a general statement as to what the zoning permits.

The appraisal must include a statement that the subject property presents a legal conforming use, a legal non-conforming (grandfathered) use, or an illegal use under the zoning regulations; or that there is no local zoning.

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### **Permissible Use of Land**

Fannie Mae does not purchase or securitize mortgage loans on properties if the improvements do not constitute a legally permissible use of the land.

Certain exceptions to this policy are made provided the property is appraised and underwritten in accordance with the special requirements imposed as a condition to agreeing to make the exception:

<b>Property Type</b>	<b>Loan Eligible for Purchase or Securitization by Fannie Mae?</b>
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.	No.
A property that represents a legal, but non-conforming, use of the land and the appraisal	Yes, if the mortgage is secured by a one- to four-unit property or a unit in a PUD project.

<b>Property Type</b>	<b>Loan Eligible for Purchase or Securitization by Fannie Mae?</b>
analysis reflects any adverse effect that the non-conforming use has on the value and marketability of the property.	
A property where the improvements from a project that represents a legal, but non-conforming, use of the land only can be rebuilt to current density in the event of partial or full destruction.	Yes, Fannie Mae will purchase or securitize a condo unit mortgage or co-op share loan, provided 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.
A one- or two-unit property that includes an illegal additional unit or accessory apartment (sometimes referred to as a mother-in-law, mother-daughter, or granny unit).	Yes, provided that: <ul style="list-style-type: none"> <li>• The illegal use conforms to the subject neighborhood and to the market.</li> <li>• The property is appraised based upon its current use.</li> <li>• The borrower qualifies for the mortgage without considering any rental income from the illegal unit.</li> <li>• The appraisal must report that the improvements represent an illegal use.</li> <li>• 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 illegal use.</li> <li>• The lender ensures that the existence of the illegal additional unit will not jeopardize any future hazard insurance claim that might need to be filed for the property.</li> </ul>
A three- to four-unit property that includes an illegal accessory apartment.	No.

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## Highest and Best Use

If the current improvements clearly do not represent the highest and best use of the site as an improved site, the appraiser must so indicate on the appraisal report. Fannie Mae will not purchase or securitize a mortgage that does not represent the highest and best use of the site.

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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-2010-06</a>	December 1, 2010

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## **B4-1.4-07, Appraisal Report Review: Site Utilities (04/01/2009)**

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### Introduction

This topic contains information on Appraisal Report Review: Site Utilities.

- Site Utilities
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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, be adequate, be in service, and be accepted by area residents.

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.

Generally, private well or septic facilities must be located on the subject site. However, if inhabitants of the subject property have the right to access off-site private facilities and there is an adequate, legally binding agreement for access and maintenance, then off-site private facilities are acceptable.

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 marketability and value of the subject property (see B4-1.3-01, Special Appraisal Considerations for Properties Affected by Environmental Hazards).

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## **B4-1.4-08, Appraisal Report Review: Off-Site Improvements (04/01/2009)**

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### **Introduction**

This topic contains information on Appraisal Report Review: Off-Site Improvements.

- Off-Site Improvements
  - Evaluating Off-Site Improvements
  - Community-Owned or Privately Maintained Streets
- 

### **Off-Site Improvements**

Off-site improvements include streets, alleys, sidewalks, curbs and gutters, street lights, etc.

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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### **Evaluating Off-Site Improvements**

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 marketability and value 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.

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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 must indemnify Fannie Mae for any losses or expenses it may incur due to the physical condition of the street or in order to establish and/or retain access thereto.



## **B4-1.4-09, Appraisal Report Review: Special Flood Hazard Area (04/01/2009)**

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### **Introduction**

This topic contains information on special flood hazard areas.

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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.

Flood insurance is required if any part of the principal structure is located in the following Special Flood Hazard Area zones: A, AE, AH, AO, AR, A1-30, A-99, V, VE, VO, or V1-30.

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## **B4-1.4-10, Appraisal Report Review: Improvements Analysis Overview (04/01/2009)**

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### **Introduction**

This topic contains information on Appraisal Report Review: Improvements Analysis.

- Improvements Analysis Requirements
  - Remaining Economic Life
- 

### **Improvements Analysis Requirements**

The appraisal must provide a clear, detailed, and accurate description of the improvements that is consistent with the level of fieldwork required in connection with the appraisal assignment. It must be as specific as possible, commenting on such things as needed repairs, additional features, modernization, etc., and should provide supporting addenda, if necessary. If the subject property has an accessory apartment, the appraisal should describe it.

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### **Remaining Economic Life**

Fannie Mae does not require the mortgage term to have any correlation 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 forms address the remaining economic life for the property being appraised, but appraisers are not required to report this.

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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## **B4-1.4-11, Appraisal Report Review: Conformity of Improvements to Neighborhood (04/01/2009)**

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### **Introduction**

This topic contains information on conformity of improvements to the neighborhood.

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### **Conformity to Neighborhood**

Special consideration must be given to properties that represent special or unique housing for the subject neighborhood.

On a case-by-case basis, lenders must determine whether there is sufficient information to develop a reliable opinion of market value.

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## **B4-1.4-12, Appraisal Report Review: Actual and Effective Ages of the Improvements (10/30/2009)**

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### **Introduction**

This topic contains information on actual and effective ages of the improvements.

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### **Age of Improvements**

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 market area.

When adjustments are made to the appraisal for the effective age of the subject property, the appraiser must provide an explanation for the adjustments and the condition of 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.

Announcement	Issue Date
<a href="#">Announcement 08-30</a>	November 14, 2008



## **B4-1.4-13, Appraisal Report Review: Insulation and Energy Efficiency of the Improvements (04/01/2009)**

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### Introduction

This topic contains information on insulation and energy efficiency of the improvements.

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### Insulation and Energy Efficiency of the Improvements

An energy-efficient property is one that uses cost-effective design, materials, equipment, and site orientation to conserve nonrenewable fuels.

Special energy-saving items must be recognized in the appraisal process. The nature of these items and their contribution to value will vary throughout the country because of climactic conditions and differences in utility costs.

Appraisers must compare energy-efficient features of the subject property to those of comparable properties in the “sales comparison analysis” grid to ensure that the overall contribution of these items is reflected in the market value of the subject property.



## **B4-1.4-14, Appraisal Report Review: Layout, Floor Plans, and Gross Building and Living Areas (04/01/2009)**

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### **Introduction**

This topic contains information on layout, floor plans, and gross building and living areas.

- Overview
  - Minimum Size
  - Evaluating Above-Grade Room Count
  - Below-Grade Areas
  - Appropriate Above-Grade and Below-Grade Comparisons
  - Gross Building Area
- 

### **Overview**

Dwellings with unusual layouts, peculiar floor plans, or inadequate equipment or amenities 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.

The appraisal must include appropriate adjustments based on how the subject compares to the comparable sales.

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### **Minimum Size**

Fannie Mae does not specify minimum size or living area requirements for properties (with the exception of Manufactured Housing; see Section B5-2.3, Manufactured Housing).

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### **Evaluating Above-Grade Room Count**

The most common comparison for one-unit properties is the above-grade gross living area.

Appraisers must be consistent when calculating and reporting finished above-grade room count and square footage for the gross living area above-grade.

A level is considered below-grade if any portion of it is below-grade—regardless of the quality of its finish or the window area of any room. A walk-out basement with finished rooms would not be included in the above-grade room count.

For units in condo or co-op projects, the appraiser must use interior perimeter unit dimensions to calculate the gross living area. In all other instances, the appraiser must use the exterior building dimensions per floor to calculate the above-grade gross living area of a property.

The following must be observed when calculating and reporting above-grade room count and square footage for the gross living area:

- 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.
- Garages and basements, including those that are partially above-grade, must not be included in the above-grade room count.

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### **Below-Grade Areas**

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.

The appraiser must report the basement or other partially below-grade areas separately and make appropriate adjustments for them on the “basement and finished areas below-grade” line in the “sales comparison analysis” grid.

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### **Appropriate Above-Grade and Below-Grade Comparisons**

To ensure consistency in the sales comparison analysis, appraisers must compare above-grade areas to above-grade areas and below-grade areas to below-grade areas.

Appraisers may deviate from this approach if the style of the subject property or any of the comparables does not lend itself to such comparisons.

However, in such instances, the appraiser must explain the reason for the deviation and clearly describe the comparisons that were made.

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### **Gross Building Area**

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, etc.
- cannot count exterior common areas such as open stairways.

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) 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.



## **B4-1.4-15, Appraisal Report Review: Property Condition and Quality of Construction (07/26/2011)**

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### **Introduction**

This topic contains information on property condition and quality of construction, including:

- Property Condition
- Property Condition Disclosure to Borrower
- Property Condition Rating
- 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
- Infestation, Dampness, or Settlement

## Property Condition

Lenders must take the necessary steps to ensure that a property meets Fannie Mae’s condition requirements as outlined in this subsection.

The table below provides the requirements for property condition.

	<b>Requirement</b>
	Based on the factual data of the improvement analysis, the appraisal report must express an opinion about the condition of the improvements.
	Appraisals based on interior and exterior inspections must include complete visual inspections of the accessible areas of the property.  <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 of the property improvements. See Identifying Property Condition; Definitions of Not Updated, Updated, and Remodeled; and Identifying Quality of Construction 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 comments section must address needed repairs and physical, functional, or external inadequacies.

## Property Condition Disclosure to Borrower

The lender must disclose all known property condition issues to the borrower so that the borrower may take necessary actions to address such issues.

### Property Condition Rating

For appraisals required to be completed with the UAD, the appraiser must assign one of the following standardized condition ratings to identify 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> Newly constructed improvements that feature recycled materials and/or components can be considered new dwellings provided that the dwelling is placed on a 100% new foundation and the recycled materials and the recycled components have been rehabilitated/re-manufactured into like-new condition. Recently constructed improvements that have not been previously occupied are not considered “new” if they have any significant physical depreciation (that is, newly constructed dwellings that have been vacant for an extended period of time without adequate maintenance or upkeep).</p>
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>
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>
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>
C5	<p>The improvements feature obvious deferred maintenance and are in need of some significant repairs. Some building components need repairs, rehabilitation, or</p>



Rating	Description
	updating. The functional utility and overall livability is somewhat diminished due to condition, but the dwelling remains useable and functional as a residence.
C6	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.

### Identifying Property Condition

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 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 following definitions:

Level of Updating	Description
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</p>

<b>Level of Updating</b>	<b>Description</b>
	Updated' may still be well-maintained and fully functional, and this rating does not necessarily imply deferred maintenance or physical/functional deterioration.
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 and therefore the appraisal must be completed subject to completion of the deficient item(s).

See Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity for additional details when completing appraisals on properties with safety, soundness, or structural integrity deficiencies.

### Quality of Construction Rating

For appraisals required to be completed using the UAD, the appraiser must assign one of the following standardized quality ratings 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 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.

Rating	Description
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 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

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 ensure 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 ensure 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 settlement, the appraisal must comment on the effect on the marketability and the value 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-2011-06</a>	July 26, 2011

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## **B4-1.4-16, Appraisal Report Review: Sales Comparison Approach (06/30/2010)**

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### **Introduction**

This topic contains information on the sales comparison approach to value, including:

- Overview
  - Current and Prior Listings of the Subject Property
  - Three-Year Prior Sales History
  - Sources of Comparable Market Data
  - Selection of Comparable Sales
  - General Requirements
  - Rural Properties
  - Properties in Established Subdivisions, Condos, or PUDs
  - Properties in New or Recently Converted Subdivisions, Condos, or PUDs
- 

### **Overview**

Lenders must ensure that the appraisers they use analyze the following as part of the sales comparison approach:

- listings and contract sales,
- closed or settled sales, and
- the most recent and similar sales available.

Particular attention must be paid to sales or financing concessions in markets that are experiencing declining property values, an oversupply of properties, or marketing times over six months.

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### **Current and Prior Listings of the Subject Property**

Fannie Mae's appraisal report forms require the appraiser to research and comment on whether the subject property is currently for sale or if it has been listed for sale within 12 months prior to

the effective date of the appraisal. The appraiser must report on each occurrence or listing and provide the data source(s), offering prices, and date(s).

## **Example**

If the subject property is currently listed for sale and was previously listed eight months ago, the appraiser must report on both offerings.

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### **Three-Year Prior Sales History**

The USPAP requires appraisers to report a minimum three-year prior sales history for the subject property. The appraiser must comply with the minimum requirements of USPAP.

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### **Sources of Comparable Market Data**

Data and/or verification source(s) for each comparable sale must be reported on the appraisal report form. Single or multiple sources for data and verifications are acceptable provided the appraiser adequately verifies the comparable sales. 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 the Internet. The appraiser must state the specific data source 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.

Information used to verify the data is obtained from a "verification source." 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.

When comparable sales data is provided by parties that have a financial interest in either the sale or financing of the subject property, the appraiser must verify the data with a party that does not have a financial interest in the subject transaction.

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### **Selection of Comparable Sales**

The 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 in the market area). The results of a neighborhood analysis enable the appraiser not only to identify the factors that influence the value of properties in the market area, but also to define the area from which to select the market data needed to perform a sales comparison analysis.

The appraiser is responsible for determining which comparables are most appropriate for the assignment. Fannie Mae expects the appraiser to account for all factors that affect value when completing the analysis. For example, if the appraiser believes a foreclosure sale or a short sale is an appropriate comparable, then 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. 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. The appraiser must conduct the proper research in order to complete the assignment and provide an accurate opinion of market value.

When appraising new construction, the appraiser may need to rely solely on the builder of the property he or she is appraising to provide comparable sales data in accordance with the requirements stated in Properties in New or Recently Converted Subdivisions, Condos, or PUDs, below, as this data may not yet be available through typical data sources, such as 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 HUD-1 Settlement Statement from the builder's file.

By using the HUD-1 to verify a recent sale of new construction not yet available through other data sources, an appraiser may be better able to comply with the requirement that he or she must provide at least one comparable sale from the subject's subdivision or project. The appraiser must also select one comparable sale from outside the subject subdivision or project and one comparable sale from either inside or outside the subject subdivision or project, provided it is a good indicator of value for the subject property. Both of these sales must be verifiable from reliable data sources, other than the builder. The appraiser may also provide additional recent comparable builder sales from competing projects that are not presently available through traditional data sources as long as the appraiser verified the sale through the applicable HUD-1. 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.

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## General Requirements

The table below provides general requirements for selecting comparable sales.

	<b>Requirement</b>
	Influences that may affect value based on market evidence—such as closed sales, contract sales, and offerings or listings of the most comparable properties for sale in the market area; market studies; etc.—must be researched, analyzed, and considered in the appraisal report.



	<b>Requirement</b>
	<p>A minimum of three comparable sales must be reported as part of the sales comparison approach to value.</p> <p>More than three comparable sales may be submitted to support the opinion of market value provided at least three are actual settled or closed sales.</p>
	<p>It is preferable for the appraiser to provide comparables from the subject's neighborhood, however, 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.</p>
	<p>Comparable sales that have been settled or closed within the last 12 months should be used in the appraisal.</p> <p>Older comparable sales that are the best indicator of value for the subject property can be used if appropriate.</p> <p>Comparable sales that are more than six months old must be accompanied by an appraiser explanation for use.</p> <p>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 three 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.</p>
	<p>The subject property can be used as a fourth comparable sale or as supporting data if it was previously sold and closed or settled.</p>
	<p>Contract offerings and current listings can be used as supporting data if appropriate.</p>

### **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.

The appraisal must include an explanation of why the particular comparables were selected.

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### **Properties in Established Subdivisions, Condos, or PUDs**

Comparable sales from within the same subdivision or project as the subject property must be used if the subdivision or project has resale activity.

Resale activity from within the subdivision or project is the best indicator of value for properties in that subdivision or project.

**Note:** Use of comparable properties located outside of the established subject neighborhood must be explained in the appraisal analysis.

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### **Properties in New or Recently Converted Subdivisions, Condos, or PUDs**

The subject property must be compared to other properties in its general market area as well as to properties within the subject subdivision or project.

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.

**Note:** 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.

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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-2010-09</a>	June 30, 2010
<a href="#">Announcement 08-30</a>	November 14, 2008



## **B4-1.4-17, Appraisal Report Review: Adjustments to Comparable Sales (04/01/2009)**

### **Introduction**

This topic contains information on adjustments to comparable sales.

### **Net and Gross Percentage Adjustments**

The following guidelines for net and gross percentage adjustments may be used as a general indicator of whether a property should be used as a comparable sale.

The amount of the gross adjustment is determined by adding the absolute value of all individual adjustments without regard to positive or negative adjustments.

The amount of the net adjustment is determined by adding all of the individual adjustments with consideration given to the positive or negative values.

<b>Guideline</b>	<b>Conditional Considerations</b>
The dollar amount of the net adjustments for each comparable sale should not exceed 15% of the sales price of the comparable.	When the adjustments exceed 15%, then the appraiser must comment on the reasons for not using a more similar comparable.
The dollar amount of the gross adjustments for each comparable sale should not exceed 25% of the sales price of the comparable.	When the adjustments exceed 25%, then the appraiser must comment on the reasons for not using a more similar comparable.
Individual adjustments that are higher than normal should be explained by the appraiser and carefully reviewed by the lender.	If comparables have higher-than-normal adjustments, then the adjustments must be justified in the appraisal report.



## **B4-1.4-18, Appraisal Report Review: Lender Review of the Adjustment Grid (10/30/2009)**

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### **Introduction**

This topic contains information on lender review of the adjustment grid, including:

- Lender Review of the Adjustment Grid
  - Proximity to Subject Property and Location
  - Sales Price
  - Sales or Financing Concessions
  - Date of Sale and Time Adjustments
  - Above-Grade Room Count and Gross Living Area
  - Over-Improvements
- 

### **Lender Review of the Adjustment Grid**

Lenders must thoroughly review the “sales comparison analysis” adjustment grid.

- Ensure that there are no calculation errors in the dollar adjustments.
  - Scan the appraisal for substantial adjustments. They raise questions about the validity of using a specific comparable sale.
  - Ensure that substantial adjustments are addressed in the appraisal.
- 

### **Proximity to Subject Property and Location**

The description of the proximity of the comparable sale to the subject property must be specific (for example, “two blocks south”).

Whenever possible, comparable sales in the same neighborhood as the subject property should be used. Sales prices of comparable properties in the neighborhood should reflect the same positive and negative locational characteristics.

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## Sales Price

The sales price of each comparable sale should be within the general range of the appraiser's opinion of market value for the subject property.

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## Sales or Financing Concessions

For in-depth discussion of sales or financing concessions, see B3-4.1-02, Interested Party Contributions (IPCs).

The table below describes lender evaluation requirements for sales or financing concessions.

<b>Evaluating Sales or Financing Concessions</b>	
	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.
	Appraisers must provide the sales and financing concession information that was available and verified for the comparable sales.
	<p>If information is not available because of legal restrictions or other disclosure-related problems, the appraiser must explain why the information is not available.</p> <p style="padding-left: 40px;"><b>Note:</b> Fannie Mae will not accept an explanation that indicates that the appraiser did not make an effort to verify the information.</p> <p>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.</p>
	When a quantitative sales comparison analysis is used, 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.
	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.
	Adjustments must reflect the difference between what the comparables actually sold for with the sales 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.
	Positive adjustments for sales or financing concessions are not acceptable.

<b>Evaluating Sales or Financing Concessions</b>	
	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.

Sales or financing data for comparable sales are generally available. 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. The need to make negative dollar adjustments for sales and financing concessions and the amount of the adjustments to the comparable sales are not based on how typical the concessions might be for a segment of the market area; large sales concessions can be relatively typical in a particular segment of the market and still result in sale prices that reflect more than value of the real estate.

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### **Date of Sale and Time Adjustments**

For each comparable sale, the appraiser should provide the date of the sales contract and the settlement or closing date. Only the month and year of the sale need to be reported unless the exact date is necessary to understand the adjustments.

If both the contract date and settlement or closing date are not reported, the reported sale date must be identified as either the “contract date” or the “settlement or closing date.”

If only the contract date is reported, the appraisal must indicate whether the contract resulted in a settlement or closing.

Time adjustments must reflect the difference in market conditions between the contract date of the comparable and the effective date of appraisal for the subject property. The adjustment may be either positive or negative.

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### **Above-Grade Room Count and Gross Living Area**

Only finished above-grade areas can be included in the calculation of the gross living area for a one-unit property or a unit in a condo or PUD project. Basements and other partially below-grade areas must be considered separately and the appraisal adjusted accordingly.

Room count and gross living area must be similar for the subject property and all comparable sales.

Large differences between the subject property and the comparable sales must be addressed since they raise doubts about the validity of the comparable sales as good indicators of value.

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### Over-Improvements

An over-improvement is an improvement that costs more than its contributory value within the marketplace.

The appraiser must comment on over-improvements and indicate their contributory value in the “sales comparison analysis” 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.

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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### 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
<a href="#">Announcement 08–30</a>	November 14, 2008



## **B4-1.4-19, Appraisal Report Review: Cost Approach to Value (04/01/2009)**

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### Introduction

This topic contains information on the cost approach to value.

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## Evaluating Cost Approach to Value

The table below provides requirements for evaluating cost approach to value.

<b>Evaluating Cost Approach to Value</b>	
	Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.
	Fannie Mae does not require the cost approach to value except for the valuation of manufactured homes.
	Lenders must ensure that appraiser analysis and comments for the cost approach to value are consistent with comments and adjustments mentioned elsewhere in the appraisal report.  For example: <ul style="list-style-type: none"><li>• If the neighborhood or site description reveals that the property backs up to a shopping center, lenders should expect to see an adjustment for external depreciation in the cost approach.</li><li>• 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 adjustment for functional depreciation.</li></ul>



## **B4-1.4-20, Appraisal Report Review: Income Approach to Value (04/01/2009)**

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### **Introduction**

This topic contains information on the income approach to value.

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### **Income Approach to Value**

Fannie Mae does not accept appraisals that rely solely on the income approach to value as an indicator of market value.

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.



The income approach to value is not appropriate in areas that consist mostly of owner-occupied properties since adequate rental data generally does not exist for those areas.

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## **B4-1.4-21, Appraisal Report Review: Valuation Analysis and Final Reconciliation (06/30/2010)**

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### **Introduction**

This topic contains information on appraisal report review, including:

- Valuation Analysis and Final Reconciliation
  - Changes to the Appraised Value
  - Guidance on Addressing Appraisal Deficiencies
- 

### **Valuation Analysis and Final Reconciliation**

In the final reconciliation, 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.

**Note:** The final reconciliation must never be an averaging technique.

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### **Changes to the Appraised Value**

The lender is responsible for ensuring that appraisal reports are complete and that any changes to the report are made by the appraiser who 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 who 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*, below.

Lenders must pay particular attention and institute extra due diligence for those loans in which the appraised value is believed to be excessive or where 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 and/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 who 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 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. The new appraisal must, at a minimum, be based on the same level of inspection that was required for the original appraisal. For example, if the original appraisal was based on an interior and exterior inspection of the property, then the new appraisal must, at a minimum, also be based on an interior and exterior inspection of the property.

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 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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### **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-2010-09</a>	June 30, 2010

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# Chapter B4-2, Project Standards



## Project Standards

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### Introduction

This chapter describes Fannie Mae project standards policies and requirements.

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### In This Chapter

This chapter contains the following sections:

B4-2.1, General Project Standards and Environmental Hazards .....	577
B4-2.2, Condo Project Eligibility .....	595
B4-2.3, PUD Requirements and Cooperative Project Eligibility .....	629

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## Section B4-2.1, General Project Standards and Environmental Hazards



### **B4-2.1-01, General Information on Project Standards (07/26/2011)**

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#### **Introduction**

This topic contains general information on project standards, including:

- Project Standards Overview
- General Warranty of Project Eligibility

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#### **Project Standards Overview**

Fannie Mae purchases or securitizes mortgage loans secured by units in condos, planned unit developments (PUDs), or cooperative projects that meet Fannie Mae eligibility criteria.

<b>Project Type</b>	<b>Project Review Methods</b>
Condo	<ul style="list-style-type: none"><li>• Limited Review</li><li>• Lender Full Review</li><li>• Condo Project Manager™ (CPM™) Expedited Review</li><li>• Fannie Mae Review: <a href="#">Project Eligibility Review Service (PERS)</a></li></ul> <p>For geographic-specific condo project review requirements, see B4-2.2-12, Geographic-Specific Condo Project Considerations.</p>
PUD	<p>Lender Full Review — Attached PUD projects.</p> <p>A project review is not required for detached PUD units.</p>
Co-op	Lender Full Review

Project Type	Project Review Methods
Condo, PUD, or Co-op Projects Consisting of Manufactured Housing	Fannie Mae Review ( <a href="#">PERS</a> ) excluding PUD projects consisting of multi-width manufactured homes. Single wide manufactured home projects require review.

Sources for project information include, but are not limited to, appraisers, homeowners' associations, co-op corporations, management companies, real estate brokers, and project developers. Lenders are responsible for the accuracy of any information obtained from these sources.

Appraisers must provide accurate descriptions of projects and include any characteristics that may be an indication that the project is ineligible.

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### General Warranty of Project Eligibility

The table below details considerations for the lender warranty of project eligibility.

When ...	Then ...
Lenders deliver mortgages secured by an individual unit in a project that was reviewed under: <ul style="list-style-type: none"> <li>• the Limited Review process for established condo projects;</li> <li>• the Lender Full Review process for condo projects;</li> <li>• the Type E, Type F, or Type T PUD reviews or;</li> <li>• the Type 1 co-op project type.</li> </ul>	Lenders represent and warrant that <ul style="list-style-type: none"> <li>• the project was reviewed within the three months that preceded the date of the note for that unit to determine the project met the required eligibility criteria, and</li> <li>• they are not aware of any changes in circumstances since the lender's review of the project that would result in the project not satisfying Fannie Mae's eligibility criteria.</li> </ul>
Lenders deliver mortgages secured by an individual condo unit in a project that was reviewed under: <ul style="list-style-type: none"> <li>• the CPM Expedited Review process.</li> </ul>	Lenders represent and warrant that <ul style="list-style-type: none"> <li>• the project has a valid, unexpired CPM Lender Certification as of the date of the note, a copy of which is retained in the individual loan file; and</li> <li>• they are not aware of any changes in circumstances since the project information</li> </ul>

When ...	Then ...
	was submitted to CPM that would result in the project not satisfying Fannie Mae's eligibility criteria.
<p>Lenders deliver mortgages secured by an individual condo unit in a project that was reviewed under:</p> <ul style="list-style-type: none"> <li>the Fannie Mae PERS process (or project acceptance).</li> </ul>	<p>Lenders represent and warrant that</p> <ul style="list-style-type: none"> <li>the project has a valid, unexpired Fannie Mae Final Approval as of the date of the note; and</li> <li>the individual loan file contains a copy of the approved list that shows the name of the project and the expiration date.</li> </ul> <p>Lenders that submit and receive a Final Project Approval for a given project using PERS must provide all warranties as required by the Final Project Approval letter the lender receives from Fannie Mae.</p>

Seasoned mortgage loans secured by units in a condo, co-op, or PUD project must meet the seasoning requirements in B2-1.4-02, Mortgage Loan Eligibility, including the requirement that the project satisfy the applicable Fannie Mae project eligibility requirements in effect as of whole loan delivery or MBS issue date.

### 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-2011-06</a>	July 26, 2011
<a href="#">Announcement SEL-2011-05</a>	June 28, 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 (12/01/2010)**

### **Introduction**

This topic contains information on ineligible projects, including:

- Ineligible Project Types
- Identification of Condo or Cooperative Hotels

### **Ineligible Project Types**

Fannie Mae will not purchase or securitize mortgages that are secured by units in certain types of PUD, condos, or cooperative projects, regardless of the characteristics of the unit mortgage.

Loans secured by units within the following types of projects are not eligible for purchase or securitization by Fannie Mae:

	<b>Ineligible Project Types</b>
	Projects that are managed and operated as a hotel or motel, even though the units are individually owned
	Hotel or motel conversions (or conversions of other similar transient properties)
	Projects with names that include the word “hotel” or “motel”
	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
	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.  <b>Note:</b> 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.
	Projects with non-incidentual business operations owned or operated by the homeowners’ association such as, but not limited to, a restaurant, a spa, a health club, etc.



	<b>Ineligible Project Types</b>
	Investment securities (i.e., projects that have documents on file with the Securities and Exchange Commission, or projects where unit ownership is characterized or promoted as an investment opportunity)
	Common interest apartments or community apartment projects are projects or buildings that are owned by several owners as tenants-in-common or by a homeowners' 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
	Timeshare or segmented ownership projects
	Houseboat projects
	New projects where the seller is offering sale/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 or principal and interest payment abatements, and/or contributions not disclosed on the HUD-1 Settlement Statement.
	Projects where more than 20% of the total space is used for nonresidential purposes
	Projects where a single entity (the same individual, investor group, partnership, or corporation) owns more than 10% of the total units in the project
	Multi-dwelling unit condos or co-ops—projects that permit an owner to hold title (or stock ownership and the accompanying 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)
	Condo or co-op 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
	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 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
	Co-op projects with units that are subject to resale restrictions or located on land owned by community land trusts

<b>Ineligible Project Types</b>	
	Co-op projects in which the developer or sponsor has an ownership interest or other rights in the project real estate or facilities other than the interest or rights it has in relation to unsold units
	<p>Any project (condo, co-op, or PUD) for which the homeowners' association 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.</p> <p><b>Note:</b> Projects for which the lender determines that pending litigation involves minor matters are not considered ineligible projects, provided the lender concludes that the pending litigation has no impact on the safety, structural soundness, habitability, or functional use of the project. The following are defined to be minor matters:</p> <ul style="list-style-type: none"> <li>• non-monetary litigation involving neighbor disputes or rights of quiet enjoyment;</li> <li>• litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the association's or co-op corporation's insurance; or</li> <li>• the homeowners' association or co-op corporation is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due homeowners' association dues.</li> </ul> <p>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.</p>

### **Identification of Condo or Cooperative Hotels**

Fannie Mae frequently receives questions on how to identify a condo or cooperative hotel. The lender must perform a careful analysis of the project to determine the project's eligibility. Lenders have several sources of information on which to rely. These include, but are not limited to, the appraisal, the contract for sale, and the Internet.

The selection of the appraiser is a key element in obtaining an accurate appraisal report. The appraiser is expected to provide an accurate description of the project to include any characteristics that may be an indication that the project is ineligible. An appraiser who is not

familiar with a specific real estate market may not have adequate information available to perform a reliable appraisal.

The appraisal report may identify project characteristics that do not definitively determine that the project is a condo or cooperative hotel; however the report may provide evidence that would require the lender to perform additional research. Such project characteristics 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, or
- interior doors that adjoin other units.

Lenders must thoroughly examine the appraisal and contract of sale to determine if there are guaranteed rent-backs, references to rental pooling or management agreements, and SEC filing references and/or prospectus documents.

The Internet has become a useful tool for obtaining project and unit-specific information. The applicable project's Web site may contain information on the project type, amenities, and the availability of units for rent.

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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 08-34</a>	December 16, 2008



## **B4-2.1-03, Projects with Special Considerations and Project Eligibility Waivers (04/01/2009)**

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### Introduction

This topic contains information on projects with special considerations and project eligibility waivers.

- 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 characteristics do not satisfy Fannie Mae eligibility criteria.

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.

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### Project Eligibility Waivers

The table below provides requirements for project eligibility waivers.

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.

When ...	Then ...
lenders believe that a specific eligibility criterion should be waived for a particular project with respect to a single loan,	<ul style="list-style-type: none"> <li>• the lender must enter the project into CPM before requesting a waiver through the Credit Variance Administration System (CVAS),</li> <li>• the lender must request a waiver from Fannie Mae through CVAS, and</li> <li>• Fannie Mae’s Project Standards team (see E-1-03, List of Contacts) will determine if a single loan project eligibility waiver is warranted.</li> </ul>
the project is to be reviewed under the Condo Project Manager (CPM) Expedited Review process,	<ul style="list-style-type: none"> <li>• the lender must enter the project into CPM before requesting a waiver through CVAS, and</li> <li>• Fannie Mae’s Project Standards team (see E-1-03, List of Contacts) will determine if a single loan project eligibility waiver is warranted.</li> </ul>



## **B4-2.1-04, Project Identification and Document Retention (04/01/2009)**

### **Introduction**

This topic contains information on project identification and document retention.

### **Proper Project Identification and Documentation Retention**

To ensure that a project is properly identified in Fannie Mae records and in the mortgage documents, lenders must designate the applicable project classification on the following forms:

- FRM/GEM Loan Schedule ([Form 1068](#))

- ARM/GPARM Loan Schedule ([Form 1069](#))
- Schedule of Mortgages ([Form 2005](#))
- Uniform Underwriting and Transmittal Summary ([Form 1008](#))

**Note:** The CPM Project ID number should be added to the [Form 1008](#) when applicable.

Lenders must also retain any of the project documentation needed to support the warranty that the project meets Fannie Mae eligibility criteria.

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.



## **B4-2.1-05, Project Insurance Requirements (04/01/2009)**

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### **Introduction**

This topic contains information on project insurance requirements.

- Project Insurance Requirements Overview
  - Additional Fannie Mae Insurance Requirements
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### **Project Insurance Requirements Overview**

The table below provides requirements for delivery of mortgage or share loans secured by an individual unit in a condo or co-op project.

	<b>Requirements</b>
	Lenders must verify that the units in a project are covered by the appropriate hazard and flood insurance policies (see B7-3-05, Hazard Coverage for Units in Project Developments, and B7-3-08, Flood Insurance Coverage Requirements).
	Lenders must verify that hazard and flood insurance are in force for a PUD project if the individual PUD unit will be covered under the project's blanket policy.

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### Additional Fannie Mae Insurance Requirements

In addition to hazard and flood insurance, in most cases, Fannie Mae requires liability, fidelity, and rent loss insurance for a project. See B7-4-01, Liability Insurance, B7-4-02, Fidelity Insurance, and B7-4-03, Rent Loss Insurance for Co-op Projects.

All coverages must be in compliance with local, state, and federal insurance laws.

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### **B4-2.1-06, Priority of Common Expense Assessments (04/01/2009)**

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#### Introduction

This topic contains information on priority of common expense assessments.

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#### Priority of Common Expense Assessments

The table below describes the priority of common expense assessments.

<b>If ...</b>	<b>Then ...</b>
the condo or PUD project is located in a jurisdiction that has enacted: <ul style="list-style-type: none"><li>• the Uniform Condo Act (UCA),</li><li>• the Uniform Common Interest Ownership Act (UCIOA), or</li><li>• other similar statutes that provide for regular common expense assessments, as reflected by the project's operating budget, to have such priority over first mortgage liens.</li></ul>	Fannie Mae allows up to six months of regular common expense assessments for a condo or PUD unit to have limited priority over Fannie Mae's mortgage lien.
Fannie Mae subsequently acquires title to the unit by foreclosure,	Fannie Mae will not be liable for any fees or charges related to the collection of the six months of unpaid assessments that accrued before acquisition of title to the unit.

If ...	Then ...
the condo or PUD project is located in a jurisdiction that allows for more than six months of regular common expense assessments to have priority over Fannie Mae's lien,	Fannie Mae will not purchase a mortgage loan secured by a unit in the project.



## **B4-2.1-07, Project Standards: Environmental Hazard Assessments (04/01/2009)**

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### **Introduction**

This topic contains information on environmental hazard assessments.

- 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 E-2-03, Suggested Format for Phase I Environmental Hazard Assessments)	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 reserve 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-2-03, 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 require 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>

	<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.



### **B4-2.1-08, Unacceptable Environmental Conditions (04/01/2009)**

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#### **Introduction**

This topic contains information on unacceptable environmental conditions.

- Overview
- Unacceptable Environmental Conditions

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#### **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 call the Fannie Mae Project Standards team (see E-1-03, List of Contacts).

### Unacceptable Environmental Conditions

The table below provides examples of unacceptable environmental conditions.

	<b>Examples of unacceptable environmental conditions include, but are not limited to, the following:</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 include, but are not limited to, the following:</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 and/or extensive ongoing maintenance programs that are beyond the financial or technical abilities of the homeowners' association 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; and</p>
	<p>a property that is contaminated by friable asbestos-containing materials.</p>



## **B4-2.1-09, 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, Condo Project Eligibility



### B4-2.2-01, Condo Project Eligibility (06/28/2011)

#### Introduction

This topic contains information on condo project eligibility, including:

- Condo Project Eligibility
- Condo Project Type Codes

#### Condo Project Eligibility

The quality of mortgages secured by units in a condo project can be influenced by certain characteristics of the project as a whole. As a result, before Fannie Mae will purchase or securitize mortgages secured by individual units in a condo project, the project must be acceptable. The scope of the guidelines and the specific eligibility criteria are dependent upon whether the condo project reviewed is established or new and are summarized in the following table:

Project Type	Eligibility Criteria
Established project	<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><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 homeowners' association has been turned over to the unit owners.</li></ul>
New project	<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></ul>

<b>Project Type</b>	<b>Eligibility Criteria</b>
	<ul style="list-style-type: none"> <li>• the project is newly converted; or</li> <li>• the project is subject to additional phasing or annexation.</li> </ul>
Two- to four-unit project	<p>Additional eligibility requirements apply for two- to four-unit projects:</p> <ul style="list-style-type: none"> <li>• no single entity (the same individual, investor group, partnership, or corporation) may own more than one unit within the project;</li> <li>• all units, common elements, and facilities within the project, including those that are owned by any master association, must be 100% complete;</li> <li>• all but one unit in the project must have been conveyed to owner-occupant principal residence or second home purchasers; and</li> <li>• the units in the project must be owned in fee simple or leasehold, and the unit owners must be the sole owners of, and have rights to the use of, the project's facilities, common elements, and limited common elements.</li> </ul>
Manufactured home project	<p>Additional eligibility requirements apply for manufactured home projects.</p> <p>All condo projects consisting of manufactured homes must be submitted to Fannie Mae for review and acceptance, with the exception of multi-width manufactured homes that are part of a PUD project.</p>

### Condo Project Type Codes

When a lender delivers a mortgage for purchase or securitization, it must provide the project type code. The following project type codes are used for condo projects:

<b>Project Type Code</b>	<b>Description</b>
P	Limited Review — New detached projects
Q	Limited Review — Established projects
R	CPM Expedited Review or Lender Full Review — New projects
S	CPM Expedited Review or Lender Full Review — Established projects



Project Type Code	Description
T	Fannie Mae Review — Projects that received a Final Project Approval (PERS) (including projects consisting of manufactured housing)
U	FHA-Approved Project – Applicable to FHA loans only

### 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 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



## **B4-2.2-02, Limited Review Process for Attached Condo Units (06/28/2011)**

### Introduction

This topic contains information on the limited review process for attached condo units, including:

- Projects Eligible for Limited Review
- Mortgage Delivery Requirements

### Projects Eligible for Limited Review

The Fannie Mae Limited Review process enables lenders to deliver individual loans secured by units in a project based on loan-level characteristics and DU recommendation, if applicable.

A project must meet the following requirements to be eligible for a Limited Review:

- The project must meet the requirements of the General Warranty of Project Eligibility section within B4-2.1-01, General Information on Project Standards.

- The project is not an ineligible project in accordance with B4-2.1-02, Ineligible Projects.
- The project does not consist of manufactured homes.
- The project must be an established project as described in B4-2.2-01, Condo Project Eligibility.
- The project is covered by insurance in accordance with the types of insurance described in Subpart B7, Insurance.

The following are not eligible for a Limited Review:

- Mortgages secured by attached units in new condo projects, whether they are manually underwritten or submitted to DU.
- Mortgages secured by attached condo units that are investment properties.

See B4-2.2-12, Geographic-Specific Condo Project Considerations, for geographic-specific restrictions.

The Limited Review process is intended to be used on a “spot loan” basis, meaning that lenders may originate loans that arise through the ordinary course of business. A lender may originate more than one loan in a particular project under the Limited Review process provided the project is an established project and meets the requirements for Limited Review.

However, if the lender has targeted the project with specific marketing efforts or is named as a preferred lender by either the developer or the project's home owner's association, the project is ineligible for Limited Review and the lender must use one of the other project review processes.

Limited Review eligibility criteria for attached units differ depending upon the occupancy status and whether a lender submits the loan through DU or chooses to evaluate the loan outside of DU. DU will issue a Limited Review eligibility finding for loans submitted through DU. The following chart provides the maximum LTV and CLTV ratios based on occupancy types.

<b>Limited Review: Established Projects — Attached Condo Units — Maximum LTV/CLTV %</b>			
<b>Occupancy Type</b>	<b>DU Approve<sup>a</sup></b>	<b>All Other DU Recommendations<sup>b</sup></b>	<b>Manual Underwriting</b>
Principal residence	≤ 90%	≤ 80%	≤ 80%
Second home	≤ 75%	≤ 75%	≤ 75%
Investment property	Not allowed	Not allowed	Not allowed

<sup>a</sup>Expanded Approval recommendations are not eligible.

<sup>b</sup>Includes Expanded Approval recommendations.

Lenders must use one of the other project review processes for loans secured by units in projects that do not meet these parameters.

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## Mortgage Delivery Requirements

When delivering a mortgage loan for purchase or securitization, the lender must indicate that the loan is secured by a unit in a project reviewed under the Limited Review process by inserting the project review type code “Q” on one of the following forms:

- FRM/GEM Loan Schedule ([Form 1068](#))
- ARM/GPARM Loan Schedule ([Form 1069](#))
- Schedule of Mortgages ([Form 2005](#))
- Uniform Underwriting and Transmittal Summary ([Form 1008](#)) (for manually underwritten loans)

See [Loan Delivery Codes](#) 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.

Announcement	Issue Date
<a href="#">Announcement SEL-2011-05</a>	June 28, 2011
<a href="#">Announcement 08-34</a>	December 16, 2008



## **B4-2.2-03, Limited Review Process for Detached Condo Units (06/28/2011)**

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### Introduction

This topic contains information on the limited review process for detached condo units.

### Limited Review Process for Detached Condo Units

When a lender performs a Limited Review for a mortgage secured by a detached unit in a condo project, the lender warrants that the following eligibility criteria have been met.

<b>Limited Review Eligibility Criteria for Detached Condo Units</b>	
	The mortgage is secured by a single detached unit in a condo project.
	The mortgage is not secured by a manufactured home.
	The project is not an ineligible project.
	The condo unit is occupied as the owner’s principal residence or second home, whether the loan is manually underwritten or submitted to DU.
	The condo unit is an investment property and the loan was submitted to DU.
	The appraiser commented on, and reflected in the appraisal report, any effect that buyer resistance to the condo form of ownership has on the market value of the individual unit.
	If the condo project is new, the appraiser used as a comparable sale at least one detached condo unit, which may be located either in a competing project or in the subject project, if the condo unit is offered by a builder other than the one that built the subject unit.
	The mortgage title insurance policy satisfies Fannie Mae’s special title insurance requirements for units in condo projects. See Subpart B7, Insurance.
	<p>The property is either covered by</p> <ul style="list-style-type: none"> <li>• the type of hazard and flood insurance coverage required for single-family detached dwellings, if the condo unit consists of the entire structure as well as the site and air space; or</li> <li>• the project’s master hazard and flood insurance policies, if the condo unit consists only of the air space for the unit and the improvements and site are considered to be common areas or limited common areas.</li> </ul> <p>See Subpart B7, Insurance.</p>

The lender’s review of the project must cover any areas that affect its ability to make the required representations and warranties for a Limited Review.

SFC 588 is required when delivering detached condo 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.

Announcement	Issue Date
<a href="#">Announcement SEL-2011-05</a>	June 28, 2011
<a href="#">Announcement 08-34</a>	December 16, 2008

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## **B4-2.2-04, Lender Full Review: General Eligibility Requirements for All Condo Projects (12/01/2010)**

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### Introduction

This topic contains information on general eligibility requirements for Lender Full Review of all condo projects.

- Overview
  - Lender Full Review General Eligibility Criteria
  - Lender Full Review: Additional Eligibility Requirements for Condo Projects Consisting of Two to Four Units
- 

### Overview

The Lender Full Review process is another method for the review of new and established condos. Lenders performing a Full Review must ensure that the project meets all applicable eligibility criteria.

Condo projects must meet both:

- Fannie Mae's general eligibility criteria, and
- Fannie Mae's additional criteria that are specific to each type of project.

### Lender Full Review General Eligibility Criteria

When delivering loans secured by units in a condo project on the basis of a Lender Full Review, lenders must ensure adherence to the following requirements:

	<b>Requirement</b>
	The project must meet the requirements of the General Warranty of Project Eligibility. (See B4-2.1-01, General Information on Project Standards.)
	The project must not be an ineligible project. (See B4-2.1-02, Ineligible Projects.)
	The project must not be a manufactured housing project.
	The project must not be a new project as defined in B4-2.2-01, Condo Project Eligibility, that contains any units with less than 400 square feet.
	The project must meet Fannie Mae insurance requirements, as stated in Subpart B7, Insurance.
	No more than 20% of the total square footage of the project can be used for commercial purposes.
	The units in the project must be owned in fee simple or leasehold. (See B2-3-04, Leasehold Estates.)
	No more than 15% of the total units in a project may be 30 days or more past due on their homeowners' association (HOA) dues. For example, a 100 unit project may not have more than 15 units that are 30 days or more delinquent.
	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 and/or due diligence.  In the event that environmental problems are identified, the problems must be determined to be acceptable, as described in E-2-03, Suggested Format for Phase I Environmental Hazard Assessments.
	All gut rehabilitation work involved in a condo conversion must have been completed in a professional manner.  <ul style="list-style-type: none"> <li>• 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. Projects that have undergone gut rehabilitation are eligible for a Lender Full Review.</li> <li>• 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</li> </ul>

	<b>Requirement</b>
	<p>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 heating and cooling systems, plumbing, electrical systems, elevators, boilers, roof, etc.</p> <p>Note: If the project is a newly converted non-gut rehabilitation project, lenders must submit the project to Fannie Mae for review and approval. See B4-2.2-08, Project Eligibility Review Service (PERS) for additional information.</p>

**Note:** Lenders must retain all project documentation that supports its warranty that the project meets Fannie Mae eligibility criteria. This documentation must be retained from the time the lender first originates mortgages secured by units in the project until all such mortgages that were sold to Fannie Mae have been liquidated. The project documentation must be available upon request for Fannie Mae review.

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### **Lender Full Review: Additional Eligibility Requirements for Condo Projects Consisting of Two to Four Units**

A Lender Full Review of a project consisting of two to four units must comply with the general eligibility requirements for all projects, listed above, as well as the following requirements:

	<b>Requirement</b>
	No single entity; the same individual, investor group, partnership, or corporation may own more than one unit within the project.
	All units, common elements, and facilities within the project, including those that are owned by any master association, must be 100% complete.
	All but one unit in the project must have been conveyed to owner-occupant principal residence or second home purchasers.
	The unit owners must be the sole owners of, and have rights to the use of, the project's facilities, common elements, and limited common elements.

### **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-2010-16</a>	December 1, 2010



## **B4-2.2-05, Lender Full Review: Additional Eligibility Requirements for New Condo Projects and Newly Converted Attached Condo Projects(10/30/2009)**

### **Introduction**

This topic contains information on lender full review of new condo projects and newly converted attached condo projects, including:

- Eligibility Criteria for the Full Review of New Condo Projects and Newly Converted Attached Condo Projects
- Reviewing the Overall Development Plan
- Completion and Construction Assurance Arrangements
- Marketing the Unit Estates
- Retention of Amenities
- Project Management
- Unit Occupancy

### **Eligibility Criteria for the Full Review of New Condo Projects and Newly Converted Attached Condo Projects**

When performing a Lender Full Review of a new condo project or newly converted attached condo projects, lenders must ensure compliance with the following additional requirements:

	<b>Requirements</b>
	Compliance with general requirements for all condo projects listed in B4-2.2-04, Lender Full Review: General Eligibility Requirements for All Condo Projects.
	The project, or the subject legal phase, must be “substantially complete.” This means that: <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></ul>



	<b>Requirements</b>
	<ul style="list-style-type: none"> <li>• all the units in the building 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, and/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 support that all buyer selection items for the unit being financed are properly installed prior to closing.</p>
	<p>At least 70% of the total units in the project or subject legal phase must have been conveyed or be under a bona fide contract for purchase to owner-occupant principal residence or second home purchasers.</p> <p>CPM Expedited Review has more flexible presale requirements for attached new or newly converted condo projects. See B4-2.2-12, Geographic-Specific Condo Project Considerations for geographic-specific restrictions.</p> <ul style="list-style-type: none"> <li>• For a specific legal phase or phases in a new project, at least 70% 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 to be sold to owner-occupant 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>
	<p>Lenders must represent and warrant that the project meets the legal requirements addressed in B4-2.2-13, Condo Project Review and Legal Document Requirements.</p>
	<p>Lenders must review the homeowners' association projected budget to determine that:</p> <ul style="list-style-type: none"> <li>• it is adequate (i.e., it includes allocations for line items pertinent to the type of condo),</li> <li>• it provides for the funding of replacement reserves for capital expenditures and deferred maintenance at least 10% of the budget, and</li> <li>• it provides adequate funding for insurance deductible amounts.</li> </ul>

	<b>Requirements</b>
	<p><b>Note:</b> Increased insurance costs have resulted in associations increasing their insurance deductible amounts to reduce annual premiums. Insurance deductibles can be quite substantial. Fannie Mae does not require a separate budget line item for insurance deductibles, but the potential cost of deductibles must be accounted for in the budget. Insurance deductibles may be included in the reserve fund or may be a separate item. In either case, the lender must determine that the project has the ability to fund insurance deductibles.</p>
	No more than 15% of the total units in an attached condo project can be 30 days or more past due on the payment of their condo/association fee payments.
	No single entity—the same individual, investor group, partnership, or corporation other than the developer during the initial marketing period—may own more than 10% of the total units in the project.
	The unit owners must be the sole owners of, and have rights to the use of, the project’s facilities, common elements, and limited common elements.
	The project must be located on one contiguous parcel of land. The project may be divided by a public street.
	The structures within the project must be within a reasonable distance from each other.
	Common areas and facilities—such as recreational facilities and parking—must be consistent with the nature of the project and competitive in the marketplace.
	<p>Overall development plan:</p> <p>If a new 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.</p>

### **Reviewing the Overall Development Plan**

When reviewing the overall development plan to determine the project’s potential viability, lenders must evaluate the:

- consistency of future and existing improvements;
- time limitations for expansion; and

- reciprocal easements between legal phases.
- 

### **Completion and Construction Assurance Arrangements**

Lenders must determine that acceptable completion assurance arrangements have been provided for new projects (or newly converted attached condo projects) that are only substantially completed.

These include cash deposits, letters of credit, assignments of certificates of deposit, or assignments of other assets that can be easily converted to cash.

Similar arrangements must be provided to support assurances against construction and structural defects. The assurances should:

- protect each unit against defects that become apparent within one year from the date of its settlement, and
  - cover all common facilities for one year from the time when units that represent 60% of the votes in the homeowners' association have been transferred.
- 

### **Marketing the Unit Estates**

The sales program developed for marketing units in a project must recognize and provide procedures for complying with all laws pertaining to:

- the advertising and sale of real estate,
- the form and content of sales agreements, and
- the method for handling deposits connected with a sale.

**Note:** When the homeowners' association retains the right to provide a substitute buyer or to have the first option to purchase a unit, that right cannot be exercised in any way that could be interpreted as unlawful discrimination or impair the marketability of the units in the project.

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### **Retention of Amenities**

Facilities related to the project must be owned by the unit owners or the homeowners' association. 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 homeowners' association and another party.

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## Project Management

The developer or sponsor should provide for and promote the unit owners' early participation in the management of the project.

Fannie Mae prefers that the project be managed by an independent professional management firm. The contract with the management firm should be for a reasonable term, and should include equitable provisions for its termination.

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## Unit Occupancy

Individual units in new condo projects must be available for immediate occupancy at the time of loan closing.

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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 08-34</a>	December 16, 2008



## **B4-2.2-06, Lender Full Review: Additional Eligibility Requirements for Established Condo Projects(10/30/2009)**

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### Introduction

This topic contains information on Lender Full Review of established condo projects.

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### Eligibility Criteria for the Full Review of Established Projects

When performing a Lender Full Review of an established condo project, lenders must ensure compliance with the following additional requirements:

	Requirement
	Compliance with general requirements for all condo projects listed in B4-2.2-04, Lender Full Review: General Eligibility Requirements for All Condo Projects.

	<b>Requirement</b>
	All units, common elements, and facilities within the project must be 100% complete.
	The project cannot be subject to additional phasing or annexation.
	<p>At least 51% of the total units in the project must be conveyed to purchasers as principal residences or second homes.</p> <p>This requirement does not apply when lenders deliver mortgage loans secured by principal residences or second homes.</p> <p>See B4-2.2-07, Owner-Occupancy Ratio Requirements and Financial Institution-Owned REO Units for information regarding provisions for financial institution-owned REO.</p>
	<p>Lenders must review the homeowners' association actual budget to determine the budget:</p> <ul style="list-style-type: none"> <li>• is adequate (i.e., it includes allocations for line items pertinent to the type of condo),</li> <li>• provides for the funding of replacement reserves for capital expenditures and deferred maintenance equal to at least 10% of the budget,</li> <li>• provides adequate funding for insurance deductible amounts.</li> </ul>
	No more than 15% of the total units in an attached condo project can be 30 days or more past due on the payment of their condo/association fee payments.
	All facilities related to the project must be owned by the unit owners or the homeowners' association.
	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) cannot be subject to a lease between the unit owners or the homeowners' association and another party.
	<p>Separate metering of individual units is recommended but not generally required. For projects in which the units are not separately metered, 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>

	<b>Requirement</b>
	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.
	At least 90% of the total units in the project must have been conveyed to the unit purchasers.
	Control of the homeowners' association must have been turned over to the unit purchasers.
	No single entity; the same individual, investor group, partnership, or corporation may own more than 10% of the total units in the project. In the case of a project that has fewer than ten units, no single entity may own more than one unit.
	The project must be covered by the kinds of insurance; hazard, flood, liability, and fidelity required by Fannie Mae for a condo project. See Subpart B7, Insurance.
	The project must be demonstrably well managed.
	If the project is professionally managed: <ul style="list-style-type: none"> <li>• the management contract should be for a reasonable term, and</li> <li>• the management contract's termination provision must not require a penalty payment or advance notice of more than 90 days.</li> </ul>
	The project must be located on one contiguous parcel of land.  <b>Note:</b> The project may be divided by a public street.
	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.

### 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 08-34</a>	December 16, 2008



## **B4-2.2-07, Owner-Occupancy Ratio Requirements and Financial Institution-Owned REO Units (10/30/2009)**

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### **Introduction**

This topic contains information on owner-occupancy ratio requirements and financial institution-owned REO units.

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### **Owner-Occupancy Ratio Requirements and Financial Institution-Owned REO Units**

Lenders may count financial institution-owned REO units that are for sale (not rented) as owner-occupied when calculating the 51% owner-occupancy ratio requirement for established, attached unit condo projects if the mortgage loan being delivered is secured by (purchase or refinance) an investment property.

The REO unit must be for sale (not rented) as an owner-occupied unit.

Projects where a borrower is an investor and the project does not meet the owner occupied ratio of 51% will only be eligible if the lender submits the project:

- to Fannie Mae for review under PERS and the project is approved, or
- as a single-loan project eligibility waiver and Fannie Mae approves the waiver based on its review of the overall risk of the project.

For PERS information, see B4-2.2-08, Project Eligibility Review Service (PERS).

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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 08-34</a>	December 16, 2008

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## **B4-2.2-08, Project Eligibility Review Service (PERS) (12/01/2010)**

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### **Introduction**

This topic contains information on Fannie Mae's Project Eligibility Review Service (PERS).

- What is PERS?
  - Required Use of PERS
  - Newly Converted, Non-Gut Rehabilitation Condo Projects
  - PERS Submission Process
  - Availability of Project Information
  - Decision Expiration Dates
  - Mortgage Delivery Requirements
- 

### **What is PERS?**

The Project Eligibility Review Service (PERS) is an option available to lenders to submit new and newly converted condo projects to Fannie Mae to determine eligibility. Lenders must submit complete project packages to Fannie Mae via e-mail to PERS (see E-1-03, List of Contacts). Upon completion of its review, Fannie Mae will issue one of the following project eligibility determinations:

- Conditional Project Approval,
  - Final Project Approval,
  - Ineligible, or
  - Suspension of the Application.
- 

### **Required Use of PERS**

The following projects must be submitted to PERS to determine eligibility:



- attached, new and newly converted condo projects located in Florida;
- newly converted, non-gut rehabilitation condo projects; and
- new condo projects that contain one or more units with less than 400 square feet.

### **Newly Converted, Non-Gut Rehabilitation Condo Projects**

In order for a newly converted, non-gut rehabilitation condo project to receive project approval through PERS, the project cannot be an ineligible project in accordance with B4-2.1-02, Ineligible Projects, and must comply with the general eligibility requirements in B4-2.2-04, Lender Full Review: General Eligibility Requirements for All Condo Projects and the following requirements:

	<b>Requirement</b>
	All projects are subject to a site inspection.
	All rehabilitation work involved in a condo 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 1) reserves to adequately support the costs identified in the reserve study and 2) a utility contingency of at least 10% of the previous year's utility costs if the utilities are not separately metered.
	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 HOA's reserve account, 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 70% of the total units in the project or subject legal phase must have been conveyed or be under a bona fide contract for purchase to owner-occupant principal residence or second home purchasers. (Fannie Mae may consider a more flexible presale percentage on a project basis.)
	Up to 30% of the units 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.

Note: See B4-1.4-16, Appraisal Report Review: Sales Comparison Approach for information about appraisals of units in newly converted condo projects.

### PERS Submission Process

The PERS process submission is as follows:

Step	Action
1.	The lender performs a basic review to determine if the project satisfies eligibility requirements prior to submission to PERS.
2.	The lender completes a project submission package, which includes: <ul style="list-style-type: none"> <li>• Project Eligibility Review Service Document Checklist (<a href="#">Form 1030</a>), and</li> <li>• Application for Project Approval (<a href="#">Form 1026</a>).</li> </ul>
3.	The lender must represent and warrant that the project meets the legal requirements addressed in B4-2.2-13, Condo Project Review and Legal Document Requirements.
4.	The lender submits the complete project package, including all relevant supporting documentation, via e-mail. See E-1-03, List of Contacts.
5.	A member of the Fannie Mae 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 e-mail and posts approved projects on eFannieMae.com. See <a href="#">Accepted Condos, Co-ops, and PUDs</a> .
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 <a href="#">Project Eligibility Review Service</a> on eFannieMae.com.

### Availability of Project Information

Lenders submitting condo projects to PERS must ensure that the developer, builder, management company, and/or homeowner's association 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 decisions expire six months after issuance.

Final Project Approval decisions expire one year after issuance.

For information on requesting an extension, see [Project Approval Extensions](#) on eFannieMae.com.

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### Mortgage Delivery Requirements

When delivering a mortgage loan for purchase or securitization, the lender must indicate that the loan is secured by a unit in a project reviewed under the PERS process by inserting the project review type code “T” on one of the following forms:

- FRM/GEM Loan Schedule ([Form 1068](#)),
- ARM/GPARM Loan Schedule ([Form 1069](#)),
- Schedule of Mortgages ([Form 2005](#)), and
- Uniform Underwriting and Transmittal Summary ([Form 1008](#)), (for manually underwritten loans)

See [Loan Delivery Data 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-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



## **B4-2.2-09, Condo Project Manager (CPM) Expedited Review for New and Established Condo Projects(10/30/2009)**

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### **Introduction**

This topic contains information on CPM Expedited Review, including:

- What Is CPM?
  - Delivering Loans With CPM
  - CPM Representations and Warranties
  - CPM Certifications
  - Eligibility Requirements and Lender Review
- 

### **What Is CPM?**

Condo Project Manager (CPM) is a web-based tool designed to help lenders determine if a project will meet Fannie Mae's eligibility requirements. [CPM](#) is available on eFannieMae.com. CPM decisions are based on lender data. Lenders must document the loan file with the CPM decision. New and newly converted condo projects consisting of attached units located in Florida are not eligible for CPM review. See B4-2.2-08, Project Eligibility Review Service (PERS) and B4-2.2-12, Geographic-Specific Condo Project Considerations.

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### **Delivering Loans With CPM**

When delivering mortgage loans secured by individual units in condo projects reviewed under the CPM Expedited Review process, the lender must identify the project review type code as "R" for new projects or "S" for CPM Expedited Review for established projects on the following forms:

- FRM/GEM Loan Schedule ([Form 1068](#))
- ARM/GPARM Loan Schedule ([Form 1069](#))
- Schedule of Mortgages ([Form 2005](#))

For manually underwritten loans, the Uniform Underwriting and Transmittal Summary (Form 1008) must state that the project was reviewed in accordance with Fannie Mae's CPM requirements. Form 1008 is not required for loans underwritten with DU.

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### CPM Representations and Warranties

The submitting lender represents and warrants that data provided to CPM is correct and the project meets all applicable Fannie Mae eligibility requirements.

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### CPM Certifications

Condo Project Manager's project certification is valid for six months for new projects, and one year for established projects. Lenders may recertify the project by updating the project data in CPM as needed.

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### Eligibility Requirements and Lender Review

All eligibility requirements are built into CPM. The table below highlights certain unique project eligibility and lender review requirements for CPM.

	Requirements
	New and established condo projects consisting of manufactured homes are not eligible for CPM review and must be submitted to Fannie Mae for review.
	Lenders may use CPM to determine project acceptance for new and established projects.  <b>Note:</b> Projects that consist of four or fewer units have specific eligibility requirements under the Expedited Review process.
	Presale and investor concentration in some cases are more flexible than the Lender Full Review eligibility requirements.
	Lenders must review the homeowners' association budget (not required for two-to-four-unit projects): <ul style="list-style-type: none"><li>• the actual budget for established projects, and</li><li>• the projected budget for new projects.</li></ul>
	The lender's review of the budget must conclude: <ul style="list-style-type: none"><li>• the budget is adequate (i.e., it includes allocations for line items pertinent to the type of condo);</li></ul>

	<b>Requirements</b>
	<ul style="list-style-type: none"> <li>• the budget provides for the funding of replacement reserves for capital expenditures and deferred maintenance (at least 10% of the budget); and</li> <li>• the budget provides adequate funding for insurance deductible amounts.</li> </ul> <p><b>Note:</b> Increased insurance costs have resulted in homeowners' associations increasing their insurance deductible amounts to reduce annual premiums. Insurance deductibles can be quite substantial. Fannie Mae does not require a separate budget line item for insurance deductibles, but the potential cost of deductibles must be accounted for in the budget. Insurance deductibles may be included in the reserve fund or may be a separate item. In either case, the lender must determine that the project has the ability to fund insurance deductibles.</p>
	For new projects, the lender must represent and warrant that the project meets the legal requirements addressed in B4-2.2-13, Condo Project Review and Legal Document Requirements.
	The project must be covered by the kinds of insurance — hazard, flood, liability and fidelity — required by Fannie Mae for a condo project. See Subpart B7, Insurance.
	No more than 15% of the total units in an attached condo project can be 30 days or more past due on the payment of their condo/association fee payments.
	No single entity — the same individual, investor group, partnership, or corporation other than the developer during the initial marketing period may own more than 10% of the total units in the project. In the case of a project that has fewer than ten units, no single entity may own more than one unit.
	The lender must determine that nonresidential space does not exceed 20% of the project's total square footage.

### 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 08-34</a>	December 16, 2008



## **B4-2.2-10, FHA-Approved Condo Review Eligibility (12/30/2009)**

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### **Introduction**

This topic contains information on FHA-Approved condo review eligibility.

- Overview
  - Representations and Warranties
  - 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 approval alone is not acceptable for conventional mortgage loans.

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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### **Representations and Warranties**

When lenders deliver mortgage loans secured by condo units in an FHA-approved project, lenders make the warranty of project eligibility set forth in B4-2.1-04, Project Identification and Document Retention.

In addition, lenders represent and warrant 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 B4-2.1-05, Project Insurance Requirements, and

- the project is not comprised of manufactured homes.

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### 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 identify the project review type code “U” for an FHA-approved project on the following documents:

- FRM/GEM Loan Schedule ([Form 1068](#))
- ARM/GPARM Loan Schedule ([Form 1069](#))
- Schedule of Mortgages ([Form 2005](#))

For manually underwritten loans, the Uniform Underwriting and Transmittal Summary ([Form 1008](#)) must state that the project is FHA-approved. [Form 1008](#) is not required for loans underwritten 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.

Announcements	Issue Date
<a href="#">Announcement 09–37</a>	December 30, 2009



### **B4-2.2-11, Fannie Mae Review of Condo Projects Comprised of Manufactured Homes (04/01/2009)**

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#### Introduction

This topic contains information on Fannie Mae review of Manufactured Housing Projects.

- Overview
- Lender Requirements
- Delivering Condo Units in Manufactured Home Projects Accepted by Fannie Mae



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## Overview

All condo projects comprised of manufactured homes must be submitted to Fannie Mae for review and acceptance, with the exception of multi-width manufactured homes that are part of a PUD project.

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.

The eligibility criteria for Fannie Mae Review will differ slightly depending on whether the project is new or established.

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## Lender Requirements

The table below provides lender requirements for review of projects comprised of condo manufactured homes.

	<b>Lenders must</b>
	review all aspects of the project to determine that it satisfies Fannie Mae condo eligibility requirements as stated in B4-2.2-01, Condo Project Eligibility, and B4-2.2-04, Lender Full Review: General Eligibility Requirements for All Condo Projects.
	perform a thorough underwriting analysis of the project.
	present its underwriting analysis conclusion when the project is submitted to Fannie Mae for consideration.

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## Delivering Condo Units in Manufactured Home Projects Accepted by Fannie Mae

When delivering mortgage loans secured by condo units in manufactured home projects reviewed under the Fannie Mae Review acceptance process, the lender must identify the project review type code “T”, as well as special feature code 235 on the following documents:

- FRM/GEM Loan Schedule ([Form 1068](#))
- ARM/GPARM Loan Schedule ([Form 1069](#))
- Schedule of Mortgages ([Form 2005](#))

For manually underwritten loans, the Uniform Underwriting and Transmittal Summary ([Form 1008](#)) must state that the project was reviewed by Fannie Mae. [Form 1008](#) is not required for loans underwritten with DU.

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## **B4-2.2-12, Geographic-Specific Condo Project Considerations (01/27/2011)**

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### **Introduction**

This topic contains information on geographic-specific condo project considerations, including:

- Florida — Attached Units New and Newly Converted in Condo Projects
  - Florida — Project Review LTV Requirements for Attached Projects (New, Newly Converted and Established)
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### **Florida — Attached Units New and Newly Converted in Condo Projects**

PERS is required for new and newly converted condo projects consisting of attached units located in Florida. See B4-2.2-08, Project Eligibility Review Service (PERS).

The following lender delegated review types are prohibited for loans secured by such projects in Florida:

- Lender Full Review,
- Limited Review, and
- CPM Expedited Review.

All new or newly converted Florida condo projects that were submitted to CPM and received a “Certified by Lender” recommendation or “Owner-Occupied and Second Home” recommendation as of January 15, 2009, will be valid until expiration. Recertifications will not be permitted.

**Note:** Projects with a Final Project Approval are valid until the expiration date.

**Florida — Project Review LTV Requirements for Attached Projects (New, Newly Converted and Established)**

The following table provides the project review requirements for loans secured by units in condo projects located in Florida. The required project review type depends on the LTV ratio of the mortgage loan.

<b>Florida — Established Condo Projects</b>				
	<b>PERS Approved</b>	<b>Lender Full Review</b>	<b>CPM Expedited Review</b>	<b>Limited Review</b>
Principal Residence	97% — DU	97% — DU	75%	
	95% — Non-DU	95% — Non-DU		
Second Home	90%	90%	70%	
Investor	85%	85%	Not Eligible	

<b>Florida — New and Newly Converted Condo Projects</b>				
	<b>PERS</b>	<b>Lender Full Review</b>	<b>CPM Expedited Review</b>	<b>Limited Review</b>
Principal Residence	97% — DU	Not Eligible		
	95% — Non-DU			
Second Home	90%			
Investor	85%			

**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-2011-01</a>	January 27, 2011
<a href="#">Announcement 09-37</a>	December 30, 2009
<a href="#">Announcement 08-34</a>	December 16, 2008



## **B4-2.2-13, Condo Project Review and Legal Document Requirements(10/30/2009)**

### **Introduction**

This topic contains information on legal requirements for Lender Full Review, PERS, and CPM, including:

- Condo Project Legal Document Review Requirements
- Condo Project Legal Document Requirement: Compliance with Laws

### **Condo Project Legal Document Review Requirements**

The table below provides Fannie Mae's requirements for the review of the condo project's legal documents.

<b>Project Type</b>	<b>Review of Condo Project's Legal Documents Required?</b>
Established Condo Projects	No. Lenders do not have to represent or warrant compliance with Fannie Mae condo project legal document requirements.
Two- to Four-Unit Projects (New and Established)	No. Lenders do not have to represent or warrant compliance with Fannie Mae condo project legal document requirements.
New Condo Projects (excluding two- to four-unit projects)	<b>CPM and Lender Full Review:</b> Yes. The lender must represent and warrant that the condo project's legal documents comply with Fannie Mae's requirements listed below. Attorney review of condo project legal documents is optional.
	<b>PERS:</b> Yes. The lender must represent and warrant that the condo project's legal documents comply with Fannie Mae's requirements listed below. A qualified attorney engaged by the lender must review the condo

<b>Project Type</b>	<b>Review of Condo Project's Legal Documents Required?</b>
	<p>project legal documents and determine that the documents are in compliance with Fannie Mae's requirements listed below.</p> <p>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. The lender must complete the Warranty of Condominium Project Legal Documents (<a href="#">Form 1054</a>) and attach the attorney review as part of the PERS submission process. The lender must retain all legal documents and make them available to Fannie Mae upon request.</p>

**Condo Project Legal Document Requirement: Compliance with Laws**

In addition to representing and warranting that the condo project has been created and exists in full compliance with the state law requirements of the jurisdiction where the condo project is located and all other applicable laws and regulations, lenders also must represent and warrant as follows with respect to the project's legal documents:

<b>Limitations on Ability to Sell/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;</li> <li>• Sell or lease a unit acquired by the mortgagee or its assignee.</li> </ul>
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<p><b>Rights of Condo Mortgagees and Guarantors</b></p>	<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> <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>
<p><b>First Mortgagee's Rights Confirmed</b></p>	<p>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.</p>
<p><b>Unpaid Dues</b></p>	<p>Any first mortgagee who obtains title to a condo unit pursuant to the remedies in the mortgage or through foreclosure will not be liable for more than six months of the unit's unpaid regularly budgeted dues or charges accrued before acquisition of the title to the unit by the mortgagee. If the condo association's lien priority includes costs of collecting unpaid dues, the lender will be liable for any fees or costs related to the collection of the unpaid dues.</p>

### **Amendments to Documents**

Required provisions related to amendments to project documents are as follow:

- 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.
- 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.
- 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, 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.

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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 08-34</a>	December 16, 2008

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## Section B4-2.3, PUD Requirements and Cooperative Project Eligibility



### **B4-2.3-01, PUD: Lender Full Review Requirements (06/28/2011)**

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#### **Introduction**

This topic contains information on eligibility requirements for PUD projects.

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#### **Eligibility Requirements for PUD Projects**

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.

In order for a project to qualify as a PUD, each unit owner's membership in the HOA must be automatic and nonseverable, and the payment of assessments related to the unit must be mandatory.

Zoning is not a basis for classifying a project or subdivision as a PUD.

Fannie Mae classifies PUD projects as Type E, established PUD projects, when the developer has turned over voting control of the HOA to the unit purchasers. New PUD projects are classified as Type F, if the developer has not turned over voting control of the HOA to the unit purchasers.

Fannie Mae will not review any PUD projects, except those consisting of single-width manufactured housing units.

Fannie Mae does not require a lender to perform a review of a PUD project if the mortgage being delivered is secured by a detached unit within a PUD.

When reviewing a PUD project with attached units (whether new or established), lenders should determine that the project meets the following requirements:

✓	<b>Lender Full Review for Attached PUDs</b>
	The project satisfies the warranty requirements of B4-2.1-01, General Information on Project Standards.

✓	<b>Lender Full Review for Attached PUDs</b>
	The project is not an ineligible project, in accordance with B4-2.1-02, Ineligible Projects.
	The project does not consist of single-width manufactured housing units.
	The individual unit securing the mortgage satisfies Fannie Mae's insurance requirements for PUD projects.
	The individual unit securing the mortgage is 100% complete.

### 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



## **B4-2.3-02, Cooperative Project Eligibility (06/28/2011)**

### Introduction

This topic contains information on cooperative (co-op) project eligibility, including:

- Co-op Project Eligibility Overview
- Form 1074, Request for Cooperative Project Information
- Eligible Co-op Projects
- Co-op Project — Lender Full Review

### Co-op Project Eligibility Overview

Fannie Mae purchases or securitizes co-op share loans for units in co-op projects. (See B2-3-03, Co-op Properties, for co-op share loan requirements.) Lenders must determine the acceptability of a co-op project, unless the project is comprised of manufactured homes (see B5-2.3-02, Manufactured Housing Loan Eligibility.)

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.

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### Form 1074, Request for Cooperative Project Information

[Form 1074](#), Request for Cooperative Project Information, includes the project information that most lenders, investors, and mortgage insurers 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.

Lenders must retain any of the documentation needed to support the warranty that the project meets Fannie Mae eligibility and underwriting criteria.

This documentation must be retained as long as the lender originates share loans from the project and until all share loans sold to Fannie Mae have been liquidated.

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### Eligible Co-op Projects

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.

The table below provides project eligibility requirements for co-ops.

	<b>Requirement</b>
	The co-op corporation must provide the lender with a statement about the project's compliance with Section 216 of the Code.  <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.
	Commercial use in the co-op project is limited to no more than 20% of the project's total square footage.
	The co-op housing project must: <ul style="list-style-type: none"><li>• be designed principally for residential use,</li><li>• consist of five or more units, and</li><li>• be located in an area that has a demonstrated market acceptance for the co-op form of ownership.</li></ul>

	<b>Requirement</b>
	The project may be owned in fee simple.
	The blanket project mortgage may be a market-rate FHA-insured mortgage or a conventional mortgage.  Fannie Mae purchases or securitizes co-op share loans regardless of whether Fannie Mae owns the blanket mortgage.
	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.  <b>Note:</b> Lenders may obtain exceptions in advance to accept share loans from such projects on a case-by-case basis from the Project Standards team (see E-1-03, List of Contacts).
	Co-op projects may be newly constructed or conversions of existing buildings.
	All construction and rehabilitation for the project must be completed before Fannie Mae purchases or securitizes the share loan, unless the Project Standards Team (see E-1-03, List of Contacts) approves delivery at an earlier date.
	Lenders may not deliver cooperative share loans that account for more than 20% of the total number of units in the project. Lenders should contact the Project Standards Team if they wish to deliver a group of share loans that represent a greater percentage of the total units in the project.

### Co-op Project — Lender Full Review

When delivering loans secured by units in a co-op project on the basis of a Lender Full Review, lenders must ensure adherence to the following requirements:

	<b>Requirement</b>
	The project must meet the requirements of the General Warranty of Project Eligibility.
	The project must not be an ineligible project.
	The project must not be a manufactured housing project.
	The project must meet Fannie Mae’s insurance requirements, as stated in Subpart B7, Insurance.
	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.

	<b>Requirement</b>
	In the event that environmental problems are identified, the problems must be determined to be acceptable, as described in E-2-03, Suggested Format for Phase I Environmental Hazard Assessments.
	All rehabilitation work involved in a co-op conversion must be completed in a professional manner.
	For project conversions that did not involve gut rehabilitation, lenders must review an engineer's report or other substantially similar report to verify that all necessary repair(s) are complete and replacement reserves are identified for all capital improvements and noted as adequate by the party evaluating the project.  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.
	For project conversions that were 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 heating and cooling systems, plumbing, electrical systems, elevators, boilers, roof, and so on.
	The lender must warrant that it is not aware of any change in circumstances since its review of the project that would result in the project no longer satisfying Fannie Mae's eligibility criteria.
	The project must be located in an area with 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.
	The project cannot be subject to additional phasing or annexation.
	The construction of the project (or all rehabilitation work involved in the conversion of an existing building to a co-op project) must be complete.
	Stock or share ownership and the accompanying occupancy rights that represent at least 80% of the total number of units in the project must have been sold and conveyed (or, for new construction, must be under a bona fide contract for sale) to principal residence purchasers.
	No more than 10% of the stock or shares in the co-op corporation and the related occupancy rights may be owned by any single entity including the same individual, investor group, partnership, or corporation, except for the developer or sponsor during the sales period.
	The project's operating budget must

	<b>Requirement</b>
	<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>
	The project must have a good financial record, with no more than 15% of the owners being more than one month delinquent in the payment of their financial obligations to the co-op corporation.
	Any blanket mortgage for the project must not be a balloon mortgage with a remaining term of less than three years or a mortgage that provides for interest rate adjustments.
	The project may not be the recipient of any subsidies or similar benefits such as tax or assessment abatements that will terminate partially or fully within the next three years.
	The project and share loan documentation must comply with Fannie Mae’s general legal requirements and 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 unit owners must be the sole owners of, and have rights to the use of the project’s facilities, common elements, and limited common elements.
	<p>Lenders must retain all project documentation that supports the warranty that the project meets Fannie Mae eligibility criteria.</p> <p><b>Note:</b> This documentation must be retained from the time the lender first originates mortgages secured by units in the project until all such mortgages that were sold to Fannie Mae have been liquidated.</p>
	The project must meet the eligibility requirements.
	All units, common areas, and facilities within the project must be 100% complete.
	<p>Facilities related to the project—such as parking, recreational facilities, etc.—must be owned by the co-op corporation.</p> <p>The developer or sponsor may not retain an ownership interest in any of them.</p>
	Any commercial space in the project must be compatible with the overall residential nature of the project and should not be an inordinate amount of commercial space.

	<b>Requirement</b>
	The project must be demonstrably well managed.
	If the project is professionally managed, the management contract must be for a reasonable term and its termination provision must not require the payment of a penalty or advance notice of more than 90 days.

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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-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 (04/01/2009)**

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### **Introduction**

This topic contains information on legal requirements for co-op projects.

- Legal Requirements
  - Co-op Project Documentation
  - Availability of Project Documents
  - Availability of Audited Financial Statements
  - Amendments to Documents
  - Co-op Membership
  - Co-op's Lien Position
  - 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
- 

### **Legal Requirements**

The lender must review the project's legal documents to determine whether they are in compliance with the master association, state and local law and the requirements of this Guide. Fannie Mae may waive a specific requirement if the lender can show that the waiver will not adversely affect Fannie Mae's security. The lender should point out the possible need for a waiver when it submits an application for project acceptance.

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### **Co-op Project Documentation**

The co-op corporation must be a validly formed entity authorized to carry out its independent purposes and must be in compliance with all applicable state and local laws.



The co-op documents must provide

- terms that sufficiently explain the manner in which the corporation is managed and controlled;
- a legally permissible procedure for handling any losses or proceeds from condemnation, destruction, or liquidation of all or a part of the project or from termination of the project; and
- a requirement for hazard, flood, liability, and fidelity insurance coverages.

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### **Availability of Project Documents**

The project documents must require that the co-op corporation have current copies of the co-op project documentation as well as its own books, records, and financial statements available for inspection by tenant-stockholders or by holders, insurers, and guarantors of share loans for units in the project. Generally, these documents should be available during normal business hours.

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### **Availability of Audited Financial Statements**

When a project consists of 50 or more units:

- the project documentation must provide for the co-op corporation to make an audited statement for the preceding fiscal year (if the project has been established for a full fiscal year) available to the holder, insurer, or guarantor of any co-op share loan for a unit in the project on submission of a written request for it, and
- the documents must further provide for the audited financial statement to be available within 120 days of the co-op corporation's fiscal year-end.

If a project consists of fewer than 50 units and there is no audited statement available, the project documents must allow any share loan holder to have an audited statement prepared at its own expense.

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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; assessments (including increases that raise the previous assessment amount by more than 25%, and the method of calculating liens or lien subordination); unit boundaries; insurance or fidelity coverages; restrictions on leasing or

selling units; professional management (if Fannie Mae requires it); reduction in replacement or operating reserves and changes in maintenance policies; 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 document also must require tenant-stockholders to own stock, shares, or a membership certificate, and permit the stock, shares, or membership certificates to be pledged and registered in the co-op corporation.

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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### **Co-op's Lien Position**

The co-op corporation must have good and marketable title to the property. The co-op corporation must own the property in fee simple and the project premises must be free and clear of liens and encumbrances, except for those disclosed to Fannie Mae by the lender. The lender must provide appropriate title evidence to indicate that Fannie Mae will be receiving full title protection.

The share loan must be secured by the assignment (in pledge or trust) of the 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 share loan must be a first lien, except that, where custom dictates to the contrary, Fannie Mae will consider partial subordination of its lien to that portion of 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, and special assessments.

The lender that is financing the share loan must receive an assignment of the proprietary lease or occupancy agreement for all share loans that it delivers to Fannie Mae, together with stock power

that authorizes the lender to transfer shares 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 Fannie Mae is the sole secured party. 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.

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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 then, or for a period of up to three years after it acquired 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-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—no more than 30 days—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 maintain insurance policies that meet Fannie Mae's minimum insurance requirements for co-ops.
- The co-op corporation must maintain replacement and operating reserves.
- 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;
  - The co-op corporation's generation—during any taxable year—of 80% or less of its gross income from "tenant-stockholders" income, as that term is defined in Section 216 of the Internal Revenue Code;
  - 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 60-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;
- the addition of any blanket financing that is superior to the share loan if it would result in an annual increase of more than 10% in a unit's monthly assessments or carrying charges;
- any action to change the form of ownership of the project;
- any provisions that expressly benefit the blanket mortgage holder; or
- the contraction, expansion, or termination of the co-op project.



## **B4-2.3-04, Loan Eligibility for Co-op Share Loans (03/31/2011)**

### **Introduction**

This topic contains information on loan eligibility for co-op share loans, including:

- Overview
- Structure of the Co-op Share Loan
- Whole Loan and MBS Pool Deliveries
- Co-op Share Loan Eligibility Requirements
- Acceptable Repayment Terms for Co-op Share Loans

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## Overview

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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## Structure of the Co-op Share Loan

A co-op share loan must be a lien that has priority over all other liens against the borrower's interest in the property, except that the lien may be subordinated to:

- that portion of the co-op corporation's lien against the tenant-stockholder's shares for unpaid assessments that represents
  - the *pro rata* share of the co-op corporation's payments for the blanket mortgage,
  - the current year's real estate taxes, and
  - any special assessments
- any assignment of rents or maintenance expenses in any
  - mortgage or deed of trust that is secured by the co-op project
  - Regulatory Agreement entered into by the co-op corporation and the Secretary of HUD as a condition for obtaining HUD mortgage insurance.

**Note:** The *pro rata* share of the blanket mortgage that is related to the co-op share loan cannot exceed 30% of the sum of the related *pro rata* share of the blanket mortgage and the appraised equity interest value of the shares.

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## Whole Loan and MBS Pool Deliveries

Fannie Mae accepts whole loan deliveries of co-op share loans under Fannie Mae's standard commitments.

MBS pool deliveries that consist of co-op share loans must always be delivered under negotiated contracts, generally as separate pools. However, co-op share loans can be commingled in MBS

pools that include other types of mortgages, provided they do not represent more than 10% of the aggregate issue date principal balance for the pool.

**Note:** See Part C, Selling, Securitizing, and Delivering Loans, for additional limitations that may apply if other special product characteristics are present.

### Co-op Share Loan Eligibility Requirements

Fannie Mae will purchase co-op share loans if the criteria detailed in the following table is met.

	Requirement
	Fannie Mae will not purchase or securitize co-op share loans that are subject to subordinate financing.
	The co-op share loan must be secured by stock or shares in the co-op corporation (or by a membership certificate or other contractual agreement evidencing ownership) and the accompanying exclusive occupancy rights related to a single-family dwelling in the project.
	The borrower must occupy the property as a principal residence or second home. Investment properties are prohibited.
	The tenant-stockholder (borrower) must have a right to occupy the unit for a period that extends at least to the maturity date of the share loan although this right will be subject to the terms and conditions of a proprietary lease or occupancy agreement that he or she entered into with the co-op housing corporation.
	The tenant-stockholder must own either stock, shares, or membership certificates in the co-op housing corporation.
	If Fannie Mae owns an interest in the blanket co-op project mortgage, the maximum mortgage amount that would otherwise be available for a co-op share loan from that project must be reduced by the portion of the unpaid principal balance of the blanket mortgage that is attributable to the share loan.

For the applicable LTV/CLTV/HCLTV ratio limits, see the [Eligibility Matrix](#).

### Acceptable Repayment Terms for Co-op Share Loans

A co-op share loan may be closed using any of the following repayment terms:

- A fixed-rate fully amortizing first mortgage with a maximum maturity of not more than 40 years; or

- Any standard ARM plan if the share loan will be sold to Fannie Mae as a whole loan. See the [Standard ARM Plan Matrix](#) for additional information.

**Note:**

- Lenders must obtain an individual negotiated contract for an MBS pool delivery.
- Fannie Mae’s standard required margin for the ARM Plan under which a co-op share loan is originated must be increased by 25 basis points to reflect the increased risk of the co-op form of ownership.

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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-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



# Subpart B5, Unique Eligibility and Underwriting Considerations



## Unique Eligibility and Underwriting Considerations

---

### Introduction

This subpart contains unique eligibility and underwriting considerations. Where appropriate, references to Fannie Mae's standard underwriting policies and requirements are provided.

---

### In This Subpart

This subpart contains the following chapters:

B5-1, High-Balance Mortgage Loans .....	646
B5-2, DU-Only Products .....	652
B5-3, Construction and Energy Financing .....	690
B5-4, Geographic-Specific Products .....	721
B5-5, Community Seconds, Community Land Trusts, DU Refi Plus™ and Refi Plus™, and Loans with Resale Restrictions .....	738
B5-6, MyCommunityMortgage (MCM) .....	805

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# Chapter B5-1, High-Balance Mortgage Loans



## High-Balance Mortgage Loans

---

### 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 sections:

B5-1.1, High-Balance Mortgage Loans .....	647
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## Section B5-1.1, High-Balance Mortgage Loans



### B5-1.1-01, High-Balance Mortgage Loan Eligibility and Underwriting (10/30/2009)

---

#### 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 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 publishes on eFannieMae.com 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 eFannieMae.com, including the Loan Limit Geocoder™, which lenders can use to look-up loan limits based on a specific address (or batch of addresses).

---

## 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, HCLTV, and minimum credit score requirements as outlined in the High-Balance Mortgage Loans chart in the *Eligibility Matrix* available on eFannieMae.com.
- All borrowers must have a credit score.
- Loans may be underwritten manually or through DU.
- Loan casefiles underwritten through DU must receive an Approve recommendation. (Expanded Approval recommendations are not permitted).

For additional eligibility information, see the Eligibility Matrix. For information about loan delivery, see B5-1.1-02, 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.

---

## 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 B5-5.1-05, DU Refi Plus and Refi Plus Eligibility, for additional information.

---

## Government Loans

Lenders may deliver higher balance FHA, VA and RD mortgage loans to Fannie Mae. For details, see B6-1-02, Eligible FHA-Insured Mortgage Loans, B6-1-03, Eligible VA-Guaranteed Mortgages, and B6-1-05, Eligible RD-Guaranteed Mortgages.

---

## Appraisal Requirements

The following appraisal requirements apply in addition to the standard *Selling Guide* or DU fieldwork requirements:

- A One-Unit Residential Appraisal Field Review Report, [Form 2000](#), is required if the loan amount is greater than \$625,500 and the LTV, CLTV, or HCLTV is greater than 80%; or the property is valued at \$1,000,000 or more and the LTV, CLTV, or HCLTV 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.

- For properties in attached condo projects, the appraisal must contain two comparable sales from projects outside of the subject's project in addition to the current comparable sale requirements as outlined in the *Selling Guide*.

---

## 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 09-08R</a>	June 8, 2009
<a href="#">Announcement 08-27</a>	October 16, 2008



## **B5-1.1-02, High-Balance Pricing, Mortgage Insurance, Special Feature Codes, and Delivery Limitations (12/30/2009)**

---

### **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 eCommitting and eCommitONE. 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 and the Adverse Market Delivery Charge. All price adjustments are cumulative. For details, see the [Loan-Level Price Adjustment \(LLPA\) Matrix and Adverse Market Delivery Charge \(AMDC\) Information](#).

---

### **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 90%.

---

### **Delivery Data Requirements Including Special Feature Codes**

Data Field: The Date of Mortgage Note field in the loan delivery data is a mandatory field for all high-balance mortgage loans. For the delivery data layout and field definitions, see the [2000-Character Loan Delivery File Format](#) on eFannieMae.com.

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.

---

### 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, 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 09-29</a>	September 22, 2009
<a href="#">Announcement 09-08R</a>	June 8, 2009
<a href="#">Announcement 08-27</a>	October 16, 2008

# Chapter B5-2, DU-Only Products



## DU-Only Products

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### Introduction

This chapter describes DU-only product policies and requirements.

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### In This Chapter

This chapter contains the following sections:

B5-2.1, Interest-Only Mortgages .....	653
B5-2.2, Expanded Approval .....	658
B5-2.3, Manufactured Housing .....	663

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## Section B5-2.1, Interest-Only Mortgages



### **B5-2.1-01, Mortgages with an Interest-Only Feature (09/20/2010)**

---

#### **Introduction**

This topic contains information on interest-only structures, including:

- Mortgages With an Interest-Only Feature
  - Interest-Only Underwriting Method
  - Eligible Interest-Only Structures
  - Ineligible Products
  - Eligible Occupancy and Property Types
  - Ineligible Occupancy and Property Types
  - Interest-Only Transaction Types
  - Temporary Interest Rate Buydowns
  - Qualifying Payment Requirements
  - Appraisal Requirements
- 

#### **Mortgages With an Interest-Only Feature**

Interest-only is a standard feature available to all lenders.

For the applicable LTV/CLTV/HCLTV ratio limits and minimum credit score requirements for mortgage loans with an interest-only feature, see the [Eligibility Matrix](#).

**Note:** All borrowers must have a credit score.

---

### Interest-Only Underwriting Method

Mortgage loans with an interest-only feature must be underwritten through DU and are not eligible for manual underwriting.

---

### Eligible Interest-Only Structures

The following are eligible interest-only structures for all fixed-rate and adjustable-rate mortgages:

Product	Interest-Only Period	ARM Plans, if applicable
30-year FRM	10 years	N/A
	15 years	
40-year FRM	10 years	
	15 years	
Three-Year ARM	10 years	3513 and 3514
Five-Year ARM	10 years	3504, 3505, 3515, and 3516
Seven-Year ARM	10 years	3517 and 3518
Ten-Year ARM	10 years	3225 and 3228

---

### Ineligible Products

The following products are not eligible for delivery to Fannie Mae if they contain an interest-only feature:

- HomeStyle Renovation mortgages,
  - mortgages originated subject to resale restrictions or located within a community land trust,
  - ARM plans not specifically listed above, and
  - MyCommunityMortgages.
- 

### Eligible Occupancy and Property Types

The following occupancy, and property types are eligible for a mortgage loan originated with an interest-only feature:

- principal residence,
  - second home,
  - one-unit property,
  - detached property, and
  - unit in a condo project or PUD.
- 

### **Ineligible Occupancy and Property Types**

The following property types are not eligible in connection with mortgage loans originated with an interest-only feature:

- manufactured home;
  - unit in co-op project;
  - properties consisting of two, three, or four units; and
  - investment properties.
- 

### **Interest-Only Transaction Types**

Mortgage loans with an interest-only feature are eligible for purchase, construction, or limited cash-out refinance transactions only. Cash-out refinance transactions are not permitted.

---

### **Temporary Interest Rate Buydowns**

Temporary interest rate buydowns are permitted on fixed-rate mortgage loans with an interest-only feature secured by a principal residence or second home. Buydowns are not permitted on mortgage loans with an interest-only feature that have an adjustable rate. All other requirements for temporary buydowns must be met. For specific buydown requirements, see B2-1.3-07, Temporary Interest Rate Buydowns.

---

### **Qualifying Payment Requirements**

Pursuant to the Interagency Guidance on Nontraditional Mortgage Product Risks, mortgage loan underwriting standards should address the effect of a substantial payment increase on the borrower's capacity to repay a mortgage loan with an interest-only feature when amortization begins.

To determine the qualifying rate for the mortgage loan, see B3-6-04, Borrower's Monthly Housing Expense for Qualifying Purposes. The borrower must be qualified using the PITIA payment assuming a fully amortizing repayment schedule. The fully amortizing payment schedule is based on the term of the mortgage.

---

### Appraisal Requirements

There are no specific appraisal requirements for mortgage loans with an interest-only feature. Refer to Chapter B4-1, Appraisal Guidelines, for general appraisal guidelines and requirements.

---

### 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-2010-13</a>	September 20, 2010
<a href="#">Announcement SEL-2010-06</a>	April 30, 2010
<a href="#">DU Version 8.0</a>	September 22, 2009
<a href="#">Announcement 09-29</a>	September 22, 2009
<a href="#">Announcement 09-28</a>	August 21, 2009
<a href="#">Announcement 09-02</a>	February 6, 2009



## **B5-2.1-02, Interest-Only Pricing, Mortgage Insurance and Special Feature Codes (12/30/2009)**

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### Introduction

This topic contains information on pricing, mortgage insurance and special feature codes, including:

- Loan-Level Price Adjustments
- Mortgage Insurance
- Special Feature Codes

---

### Loan-Level Price Adjustments

An LLPA applies to mortgages with an interest-only feature based on the LTV ratio. 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 and Adverse Market Delivery Charge \(AMDC\) Information](#).

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### Mortgage Insurance

Mortgage insurance for the specific product is required for all loans when the LTV is greater than 80%. Financed mortgage insurance is permitted.

For mortgage insurance coverage levels, see Chapter B7-1, Mortgage Insurance/Loan Guaranty.

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### Special Feature Codes

There are no special feature codes unique to mortgage loans with an interest-only feature.

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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

## Section B5-2.2, Expanded Approval



### **B5-2.2-01, Expanded Approval (12/30/2009)**

---

#### **Introduction**

This topic contains information on Expanded Approval, including:

- Overview
  - Lender Eligibility to Sell or Service
  - Loan Eligibility
  - Lender Monitoring of Expanded Approval Mortgage Loans
- 

#### **Overview**

Expanded Approval is an underwriting recommendation available through DU for mortgage loans that do not receive an Approve recommendation. DU further analyzes each loan casefile and renders one of four Expanded Approval risk level recommendations: EA-I, EA-II, EA-III, or Refer with Caution/IV. As with loans receiving an Approve/Eligible recommendation, mortgages receiving EA-I/Eligible, EA-II/Eligible and EA-III/Eligible recommendations are eligible for the limited waiver of representations and warranties as enumerated in Part A, Doing Business with Fannie Mae.

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#### **Lender Eligibility to Sell or Service**

Fannie Mae, in its sole discretion, may impose volume limitations on Expanded Approval deliveries from any lender or suspend Expanded Approval deliveries from any lender immediately upon written notice.

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#### **Loan Eligibility**

Loan casefiles underwritten through DU that receive an Expanded Approval recommendation are eligible for delivery with the exception of high balance mortgage loans, which are not eligible for

delivery with an Expanded Approval recommendation and will receive an EA-I/, EA-II/, or EA-III/Ineligible recommendation.

**Note:** EA-II and EA-III recommendations are only issued for loan casefiles that are underwritten as DU Refi Plus. All other transactions that receive an Expanded Approval recommendation will only receive an EA-I recommendation. See B5-5.1-05, DU Refi Plus and Refi Plus Eligibility.

---

### **Lender Monitoring of Expanded Approval Mortgage Loans**

Lenders must monitor Expanded Approval mortgage loans to ensure that the overall terms and costs to the borrower, including the pricing adjustments and any related fees:

- are commensurate with the borrower’s creditworthiness and the borrower’s ability to repay the debt, and
- are applied in accordance with Fannie Mae’s eligibility requirements, consistently across lending channels, including prime and non-prime lending channels, for all retail and third-party originated channels.

In this regard, lenders must continue to offer Expanded Approval loans in accordance with all applicable laws and in a manner consistent with Fannie Mae requirements.

In addition, Fannie Mae expects the lender’s quality control program to comply with the requirements provided in B5-2.2-03, Expanded Approval Quality Control.

Lenders must also comply with the Expanded Approval servicing requirements provided in the *Servicing Guide*.

---

### **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="#">DU Version 8.0</a>	September 22, 2009
<a href="#">Announcement 09-29</a>	September 22, 2009



## **B5-2.2-02, Expanded Approval Pricing, Mortgage Insurance, and Special Feature Codes (12/30/2009)**

---

### **Introduction**

This topic contains information on Expanded Approval, including:

- Loan-Level Price Adjustments
  - Mortgage Insurance Requirements
  - Special Feature Codes
- 

### **Loan-Level Price Adjustments**

The lender's base guaranty fee for the appropriate product and term will apply to Expanded Approval mortgage loans, in addition to any LLPAs that may apply to the particular transaction. See the [Loan-Level Price Adjustment \(LLPA\) Matrix and Adverse Market Delivery Charge \(AMDC\) Information](#).

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### **Mortgage Insurance Requirements**

For mortgage insurance coverage requirements, see B7-1-02, Mortgage Insurance Coverage Requirements.

---

### **Special Feature Codes**

With the exception of MyCommunityMortgage loans, SFC 062 must be delivered for mortgage loans with an Expanded Approval recommendation (DU Version 8.0 loan casefiles). SFC 062 is not applicable to MyCommunityMortgage loans with an Expanded Approval recommendation. See B5-6-05, MyCommunityMortgage Pricing, Mortgage Insurance, and Special Feature Codes and [Special Feature Codes](#) for additional information.



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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



## **B5-2.2-03, Expanded Approval Quality Control (12/30/2009)**

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### Introduction

This topic contains information on Expanded Approval quality control requirements.

- Fannie Mae Quality Control (QC)
- Lender Quality Control
- Additional QC Reviews

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### Fannie Mae Quality Control (QC)

Expanded Approval loans are subject to Fannie Mae's ongoing file review procedures as defined in Part D, Ensuring Quality Control (QC). Fannie Mae will perform monthly post-purchase underwriting reviews on a discretionary basis to assess compliance with Expanded Approval underwriting and eligibility requirements and requirements to prevent predatory lending practices. Mortgages that do not comply with the predatory lending requirements are subject to repurchase by the lender, regardless of whether the mortgages are performing mortgages, and the lender may be required to indemnify Fannie Mae for any and all losses resulting from any such noncompliance.

---

### Lender Quality Control

Lenders must have internal quality control procedures that provide reasonable assurance that the mortgage loans comply with applicable standards. QC practices should be independent from the

origination, processing, and underwriting departments. QC practices should include random and discretionary samples. Part D, Ensuring Quality Control (QC) describes how the lender's QC program should be structured.

---

### Additional QC Reviews

As part of their targeted high-risk product selections, lenders must perform additional discretionary QC reviews on a representative sample of their Expanded Approval loan production in proportion to the sale of their Expanded Approval loans to Fannie Mae. These reviews should be performed in addition to other required monthly random selections and should include closed loans from all three Expanded Approval recommendation levels. Fannie Mae may periodically request copies of reports to evaluate the results of these reviews.

Lenders must also include the following higher-risk Expanded Approval loan types among their discretionary selections:

<b>Loan Characteristic</b>	<b>Types of Expanded Approval Loans</b>
Third-party originations from brokers and correspondents	All Expanded Approval risk levels based on the third-party originator's past performance, type of mortgages, property location, LTVs, and borrower credit scores.
Investor limited cash-out refinances	All risk levels
Property Types	Two-, three-, and four-unit properties, condos, and manufactured housing

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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="#">DU Version 8.0</a>	September 22, 2009
<a href="#">Announcement 09-29</a>	September 22, 2009

## Section B5-2.3, Manufactured Housing



### B5-2.3-01, Manufactured Housing (04/01/2009)

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#### Introduction

This topic contains information on manufactured housing.

- Manufactured Housing Overview
  - Lender Eligibility
  - Variances
  - Lender Indemnification
  - Repurchases
- 

#### 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.

---

#### 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:
    - B4-2.2-01, Condo Project Eligibility
    - B4-2.2-11, Fannie Mae Review of Condo 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.
- 

### **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.

---

### **Lender Indemnification**

A lender that sells mortgages to Fannie Mae that are secured by manufactured homes must indemnify Fannie Mae in certain circumstances, which are set forth in the *Servicing Guide*.

This indemnification encompasses all losses, damages, judgments, and legal fees that are based on, or result from, 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.

---

### **Repurchases**

The lender may be required to repurchase a loan that was delivered to Fannie Mae under circumstances including but not limited to:

- The property type was not correctly identified as a manufactured home when the loan casefile was underwritten with DU, or
- The loan was not properly identified with SFC 235 at the time of delivery.

For more information, see [Special Feature Codes](#).

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## **B5-2.3-02, Manufactured Housing Loan Eligibility (07/26/2011)**

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### **Introduction**

This topic contains information on manufactured housing loan eligibility, including:

- General Loan Eligibility Criteria
  - Ineligible Manufactured Housing Terms
  - Manufactured Housing Standards
  - Manufactured Home Property Requirements
  - Borrower Ownership of Land for a Manufactured Home
- 

### **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.

---

### **Ineligible Manufactured Housing Terms**

The following loan terms/occupancy/land ownership types are ineligible for mortgage loans secured by manufactured homes:

- 40-year loan terms;
- 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.

---

### **Manufactured Home Property Requirements**

The table below provides manufactured housing property eligibility requirements.

	<b>Requirement</b>
	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.
	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 same characteristics of site-built housing.
	Multi-width manufactured homes may be located either on an individual lot or in a project development.  Project acceptance 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 acceptance. For further information about project acceptance requirements, see Chapter B4-2, Project Standards.  Co-op or condo project developments must be Fannie Mae-approved.
	Single-width manufactured homes must be located in Fannie Mae-approved subdivision, co-op, condo, or PUD project development.
	The manufactured home must have sufficient square footage and room dimensions to be acceptable to typical purchasers in the subject market area.

	<b>Requirement</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>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><b>Note:</b> Compliance with these standards will be evidenced by the presence of both a HUD Data Plate<sup>a</sup> and the HUD Certification Label (tag).</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.</p>

<sup>a</sup>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 referred to as a HUD “seal” or “tag,” is a metal plate located on the exterior of each section of the home. The [Form 1004C](#) appraisal form must show evidence of both the HUD Data Plate/Compliance Certificate and the HUD Certification Label.

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, are not eligible for purchase until the necessary work is completed and fully paid for.

Exceptions to the foregoing may be only for minor items that do not affect the ability to obtain an occupancy permit—such as landscaping, a driveway, a walkway, and so on – subject to all requirements and warranties for new or proposed construction provided in B4-1.2-04, Requirements for Postponed Improvements.

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### **Borrower Ownership of Land for a Manufactured Home**

The borrower must own in fee simple the land on which the manufactured home is situated unless the manufactured home is located in a co-op or condo project.

- In the case of co-ops, both the land and dwelling must be owned by the co-op.
- In the case of condos, both the land and dwelling must be subject to the condo regime.
- Mortgages secured by manufactured homes located on leasehold estates are not eligible.

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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-2011-06</a>	July 26, 2011





## **B5-2.3-03, 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. See B5-2.2-01, Expanded Approval for additional information.

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.

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 certified copy of the HUD-1 Settlement Statement or similar settlement statement,</li> <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.

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### **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.

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### **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.

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### **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 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 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.

<b>Announcements</b>	<b>Issue Date</b>
<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 09-29</a>	September 22, 2009



## **B5-2.3-04, Manufactured Housing Appraisal Requirements (04/01/2009)**

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### **Introduction**

This topic contains information on manufactured housing appraisal requirements.

- Manufactured Housing Appraiser Qualifications
  - Manufactured Housing Appraisal Requirements and Standards
  - Manufactured Housing and the Cost Approach to Value
  - Ineligible Manufactured Homes and Prohibited Appraisal Practices
  - Sources of Manufactured Housing Data
- 

### **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.

Fannie Mae recommends that the lender review the appraiser's education and experience as well as sample manufactured home appraisals. The appraiser should be knowledgeable about the local manufactured home market and the unique construction process for manufactured homes, and have access to appropriate data sources in order to render an opinion of value for the manufactured home.

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### **Manufactured Housing Appraisal Requirements and Standards**

The table below provides requirements for manufactured housing appraisals.

	<b>Requirement</b>
	The manufactured home appraisal must be completed on <a href="#">Form 1004C</a> , Manufactured Home Appraisal Report.
	Manufactured homes are not eligible for streamlined appraisals.
	Fannie Mae's appraisal report forms require appraisers to develop an opinion of value solely for the real property as completed consisting of:

	<b>Requirement</b>
	<ul style="list-style-type: none"> <li>• the manufactured home,</li> <li>• site improvements, and</li> <li>• the land on which the home is situated.</li> </ul>
	<p>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.</p> <p style="text-align: center;"><b>Note:</b> See below for discussion regarding the cost approach to value.</p> <p>An appraiser who is unable to locate sales of manufactured homes that are truly comparable to the subject property may decide that it is appropriate to use either older sales of similar manufactured homes or sales of similar manufactured homes that are located in a competing market so that he or she can establish a baseline for the “sales comparison analysis” and determine sound adjustments to reflect the differences between the comparable sales that are available and the subject property.</p>
	<p>The appraisal must address more directly, in a standardized format,</p> <ul style="list-style-type: none"> <li>• construction quality,</li> <li>• property condition,</li> <li>• market acceptance,</li> <li>• indicated value by the cost approach, and</li> <li>• support for the contributory value of the site.</li> </ul>
	<p>If required information is not available at the time the appraiser is completing the appraisal forms, the appraiser may appraise the property subject to his or her receipt and review of the items as a condition of the appraisal.</p> <p>In such cases, prior to mortgage loan delivery, lenders must obtain a certification of completion from the appraiser that:</p> <ul style="list-style-type: none"> <li>• includes the previously unavailable information, including a summary of the appraiser’s analysis of any previously unavailable dealer invoices, and</li> <li>• certifies that the requirements and conditions of the appraisal have been satisfied.</li> </ul>



	<b>Requirement</b>
	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 if the manufactured home and land are being purchased separately, the executed contract for each.
	The lender must provide the appraiser with a copy of the manufacturer's invoice if the manufactured home is new.
	The appraiser must analyze the contract and manufacturer's invoice for new homes and provide a summary in the appraisal report.
	The value conclusion cannot include any non-realty items such as insurance, warranties, furniture, etc.
	<p>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.</p> <p>A certification of completion must be obtained before the mortgage loan is delivered to Fannie Mae. This certification must:</p> <ul style="list-style-type: none"> <li>• be completed by the original appraiser if possible or if not possible, by a substitute appraiser as provided for in B4-1.2-01, Age of Appraisal or Age of Property Inspection.</li> <li>• verify and state that the improvements were completed in accordance with requirements and conditions in the original appraisal report.</li> </ul> <p>Information from the HUD Data Plate must be verified.</p> <p>Photographs of the completed improvements attached to the permanent foundation must be included.</p>
	<p>The property site must be of a size, shape, and topography that is conforming and acceptable in the market area.</p> <p>The appraisal report also must indicate whether or not the site is compatible with the neighborhood.</p>
	The property site must have competitive utilities, street improvements, adequate vehicular access, and other amenities.
	The appraiser must comment on the conformity of the manufactured home to other manufactured homes in the neighborhood.

	<b>Requirement</b>
	The appraiser must address both the marketability and comparability of a manufactured home by selecting comparable sales of similar manufactured homes.
	Since amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in the analysis and valuation.  If the site has adverse conditions or is not typical for the neighborhood, the appraiser must comment.
	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.  When site-built housing or a different type of factory-built housing are used as the third comparable, the appraiser must: <ul style="list-style-type: none"> <li>• explain why site-built housing or a different type of factory-built housing is being used for the third comparable sale, and</li> <li>• make (and support) appropriate adjustments in the appraisal report.</li> </ul>

### **Manufactured Housing and the Cost Approach to Value**

Fannie Mae requires a detailed and supported cost approach to value for all manufactured home appraisals.

The procedure involved in properly developing a detailed cost approach should improve the appraiser's ability to:

- recognize differences in manufactured home construction quality;
- understand the differences 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.

The cost approach must, at a minimum, contain the information indicated on [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 approaches to value are complementary for the valuation of manufactured housing and must support the final value conclusion.

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### **Ineligible Manufactured Homes and Prohibited Appraisal Practices**

The following conditions render the manufactured home mortgage ineligible for delivery.

- If the site or manufactured home is substantially non-conforming with the neighborhood such that a reliable appraisal cannot be made, the mortgage is not eligible for delivery to Fannie Mae.
- If the appraiser is unable to develop a reliable appraisal based on at least two comparable sales of similar manufactured homes, the mortgage is not eligible for delivery to Fannie Mae.

Creating comparable sales by combining vacant land sales with the contract purchase price of the home is prohibited. This type of information is acceptable as additional supporting documentation only.

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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, appraisers must develop 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*. This publication:

- lists general manufactured home depreciated replacement values based on original factory construction categories.
- 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.

It is important to note that the NADA chart values assume the home is in average condition. The publication provides definitions for “excellent,” “good,” “average,” “fair,” and “poor” condition.

Another source of information is the Marshall & Swift’s *Residential Cost Handbook*. Marshall & Swift provides:

- information that allows the user to arrive at an estimate of the cost of the manufactured home when new (i.e., replacement cost) based on, among other things, the construction quality.
- an explanation of the items that allow the appraiser to support his or her conclusion of the overall construction quality of a manufactured home.

This is important since condition and quality play a very important role in the value and marketability of manufactured homes.

The appraiser must support his or her opinion about both the quality and the condition of the manufactured home.

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.



## **B5-2.3-05, 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 and Adverse Market Delivery Charge \(AMDC\) Information](#).

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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.

<b>Announcements and Release Notes</b>	<b>Issue Date</b>
<a href="#">DU Version 8.0</a>	September 22, 2009
<a href="#">Announcement 09-29</a>	September 22, 2009

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## **B5-2.3-06, Manufactured Housing Legal Considerations (04/01/2009)**

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### **Introduction**

This topic contains information on manufactured housing legal considerations.

- 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
  - State Titling Requirements Resource
- 

### **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.

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.  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.

If ...	Then ...
<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; and</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 (i.e., the same individuals must sign both, each using the exact same name on both documents).</li> </ul>

### 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, and
- 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; and
- 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); and
- 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.
- 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 and the lender must sign an Affidavit that acknowledges their intent for the manufactured home to be permanently part of the real property that secures the mortgage and contains 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.

**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 assistance is needed in preparing an acceptable affidavit, the lender should contact its lead Fannie Mae regional office (see E-1-03, List of Contacts).

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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### State Titling Requirements Resource

To aid lenders in originating manufactured home loans that comply with Fannie Mae requirements, lien perfection information for various states is posted at [Titling Manufactured Housing](#).

At the time of posting, the information is accurate to the best of Fannie Mae's knowledge, but some laws may have changed since that time. However, lenders must monitor for changes to state law or practice.

The information posted at [Titling Manufactured Housing](#) does not constitute legal advice, and Fannie Mae makes no representations or warranties as to its correctness, completeness, or suitability for any particular purpose. Therefore, lenders must consult their own legal counsel on issues concerning titling of, and obtaining liens on, manufactured housing.

Further, compliance with the posted procedures will not excuse lenders from their representations and warranties required by the Fannie Mae *Selling Guide* and *Servicing Guide*, their MSSC, and any other contracts with Fannie Mae.

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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 .....	691
B5-3.2, Homestyle Renovation Mortgage .....	698
B5-3.3, Mortgage Loans with Energy Improvement Features on Existing Properties .....	713
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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 (08/30/2011)

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#### Introduction

This topic contains information on Conversion of Construction-to-Permanent Financing Overview.

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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.

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 is delivered.

Manufactured housing that is subject to conversion of construction-to-permanent financing must be completed and paid for by the time the mortgage loan is delivered to Fannie Mae. Therefore, mortgages secured by manufactured homes are not eligible for conversion of construction-to-permanent financing. For eligibility terms for mortgage loans secured by manufactured homes, see Section B5-2.3, Manufactured Housing.

For eligible property types for DU, see [Eligibility Matrix](#). For guidance on data entry for construction-to-permanent transactions in DU, see the related [DU Quick Steps](#).

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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-2011-09</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



## **B5-3.1-02, Conversion of Construction-to-Permanent Financing Loan Eligibility (03/31/2011)**

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### Introduction

This topic contains information on conversion of construction-to-permanent financing loan eligibility, including:

- General Loan Eligibility Requirements
- Single-Closing Transaction
- Two Separate Closing Transactions
- Purchase Transaction
- Limited Cash-Out or Cash-Out Refinance

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### General Loan Eligibility Requirements

A conversion of construction-to-permanent financing mortgage may be closed as:

- a purchase money transaction,
- a limited cash-out refinance transaction, or



- a cash-out refinance transaction.

When a refinance transaction is used, the borrower must have held legal title to the lot before he or she applied for the interim construction financing and must be named as the borrower for the construction loan.

The same LTV ratio requirements that apply for other purchase money and refinance transactions (see the *Eligibility Matrix*) apply to a construction-to-permanent financing mortgage. However, the method for determining the LTV ratio will vary based upon the type of transaction and the length of time the borrower has held legal title to the lot (and, in some instances, how title was acquired).

A construction-to-permanent financing mortgage can be closed as a single transaction or as two separate closing transactions.

Fannie Mae does not, however, consider the granting of a long-term mortgage to a borrower to enable him or her to make a single disbursement to a builder/contractor for the purchase of a completed property to be the conversion of construction-to-permanent financing.

The amortization period for the permanent financing must be 480 months or less, and the date the amortization begins, as well as the due date of the first scheduled payment, must be specified in the mortgage note. The borrower must be the primary obligor on the mortgage or deed of trust note for the permanent financing.

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### Single-Closing Transaction

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 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.

Lenders must use Special Feature Code 151 when delivering any single-closing construction-to-permanent mortgage loans to Fannie Mae.

## Age of Documents

Single-closing transactions with credit and appraisal documents dated more than four 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 and CLTV do not exceed 70%.
- The loan was underwritten through DU and received an Approve/Eligible recommendation. Manual underwriting and DU Expanded Approval recommendations are not permitted.

If all of the above conditions were not met, the lender must obtain updated credit and/or appraisal documents and requalify the borrowers before the mortgage loan is delivered to Fannie Mae.

See B1-1-04, Allowable Age of Credit Documents, for additional information.

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## Two Separate Closing Transactions

Two separate closing transactions, one closing for the construction phase and another closing for the permanent financing, may be used when an individual borrower obtained interim construction financing to finance the construction of a residence and, in some cases, to finance the purchase of the lot as well and needs to obtain permanent financing upon completion of the construction.

The lender that provides the long-term permanent 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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## Purchase Transaction

A borrower may obtain a conventional first mortgage to finance the purchase of a property or to finance the purchase and construction of a property.

When a purchase transaction is used in connection with a lot that the borrower acquired 12 or more months before applying for the construction financing—or if the borrower acquired the lot through an inheritance or gift (regardless of the date of acquisition)—the LTV ratio is determined by dividing the original loan amount of the construction-to-permanent mortgage by the lesser of:

- the current appraised value for the property (both the lot and the improvements), or
- the sum of the documented costs of the construction and the current appraised value of the lot.

If the borrower acquired the lot within the 12 months preceding the date of the application for the construction financing, the LTV ratio is determined by dividing the original loan amount of the construction-to-permanent mortgage by the lesser of:

- the current appraised value for the property (both the lot and the improvements), or
- the total acquisition costs (which are the sum of the documented costs of the construction and the sales price of the lot).

**Note:** The sales price of the lot must be documented by a copy of either the purchase contract or the related HUD-1 Settlement Statement.

The borrower must use his or her savings or other liquid assets to make a minimum required down payment of 5% 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 lender must document the borrower's cash investment, unless the borrower uses as his or her minimum cash investment his or her equity in a building lot or land that was acquired 12 or more months before the date of the application for construction financing. Acceptable documentation includes a HUD-1 Settlement Statement (or some other form of settlement statement), a copy of the warranty deed showing no liens, or a copy of a release of lien.

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### **Limited Cash-Out or Cash-Out Refinance**

Fannie Mae purchases or securitizes mortgage loans closed as either a limited cash-out refinance transaction or a cash-out refinance transaction.

When a limited cash-out refinance transaction or a cash-out refinance transaction is used in connection with a lot that the borrower acquired 12 or more months before applying for the construction financing, the LTV ratio is determined by dividing the original loan amount of the construction-to-permanent mortgage by the current appraised value for the property (both the lot and the improvements).

If the borrower acquired the lot within the 12 months preceding the date of the application for the construction financing, the LTV ratio is determined by dividing the original loan amount of the construction-to-permanent mortgage by the lesser of:

- the current appraised value for the property (both the lot and the improvements), or
- the total acquisition costs (which are the sum of the costs of the improvements and the sales price of the lot).

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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 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 Documentation Requirements (12/30/2009)**

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### Introduction

This topic contains information on conversion of construction-to-permanent financing documentation requirements.

- Conversion of Construction-to-Permanent Financing Documentation Requirements
- Conversion into a Permanent Mortgage

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### Conversion of Construction-to-Permanent Financing Documentation Requirements

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 the acquisition or refinancing of unimproved land and the construction of a residence on the land, 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.

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### Conversion into a Permanent Mortgage

The construction loan may be converted into a permanent mortgage in either of the following ways:

- using a construction loan rider to modify Fannie Mae's uniform instruments 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 instruments, 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, or
- using a separate modification agreement 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 09-28</a>	August 21, 2009

## Section B5-3.2, Homestyle Renovation Mortgage



### **B5-3.2-01, HomeStyle Renovation Mortgage: Lender Eligibility (12/01/2010)**

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#### **Introduction**

This topic contains information on HomeStyle Renovation Lender Eligibility, including:

- Overview
  - Lender Eligibility
  - HomeStyle Renovation Lender Responsibilities
  - Delivery and Recourse Requirements
- 

#### **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 repairs allowed or a minimum dollar amount for the repairs. Repairs or improvements, however, must be permanently affixed to the real property and add value to the property.

When the HomeStyle Renovation mortgage is used to finance energy-related improvements, the lender may be eligible for an LLPA credit of \$250. Borrowers are required to obtain an energy report to identify recommended energy improvements to the property and the estimated cost savings associated with those improvements. See B5-3.3-01, Mortgage Loans with Energy Improvement Features on Existing Properties, for additional requirements related to mortgage loans with energy improvement features.

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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 these types of mortgage loans to Fannie Mae. See A1-1-01, Application and Approval of Lender for additional information.

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## **HomeStyle Renovation 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.

---

## **Delivery and Recourse Requirements**

A lender may deliver a HomeStyle Renovation Mortgage as soon as it is closed; the renovation, repair, or rehabilitation does not need to have been completed when the mortgage is delivered. 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 delivering a HomeStyle Renovation loan, the lender must include SFC 215 and SFC 001 as part of the delivery information. These codes indicate that the loan is a HomeStyle Renovation mortgage and that Fannie Mae has recourse.

If the HomeStyle Renovation loan is used to finance energy-related improvements and the loan meets the requirements of the energy improvement feature (with the exception of the

10% maximum limit requirement for costs financed under the energy improvement feature – which may be exceeded for HomeStyle Renovation loans), the lender must deliver the loan with SFC 375, and will receive a \$250 LLPA credit. (See B5-3.3-01, Mortgage Loans with Energy Improvement Features on Existing Properties, 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.

Announcement	Issue Date
<a href="#">Announcement SEL-2010–15</a>	December 1, 2010



## **B5-3.2-02, HomeStyle Renovation Mortgages: Borrower Eligibility (12/01/2010)**

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### Introduction

This topic contains information on HomeStyle Renovation Loan and Borrower Eligibility.

- Renovation-Related Costs
- Property Requirements
- Eligibility
- Mortgage Terms
- Borrower Requirements
- Number of Financed Properties 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;
- 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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### **Eligibility**

For HomeStyle Renovation eligibility requirements, see the [Eligibility Matrix](#).

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### **Mortgage Terms**

A HomeStyle Renovation Mortgage may be either a fixed-rate mortgage or an adjustable-rate mortgage that has a term in the range from 10 to 30 years. Forty-year terms are not eligible.

The original principal amount of the mortgage may not exceed Fannie Mae's maximum allowable mortgage amount for a conventional first mortgage.

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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### **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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### **Number of Financed Properties Requirements**

When the HomeStyle Renovation Mortgage that is being delivered to Fannie Mae is secured by a second home or an investment property, Fannie Mae limits the number of residential properties the borrower may currently be financing to four properties, including his or her principal residence. This limitation is based on the total number of properties financed, not just the number of mortgages sold to Fannie Mae or the number of HomeStyle mortgages sold.

Joint ownership in residential real estate is considered the same as total ownership of an individual property. The four-property limit applies to any combination of ownership in one- to four-unit properties, whether or not the financing involves a HomeStyle product.

For example, a borrower may own four single-family properties; two two-family properties and two single-family properties; one co-borrower may own one single-family property and the other co-borrower may own three two-family properties; a borrower may own four four-family properties; etc.

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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-2010-15</a>	December 1, 2010
<a href="#">Announcement SEL-2010-09</a>	June 30, 2010



## B5-3.2-03, HomeStyle Renovation Mortgages: Underwriting and Collateral Considerations (03/31/2011)

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### Introduction

This topic contains information on HomeStyle Renovation Underwriting and Collateral Considerations.

- LTV Ratios
- Limited Cash-out Transactions
- Appraisal Requirements
- Energy Report Requirements
- Contractor Requirements
- Plans and Specifications

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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.

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### **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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### **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: 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, Mortgage Loans with Energy Improvement Features 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-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)**

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### Introduction

This topic contains information on HomeStyle Renovation Costs and Escrow Accounts.

- 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.

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 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.



## **B5-3.2-05, HomeStyle Renovation Mortgages: Completion (04/01/2009)**

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### **Introduction**

This topic contains information on HomeStyle Renovation Completion.



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## HomeStyle Renovation Completion

Following completion of the renovation work, the lender must obtain a certification of completion from the appraiser stating that the renovation was completed in accordance with the submitted plans and specifications. The certification must be documented on Fannie Mae's [Form 1036](#), HomeStyle Completion Certificate. The contractor and the borrower must complete, sign, and deliver the [Form 1036](#) to the lender.

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 hazard and flood insurance requirements.



## **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 the following HomeStyle documents:

- HomeStyle Construction Contract
- Construction Loan Agreement
- Lien Waiver

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### 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

## Section B5-3.3, Mortgage Loans with Energy Improvement Features on Existing Properties



### **B5-3.3-01, Mortgage Loans with Energy Improvement Features on Existing Properties (03/31/2011)**

---

#### **Introduction**

This topic contains the following information concerning mortgage loans on existing properties where energy improvements are included as part of the transaction:

- Overview
  - Eligible Property and Occupancy Types
  - Energy Report Requirements
  - Eligibility and LTV Ratio Calculations
  - Underwriting with DU
  - Appraisal Requirements
  - Lender Responsibilities
  - Escrow Account and Completion Requirements
  - Loan-Level Price Adjustment Credit
  - Special Feature Code
- 

#### **Overview**

A borrower may obtain a purchase or a limited cash-out refinance mortgage and include financing to cover the costs of energy-related improvements to an existing property.

Borrowers are required to obtain an energy report to identify the recommended energy improvements to the property and the estimated cost savings associated with those improvements. The financed energy improvements are limited to 10% of the “as completed” appraised value of the property. There is no minimum dollar amount for the energy improvements.

A lender may deliver a mortgage loan with an energy improvement feature as soon as it is closed; the improvements do not have to be completed when the mortgage is delivered to Fannie Mae provided that lenders establish an escrow account for the funds to finance the improvements, which must be completed no later than 180 days from date of the mortgage note. See B4-1.2-04, Requirements for Postponed Improvements, for additional information.

**Note:** If the borrower wants to finance energy improvements up to 50% of the “as completed” appraised value of the property, the mortgage can be underwritten and delivered in accordance with the HomeStyle Renovation Mortgage. See Section B5-3.2, Homestyle Renovation Mortgage, for the requirements.

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## Eligible Property and Occupancy Types

All one-unit existing properties are eligible for the energy improvement feature with the exception of manufactured homes and units in a co-op project. All occupancy types are permitted.

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## Energy Report Requirements

A Home Energy Rating Systems (HERS) energy rater must prepare a written energy report. A HERS rater is accredited under the Mortgage Industry National Home Energy Rating Standards (HERS Standards), as adopted by the Residential Energy Services Network (RESNET<sup>®</sup>).

The energy report 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.)

A list of accredited HERS raters by state can be located at [RESNET](#).

The energy report must be dated no earlier than 120 days prior to the note date.

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 HUD-1 Settlement Statement if it is financed in the mortgage loan.

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### Eligibility and LTV Ratio Calculations

Energy improvements that are included in the HERS report are permitted on existing properties in conjunction with all loan transactions and products (e.g., fixed-rate, ARM, high-balance, MyCommunityMortgage) with the exception of cash-out refinances, Refi Plus, and DU Refi Plus, which do not permit the financing of energy improvements in the loan amount. Loans with energy improvements are subject to the applicable LTV, CLTV, and HCLTV ratios found in the [Eligibility Matrix](#).

**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), with the following exceptions:

- The borrower can finance energy improvements in the loan amount.
- The borrower may only receive \$250 cash back to accommodate rounding of the loan amount at closing. (The 2%/\$2,000 cash back policy is not applicable.)

**Note:** If the lender passes on the \$250 LLPA credit from Fannie Mae to the borrower, the maximum cash back is \$500.

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.

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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 outlined 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 for these mortgage loans provided the mortgage loan meets the requirements contained in this section (e.g., maximum cash back at closing) as well as those contained in A2-2.1-04, Limited Waiver of Contractual Warranties for Mortgages Submitted to DU.

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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. Appraisers must determine the “as completed” value of the property subject to the energy improvements being completed. A certification of completion is required. For requirements related to the certification of completion, see B4-1.2-04, Requirements for Postponed Improvements.

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## Lender Responsibilities

The lender is responsible for 1) ensuring that the appraiser has been provided with a copy of the energy report, 2) managing the escrow account in which improvement funds are held, and 3) monitoring the completion of the energy improvement work. See the requirements related to the energy improvement feature in B4-1.2-04, 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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### **Escrow Account and Completion Requirements**

For requirements related to completion of the postponed improvements, including representations and warranties, escrow accounts, disposition of funds after work completion, and title reports, see the requirements related to the energy improvement feature in B4-1.2-04, Requirements for Postponed Improvements.

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### **Loan-Level Price Adjustment Credit**

Fannie Mae will credit the lender a \$250 LLPA for mortgage loans with energy improvements on existing properties. See the [Loan-Level Price Adjustment \(LLPA\) Matrix and Adverse Market Delivery Charge \(AMDC\) Information](#).

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### **Special Feature Code**

When delivering a mortgage loan with an energy improvement feature, the lender must include SFC 375 as part of the delivery information. See the list of [Special Feature Codes](#) on eFannieMae.com.

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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-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 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.

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### 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 released 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



## Chapter B5-4, Geographic-Specific Products



### Geographic-Specific Products

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#### Introduction

This chapter describes geographic-specific product policies and requirements.

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#### In This Chapter

This chapter contains the following topics:

B5-4-01, Texas Section 50(a)(6) Mortgages (03/29/2010) .....	721
B5-4-02, Texas Section 50(a)(6) Mortgage Eligibility (03/29/2010) .....	724
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### B5-4-01, Texas Section 50(a)(6) Mortgages (03/29/2010)

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#### Introduction

This topic contains information on Texas Section 50(a)(6) mortgages.

- Overview
- Lender Eligibility
- Loan Origination and Compliance
- Lender Certification

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## Overview

A Texas Section 50(a)(6) mortgage 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

Lenders must be specifically approved to sell and service Texas Section 50(a)(6) mortgages. For additional information on lender approval, refer to A1-1-01, Application and Approval of Lender. The lender must meet the eligibility criteria specified in the Texas Constitution (and in requesting Fannie Mae approval, specify which of the “authorized lender” categories applies to it) and, a lender that intends to sell Texas Section 50(a)(6) mortgages originated by a third-party originator is also responsible for ensuring that the originating lender qualifies as an “authorized lender” under the Texas Constitution.

In addition, the lender must have sufficient financial strength to support the specific representations, warranties, and obligations applicable to all Texas Section 50(a)(6) mortgages delivered by such lender, including those originated by a third-party originator.

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## 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.
	The lender must 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 the closing in a way that ensures compliance with all applicable provisions of Section 50(a)(6) of the Texas Constitution.  For purposes of the compliance with the acknowledgment of the “fair market” value of the homestead property requirement, the “fair market value” must be

	<b>Requirement</b>
	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 B5-4-03, Texas Section 50(a)(6) Underwriting and Collateral Considerations for Fannie Mae's appraisal requirements.
	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.  Fannie Mae has no other restrictions on the use of the loan proceeds.
	If the new mortgage is a 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.
	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> .  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>

### **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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### 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



## **B5-4-02, Texas Section 50(a)(6) Mortgage Eligibility (03/29/2010)**

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### Introduction

This topic contains information on Texas Section 50(a)(6) mortgage eligibility.

- Refinance Classifications
- Mortgage Products
- Texas 50(a)(6) Security Property



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## 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 B5-4-03, 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.

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## Mortgage Products

Texas Section 50(a)(6) mortgages must be secured by first liens and may have original terms up to 40 years.

Only the following mortgage products are eligible as Texas Section 50(a)(6) mortgages:

- a fully amortizing fixed-rate mortgage with payments due on a monthly basis; or
- an ARM with a 30- or 40-year term, payments due on a monthly basis.

Only the following ARM plans are eligible:

- Plan 750

- Plan 751
- Plan 975
- Plan 1423
- Plan 1437
- Plan 2703
- Plan 2704
- Plan 2726
- Plan 2727
- Plan 2728
- Plan 2729
- Plan 3558, and
- Plan 3559

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.

**Note:** Other ARM plans may be available on a negotiated basis.

- Texas Section 50(a)(6) mortgages may not have an interest-only period or be subject to the possibility of negative amortization.
- Interest rate buydowns are not permitted for Texas Section 50(a)(6) mortgages.

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### **Texas 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.

**Printed copies may not be the most current version. For the most current version, go to the online version at <http://www.efanniemae.com/sf/guides/ssg/>.**

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.

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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



## **B5-4-03, Texas Section 50(a)(6) Underwriting and Collateral Considerations (03/29/2010)**

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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 B5-5.1-05, DU Refi Plus and Refi Plus Eligibility.

---

## 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.

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.

Announcement	Issue Date
<a href="#">Announcement SEL-2010-04</a>	March 29, 2010
<a href="#">Announcement 09-13</a>	May 11, 2009

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## **B5-4-04, Texas Section 50(a)(6) Mortgage Delivery Considerations (03/29/2010)**

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### **Introduction**

This topic contains information on Texas Section 50(a)(6) mortgage delivery considerations.

- 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, defined as follows:

- SFC 304: Texas Section 50(a)(6) mortgage. Used to identify a mortgage that is originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution.
- This code must be used in conjunction with either SFC 003, if the transaction is classified as a cash-out refinance transaction under Fannie Mae's policy, OR SFC 007 if the transaction is classified as a limited cash-out refinance transaction under Fannie Mae's policy.
- Applies to both whole loan and MBS pool deliveries,

The lender must enter the following special feature codes on [Form 1068](#), [Form 1069](#), or [Form 2005](#), as applicable, for all Texas Section 50(a)(6) mortgages:

- 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; or
- 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.

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, provided that the assignee servicer is approved by Fannie Mae to sell and service Texas Section 50(a)(6) mortgages.

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-2010-04</a>	March 29, 2010



## **B5-4-05, Texas Section 50(a)(6) Mortgage Legal Considerations (03/29/2010)**

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### Introduction

This topic contains information on Texas Section 50(a)(6) mortgage legal considerations.

- Mortgage Documentation
- Title Insurance

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### 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 Mortgagee Policy of Title Insurance (Form T-2), supplemented by an Equity Loan Mortgage Endorsement (Form T-42) and a Supplemental Coverage Equity Loan Mortgage Endorsement (Form T-42.1), is required.

**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.
- 

### **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-2010-04</a>	March 29, 2010

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## **B5-4-06, Native American Conventional Lending Initiative (NACLI) (04/01/2009)**

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### **Introduction**

This topic contains information on Native American Conventional Lending Initiative (NACLI).

- 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.

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 on [Form 1068](#) or [Form 2005](#) 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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## **B5-4-07, Disaster-Related Limited Cash-Out Refinance Flexibilities (07/26/2011)**

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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 B5-4-01, Texas Section 50(a)(6) Mortgages).

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### **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, and so on, 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 of Contractual Warranties for Mortgages Submitted to DU.

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### 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 on [Form 1068](#), [Form 1069](#), or [Form 2005](#).

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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-2011-06</a>	July 26, 2011

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# 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, Community Land Trusts, and DU Refi Plus and Refi Plus. . .	739
B5-5.2, Loans with Resale Restrictions . . . . .	794

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## Section B5-5.1, Community Seconds, Community Land Trusts, and DU Refi Plus and Refi Plus



### B5-5.1-01, Community Seconds Mortgages (10/30/2009)

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#### Introduction

This topic contains information on Community Seconds mortgages, including:

- Community Seconds Overview
  - Review of Community Seconds Programs
  - Representations and Warrants
- 

#### 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 B5-5.2, Loans with Resale Restrictions).

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 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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## Representations and Warrants

By delivering a first mortgage that is part of a Community Seconds transaction, a lender represents and warrants that:

- it reviewed the provider's Community Seconds program, and found that the program satisfied all of Fannie Mae's applicable eligibility criteria, and
- the title insurance in effect ensures priority to the first mortgage being delivered to Fannie Mae by showing the Community Seconds mortgage in a subordinate position.

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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 08-35</a>	December 18, 2008





## **B5-5.1-02, Community Seconds Loan Eligibility (06/28/2011)**

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### **Introduction**

This topic contains information on Community Seconds Loan Eligibility, including:

- Community Seconds Mortgage Terms/Proceeds
  - Minimum Borrower Contribution Requirements
  - Repayment
  - Subsidizing the Sales Price
  - Provider's Share in Appreciation in Value
- 

### **Community Seconds Mortgage Terms/Proceeds**

A Community Seconds mortgage may be funded by a municipality, state, county, state or local housing finance agency, nonprofit organization, 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, 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, MyCommunityMortgage Underwriting Methods and Requirements, for additional information about MCM minimum borrower contribution and down payment requirements.

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### **Minimum Borrower Contribution Requirements**

The following table describes the minimum borrower contribution requirements for transactions that contain a Community Seconds:

<b>LTV, CLTV, or HCLTV Ratio</b>	<b>Minimum Borrower Contribution Requirement from Borrower's Own Funds</b>	
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  (Except for high-balance mortgage loans)	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.
	Two- to four-unit principal residence  High-balance mortgage loans	The borrower must make a 5% minimum borrower contribution (or 3% for MCM) 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 and closing costs.  See B5-6-03, MyCommunityMortgage Underwriting Methods and Requirements, for additional information about MCM minimum borrower contribution and down payment requirements.

In addition to MCM (see Chapter B5-6, MyCommunityMortgage (MCM)), 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, mortgages with the potential for negative amortization, and mortgages with an interest-only feature.
- 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.
- If the product is secured by a manufactured home, the loan must comply with all manufactured home policies, including the 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), 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.

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 and 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 is 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%.

Item	Value
Market Value (supported by appraisal) (= 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 (= the subsidized sales price)	\$110,000.00
Closing Costs/Prepays	\$5,000.00
Total Cost to Borrower	\$115,000.00
Borrower Contribution (5%)	\$7,500.00
First Mortgage Amount (may never exceed the subsidized sales price)	\$107,500.00
Loan-to-Value Ratio	71.67% (rounded to 72%)

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.

Because of this alternative method of calculating the LTV, the mortgage must be manually underwritten and is not eligible to be submitted through DU. In addition, the lenders must include SFC 630 as part of the delivery data on [Form 1068](#), [Form 1069](#), or [Form 2005](#) to identify loans in which the LTV ratio was based on the appraised value of the property because a Community Seconds loan was used to subsidize the sales price.

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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.

<b>Announcements</b>	<b>Issue Date</b>
<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 (04/01/2009)**

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### **Introduction**

This topic contains information on Community Seconds Delivery Considerations.

- Special Feature Codes and Other Reporting
  - Loan-Level Price Adjustments
  - Community Seconds Checklist
- 

### **Special Feature Codes and Other Reporting**

The lender must report SFC 118—and SFC 630, if the alternative LTV calculation method was used—on [Form 1068](#) or [Form 2005](#) when it delivers a first mortgage that is originated as part of a Community Seconds transaction.

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 and monthly housing expense ratios 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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### **Community Seconds Checklist**

A Community Seconds provider or a lender may use the [Community Seconds Checklist](#) to determine whether a subordinate mortgage program complies with Fannie Mae's guidelines for Community Seconds. Each section of the checklist is cross-referenced to the applicable section of this Guide in B5-5.1-01, Community Seconds Mortgages.

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## **B5-5.1-04, Community Land Trusts (03/31/2011)**

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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 the following:

- Community Land Trusts Overview
- Eligible Borrowers
- Eligible Property and Occupancy Types
- Loan Eligibility
- Underwriting Considerations
- Ground Lease Requirements
- LTV Ratio Calculation and Collateral Considerations
- Determining Fee Simple Value
- Addendum to Appraisal Report
- 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 community lending mortgage and the borrower income limits for the community land trust differ from Fannie Mae's income limits for the community lending mortgage, 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 the lessee's ground lease.

Adjustable-rate mortgages with an initial fixed period of less than five years and mortgage loans with an interest-only feature are not eligible.

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### **Underwriting Considerations**

These mortgages must be manually underwritten and are not eligible for submission through DU. In addition, they may not be underwritten using any other automated underwriting application because Fannie Mae uses an alternative method for calculating the LTV ratio.

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 National Community Land Trust Network (NCLTN) 2011 CLT Network Model Ground Lease or the Institute for Community Economics (ICE) Model Ground Lease. 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).

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### **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.

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 and Collateral Considerations**

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. The LTV ratio will be determined by dividing the original loan amount by the value of the leasehold interest and improvements reported on the property appraisal.

In selecting an appraiser to provide an opinion of value for a leasehold held by a community land trust, the lender must make sure that the appraiser is knowledgeable and experienced in the appraisal techniques, direct capitalization and market derivation of capitalization rates that are necessary to appraise this type of property.

The appraiser must use a three-step process to develop an opinion of value:

- determine the fee simple value of the property by using the sales comparison analysis approach to value,
- determine 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
- determine the leasehold value by reducing the fee simple value by the leased fee value.

When this appraisal technique is used, there is no need to document the actual land value of the security property.

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 Fannie Mae's ground lease rider removes when Fannie Mae has to dispose of a property acquired through foreclosure.”

The appraisal report must include the following statement:

“This appraisal is made on the basis of a 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.”

When a leasehold interest is held by a community land trust, the appraiser must analyze the property subject to the ground lease. Since 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 resale restrictions, as well as other restrictions, that may be included in the ground lease also can affect the value of the property.

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### **Determining Fee Simple Value**

In determining the fee simple value of the subject property, the appraiser generally should use as comparables sales of similar properties that are owned as fee simple estates. However, 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 should not use them as comparable sales since, in all likelihood, the sales prices will have been limited by restrictions in the ground lease and thus the sales transaction would not be comparable to the hypothetical condition, no restrictions, on which Fannie Mae requires the appraisal of the subject property to be based.

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 trust, the appraiser can use the most direct method for determining the capitalization rate, extracting it from the market activity, with all things being equal. To extract the capitalization rate, the appraiser should 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 may 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. 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 the income by the market-derived capitalization rate. The appraiser should 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 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 will need to attach an addendum to the appraisal report to provide any information that cannot otherwise be presented on the appraisal report form.

On the actual appraisal report form, the appraiser should 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 analysis” grid, and report the “leasehold value” as the indicated value conclusion. The appraiser also should check the box for “subject to the following repairs, alterations, or conditions” and add the following at the end of that statement:

“See attached addendum for development of capitalization rate and an expanded discussion of the comparable sales used and considered.”

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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 on [Form 1068](#), [Form 1069](#), or [Form 2005](#);
- enter the value of the leasehold (inclusive of the improvements) as the appraisal amount in Loan Delivery; and
- calculate the LTV ratio using the leasehold value and include this ratio as part of the delivery data.

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### 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 local 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 conformance 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.

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### **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;
- the community land trust mortgage loan is a first lien on the leasehold estate and the improvements;
- there are no existing mortgage loans or other liens on the fee estate, except as may be permitted under Form 2100;
- the ground lessor's reversionary interest is subordinate to the community land trust mortgage; and
- 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.

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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-2011-03</a>	March 31, 2011
<a href="#">Announcement SEL-2011-01</a>	January 27, 2011





## **B5-5.1-05, DU Refi Plus and Refi Plus Eligibility (03/31/2011)**

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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
  - Loan Purpose
  - Eligible Subordinate Financing
  - Ineligible Subordinate Financing
  - Maximum LTV, CLTV, and HCLTV Ratios
  - Lender Eligibility
  - Borrower Eligibility
  - Occupancy and Property Eligibility
  - Eligible New Mortgage Loan Types
  - Ineligible New Mortgage Loan Types
  - Texas Section 50(a)(6) Mortgages
  - 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.

<p><b>DU Refi Plus</b></p>	<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>
<p><b>Refi Plus — manually underwritten</b></p>	<p>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.</p>

The following topics provide requirements for DU Refi Plus and Refi Plus mortgage loans:

- B5-5.1-06, DU Refi Plus and Refi Plus Underwriting Considerations,
- B5-5.1-07, DU Refi Plus and Refi Plus Property Valuation and Project Standards, and
- B5-5.1-08, DU Refi Plus and Refi Plus Closing, Pricing, Delivery, and Quality Control.

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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 B5-5.1-08, DU Refi Plus and Refi Plus Closing, Pricing, Delivery, and Quality Control.
- All existing subordinate financing must be resubordinated to maintain the first lien priority of the new DU Refi Plus or Refi Plus mortgage loan. Existing purchase money subordinate financing may not be satisfied with the proceeds of a DU Refi Plus or Refi Plus mortgage loan.
- New subordinate financing is not permitted.

### Eligible Subordinate Financing

Lenders must comply with all provisions related to existing subordinate financing as outlined in B2-1.1-04, Subordinate Financing, except that the following types of subordinate financing that are typically unacceptable may be resubordinated in connection with DU Refi Plus and Refi Plus mortgage loans.

<b>Eligible Subordinate Financing Terms for DU Refi Plus and Refi Plus</b>	
	Mortgages with negative amortization.
	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.
	Subordinate financing that restricts prepayment (i.e., subordinate liens with prepayment penalties).

### Ineligible Subordinate Financing

Subordinate financing with “wraparound” terms that combine the indebtedness of the first mortgage with that of the subordinate mortgage are ineligible in connection with DU Refi Plus and Refi Plus mortgage loans.

### Maximum LTV, CLTV, and HCLTV Ratios

The following table provides maximum LTV, CLTV and HCLTV ratios for DU Refi Plus and Refi Plus mortgage loans. For comprehensive requirements see the [Eligibility Matrix](#) on eFannieMae.com.

<b>DU Refi Plus and Refi Plus Maximum LTV, CLTV, and HCLTV Ratios</b>	
Maximum LTV ratio	125% for all occupancy and property types. (Except for Texas 50(a)(6) mortgages. See requirements that follow.)  <b>Note:</b> Restrictions apply when the LTV ratio is >105%.
Maximum CLTV ratio	No maximum. (Except for Texas 50(a)(6) mortgages. See requirements that follow.)
Maximum HCLTV ratio	No maximum.

### Lender Eligibility

The following table provides lender eligibility requirements applicable to DU Refi Plus and Refi Plus mortgage loans:

<b>Lender Eligibility</b>	<b>DU Refi Plus</b>	<b>Refi Plus</b>
	DU 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 lending channels — retail, wholesale and correspondent.</li> </ul>	Refi Plus: <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</li> </ul>

Lender Eligibility	DU Refi Plus	Refi Plus
		must be from the lender's retail, prime lending channel only.

### Borrower Eligibility

The following table provides borrower eligibility requirements applicable to DU Refi Plus mortgage loans:

	<b>DU Refi Plus Borrower Eligibility</b>
	<p>An existing borrower(s) may be removed provided:</p> <ul style="list-style-type: none"> <li>• The remaining borrower(s) meets the payment history requirements described in B5-5.1-06, DU Refi Plus and Refi Plus Underwriting Considerations 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.</li> <li>• The borrower being removed is also removed from the deed.</li> <li>• If the borrower is being removed due to death, the 12-month payment history is not required; however, the remaining borrower must provide evidence of the deceased borrower's death.</li> </ul>
	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 Borrower Eligibility</b>
	<p>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 new mortgage. An existing borrower may be removed provided:</p>

<b>Refi Plus</b>	
<b>Borrower Eligibility</b>	
	<ul style="list-style-type: none"> <li>• The remaining borrower(s) meets the mortgage payment history requirements described in B5-5.1-06, DU Refi Plus and Refi Plus Underwriting Considerations 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.</li> <li>• The borrower being removed is also removed from the deed.</li> <li>• If the borrower is being removed due to death, the remaining borrower must continue to meet the 12-month payment history for the existing mortgage and must provide evidence of the deceased borrower's death.</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> , Part III, Section 408.03: Transfer under Existing Terms.

### **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 B5-5.1-07, 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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### **Eligible New Mortgage Loan Types**

The following are eligible new mortgage loan types for DU Refi Plus and Refi Plus transactions:

- fully amortizing fixed-rate 30-year mortgages (specifically terms greater than 15 years up to 30 years if the LTV ratio is greater than 105%),
  - fully amortizing fixed-rate mortgage loans with a term up to 40 years (applicable for LTV ratios of 105% or less),
  - fully amortizing ARM loans with an initial fixed period of five years or greater with a term up to 40 years (applicable for LTV ratios of 105% or less), and
  - mortgage loans that meet Fannie Mae's general loan limits and high-balance loan limits. See the [Eligibility Matrix](#).
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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;
  - ARM loans with the potential for negative amortization;
  - HomeStyle Renovation mortgage loans prior to the completion of the property;
  - mortgage loans with an interest-only feature;
  - mortgage loans with new subordinate financing;
  - MyCommunityMortgage® 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.
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### **Texas Section 50(a)(6) Mortgages**

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 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:

- lender must be approved to deliver Texas 50(a)(6) mortgages;
- 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 B5-4-05, 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 50(a)(6) mortgages are eligible (e.g. 5/1 ARMS are not 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.

### 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 purchased as whole loans by Fannie Mae prior to June 1, 2009 or in an MBS pool with an issue date prior to June 1, 2009.



<b>DU Refi Plus</b>	
<b>Eligible Existing Mortgage Loans</b>	
	<p>Jumbo Conforming Mortgages and high-balance mortgage loans:</p> <p>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.</p>

The following existing mortgage loan types are eligible for Refi Plus:

<b>Refi Plus</b>	
<b>Eligible Existing Mortgage Loans</b>	
	Mortgage loans purchased as whole loans by Fannie Mae prior to June 1, 2009 or in an MBS pool with an issue date prior to June 1, 2009.
	Fully documented mortgage loans originated and underwritten in accordance with the <i>Selling Guide</i> , or <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.
	<p>Existing mortgages that received a Refer with Caution/IV recommendation from DU due to erroneous credit information provided all of the following are met:</p> <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 permits a lender to deliver a loan with Refer with Caution/IV recommendation when the recommendation is based on erroneous credit data (see B3-2-09, Erroneous Credit Report Data), 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 <i>Refi Plus: Documentation Retention Requirements</i> are met.
	<p>Jumbo-conforming mortgages and high-balance mortgage loans:</p> <p>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.</p>

At the time a lender originates a Refi Plus mortgage loan, the lender is responsible for ensuring the original mortgage loan file met all Fannie Mae eligibility and underwriting requirements.

In accordance with the provisions of this *Selling Guide*, B2-1.2-05, Prohibited Refinancing Practices and the *Servicing Guide*, Part I, Section 310: Questionable Refinancing Practices, lenders may not specifically target borrowers whose mortgages are owned or securitized by Fannie Mae for a new mortgage.

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 coverage (often referred to as GSE pool insurance).
	*Investor-paid pool coverage.
	*Loans covered by recourse and/or indemnification agreements.
	*Secondary market coverage agreements (to the extent the secondary market coverage reverts to the original primary mortgage insurance).

*\*Existing loans are ineligible for the refinance options if these mortgage insurance policies or agreements are necessary to meet Fannie Mae minimum credit enhancement requirements applicable to loans in excess of 80% LTV. To discuss potential options for ineligible existing mortgages, lenders may contact their Customer Account Teams. See E-1-03, List of Contacts.*

<b>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 coverage (often referred to as GSE pool insurance).
	*Investor-paid pool coverage.
	*Loans covered by conditional or other partial recourse and/or indemnification agreements.

<b>Refi Plus</b>	
<b>Eligible Existing Mortgage Loans with Credit Enhancement or Mortgage Insurance</b>	
	*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 the refinance options if these mortgage insurance policies or agreements are necessary to meet Fannie Mae minimum credit enhancement requirements applicable to loans in excess of 80% LTV. To discuss potential options for ineligible existing mortgages, options other than life of loan recourse, or pricing, lenders may contact their Customer Account Teams. 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 request from Fannie Mae.
	Reverse mortgage loans.
	Second mortgage loans.
	Government mortgage loans.
	Existing mortgage loans with certain types of credit enhancement. See <i>Eligible Existing Mortgage Loans with Credit Enhancement or Mortgage Insurance</i> above. Lenders should contact their Customer Account Teams to explore options for these loans. See E-1-03, List of Contacts.

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 <i>Guide to Underwriting with DU</i> .

<b>Refi Plus</b>	
<b>Ineligible Existing Mortgage Loan Types</b>	
	Mortgage loans that received a DU Expanded Approval, Refer with Caution/IV (see exception in <i>Eligible Mortgage Loan Types</i> ), or an Ineligible recommendation in DU.
	Alt-A mortgage loans.
	Subprime mortgage loans.
	Mortgage loans that are currently subject to any outstanding repurchase request from Fannie Mae.
	Reverse mortgage loans.
	Second mortgage loans.
	Government mortgage loans.
	Existing mortgage loans with certain types of credit enhancement. See <i>Eligible Existing Mortgage Loans with Credit Enhancement or Mortgage Insurance</i> above. Lenders should contact their Customer Account Teams to explore options for these loans. See E-1-03, List of Contacts.

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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.

At the time a lender originates a Refi Plus mortgage loan, the lender is responsible for ensuring the original mortgage loan file met all Fannie Mae eligibility and underwriting requirements.

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### **Representations and Warranties**

Fannie Mae is providing guidance on the application of standard lender representations and warranties. The guidance is designed to address lender questions regarding potential repurchase liability associated with these refinance options, and to provide transparency related to Fannie Mae's quality control process.

For DU Refi Plus and Refi Plus, lenders are responsible for all other standard representations and warranties including those related to fraud and *Borrower Benefit Requirements*. See B5-5.1-06, DU Refi Plus and Refi Plus Underwriting Considerations for *Borrower Benefit Requirements*. In addition, for Refi Plus, lenders are also responsible for representations and warranties related to acceptable mortgage payment history on the existing loan (see below).

**DU Refi Plus:**

- The lender is not responsible for the representations and warranties associated with the original loan.
- The lender is relieved of the standard underwriting representations and warranties 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 of Contractual Warranties for Mortgages Submitted to DU.

**Refi Plus:**

- ***Mortgage payment history:***
  - If the borrower has made at least 12 monthly payments on the existing mortgage, and the borrower meets the payment history and *Borrower Benefit Requirements*, the lender is not required to review or make representations or warranties on the original mortgage loan file related to borrower eligibility or underwriting. The original file must still be maintained as part of the new Refi Plus origination file. See B5-5.1-06, DU Refi Plus and Refi Plus Underwriting Considerations.
  - If the borrower has made less than 12 monthly payments, the lender retains the responsibility for the standard eligibility and underwriting representations and warranties for the original mortgage loan since the lender, as the current servicer, has access to the original underwriting file and documentation.
- **Fannie Mae's quality control process will not:**
  - hold the lender responsible for information that may be obtained as a result of Fannie Mae's reverification of income or assets stated by the borrower,
  - impose any maximum debt-to-income ratio or other underwriting criteria,

- require the lender to represent and warrant that the borrower has an acceptable credit history (other than the credit history and mortgage payment requirements that are specific to Refi Plus. See B5-5.1-06, DU Refi Plus and Refi Plus Underwriting Considerations, or
- hold the lender accountable for undisclosed 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-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

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## **B5-5.1-06, DU Refi Plus and Refi Plus Underwriting Considerations (07/26/2011)**

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### **Introduction**

This topic contains information on DU Refi Plus and Refi Plus underwriting considerations, including:

- Seasoning Requirements — Short-Term Refinance Policy for Existing Mortgages
- Borrower Benefit Requirement
- Credit History and Credit Score Requirements
- Underwriting Requirements
- Documentation Requirements
- Multiple Financed Properties for the Same Borrower
- Property Listing Requirements
- 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

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### **Seasoning Requirements — Short-Term Refinance Policy for Existing Mortgages**

For DU Refi Plus and Refi Plus, seasoning is not required, and Fannie Mae's short-term refinance policy does not apply. See B2-1.2-02, Limited Cash-Out Refinance Transactions. Any refinance of a short-term refinance mortgage loan (i.e., consolidation of a first mortgage with a

non-purchase money subordinate mortgage) within six months will not be considered a cash-out refinance transaction, and is eligible for DU Refi Plus or Refi Plus.

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### 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 either:

- a reduced monthly mortgage principal and interest payment, or
- a more stable mortgage product.

The following table provides scenarios that meet the borrower benefit provision.

	<b>The borrower benefit provision is met if...</b>
	The monthly principal and interest payment is decreasing.
	The amortization period is shortened.
	The amortization period is extended (e.g., from 15 to 30 years) provided there is a reduction in the principal and interest payment.  <b>Note:</b> An extension of the amortization period is not considered movement to a more stable product.
	The mortgage loan type changes from a fixed-rate to an ARM provided there is a reduction in the principal and interest payment.  <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%.
	The principal and interest payment is staying the same or increasing provided the borrower is moving to a more stable mortgage product.

**Note:** DU does not make the determination that the DU Refi Plus transaction will benefit the borrower.

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### Credit History and Credit Score Requirements

The following table provides the credit history and credit score requirements for DU Refi Plus mortgage loans:



<b>Credit History and Credit Score Requirements — DU Refi Plus</b>	
<b>Credit History and Credit Score Requirements</b>	DU performs its standard credit risk assessment.
	No minimum credit score required to establish eligibility.
	The borrower must meet the requirements for DU underwritten loans, including the mortgage delinquency policy.
<b>Credit History Representations and Warranties</b>	Lenders receive the limited waiver of representations and warranties for eligible DU loan casefiles provided the lender has complied with all other requirements as documented in the <i>Selling Guide</i> . See A2-2.1-04, Limited Waiver of Contractual Warranties for Mortgages Submitted to DU.
<b>Bankruptcy or Foreclosure</b>	Lenders must comply with the bankruptcy and foreclosure policies for loan casefiles underwritten through DU.
<b>Extenuating Circumstances for Bankruptcy and Foreclosure</b>	If there are extenuating circumstances outside of standard requirements, loans may be considered on a case-by-case basis.

For additional information see B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit and B3-5.3-08, Extenuating Circumstances for Derogatory Credit.

The following table provides the credit history and credit score requirements for Refi Plus mortgage loans:

<b>Credit History and Credit Score Requirements — Refi Plus</b>	
<b>Credit History and Credit Score Requirements</b>	The existing mortgage must be current.
	No minimum credit score required.
<b>Credit History Representations and Warranties</b>	Lenders are not required to represent and warrant that the borrower has an acceptable credit history — other than the credit history above and mortgage payment requirements listed in this topic as <i>Payment History of the Existing Mortgage</i> below.

<b>Credit History and Credit Score Requirements — Refi Plus</b>	
<b>Bankruptcy or Foreclosure</b>	The borrower must meet the requirements of the <i>Selling Guide</i> with respect to the presence of a prior bankruptcy or foreclosure. See B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit. The lender must determine whether these requirements are applicable by referring to the borrower’s credit report and the borrower’s statements in the “Declarations” section of the Uniform Residential Loan Application ( <a href="#">Form 1003</a> ), or the Uniform Residential Loan Application (Spanish) version ( <a href="#">Form 1003S</a> ) and any other information that is made available to the lender in the new mortgage loan file, the original mortgage loan file, or while processing, underwriting, or closing the new mortgage loan.
	If the bankruptcy or foreclosure occurred prior to the application for the existing mortgage and the loan was eligible under previous Fannie Mae guidelines, the new mortgage will also be eligible.
<b>Extenuating Circumstances for Bankruptcy and Foreclosure</b>	If there are extenuating circumstances outside of standard requirements, loans may be considered on a case-by-case basis.

### Underwriting Requirements

The following table provides underwriting requirements applicable to DU Refi Plus mortgage loans:

<b>Underwriting 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.
	Loan casefiles underwritten as DU Refi Plus that receive an Approve/, EA-I/, EA-

<b>Underwriting Requirements — DU Refi Plus</b>	
	<p>II/, EA-III/Eligible recommendation must be documented in accordance with the DU Underwriting Findings Report and delivered as DU Refi Plus loans with SFC 147.</p> <p>Lenders may only deliver DU Refi Plus loans if the DU Refi Plus message is issued on the final submission to DU.</p> <p>For eligible circumstances where DU Refi Plus loans may be re-underwritten manually and delivered as Refi Plus, see <i>Converting DU Refi Plus to Refi Plus</i> below.</p>
<b>Accurate Property Addresses</b>	<p>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.</p> <p>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.</p>
<b>Debt-to-Income Ratio</b>	<p>DU Refi Plus loan casefiles are subject to the maximum allowable total expense ratio currently applied to DU Refi Plus loan casefiles. DU Refi Plus loan casefiles that exceed the maximum allowable total expense ratio will receive an Ineligible recommendation.</p>
<b>Reasonable Ability to Repay</b>	<p>DU applies the standards for ensuring the borrower has a reasonable ability to repay the</p>

<b>Underwriting Requirements — DU Refi Plus</b>	
	mortgage loan, and lenders are relieved of this representation and warranty.
	The lender is responsible for making the final credit decision as to whether or not the borrower qualifies for the loan using the underwriting recommendations received from DU.
<b>Payment History of the Existing Mortgage</b>	DU performs its standard credit risk assessment for DU Refi Plus loans, which includes a comprehensive review of the borrower's credit history.

The following table provides underwriting requirements applicable to Refi Plus mortgage loans:

<b>Underwriting Requirements — Refi Plus</b>	
<b>Type of Underwriting</b>	All new mortgage loans originated under Refi Plus must be manually underwritten.
	For eligible circumstances where DU Refi Plus loans may be re-underwritten manually for Refi Plus, see <i>Converting DU Refi Plus to Refi Plus</i> below.
<b>Debt-to-Income Ratio</b>	Lenders are not required to calculate the borrower's debt-to-income ratio to determine eligibility.
<b>Reasonable Ability to Repay</b>	Lenders must determine that the borrower has a reasonable ability to repay the mortgage loan based on: <ul style="list-style-type: none"> <li>• the current information provided by the borrower on the new mortgage loan application, and</li> <li>• the mortgage payment history on their existing mortgage being refinanced.</li> </ul>
	Lenders must ensure that the borrower has a source of income, whether through verification of employment or verification of source of non-employment income.

<b>Underwriting Requirements — Refi Plus</b>	
<b>Payment History of the Existing Mortgage</b>	<p>The lender must determine that the borrower meets the mortgage payment history requirements based on the following:</p> <ul style="list-style-type: none"> <li>• When the borrower’s new mortgage payment is the same or decreasing compared to the existing mortgage payment the borrower must have no more than one 30-day delinquency on the existing mortgage in the lesser of 12 months or the life of the mortgage loan.</li> <li>• When the borrower’s new mortgage payment is increasing compared to existing mortgage payment the borrower must not have any 30-day delinquency on the existing mortgage loan in the lesser of 12 months or the life of the mortgage loan.</li> </ul>
	<p>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.</p>

### Documentation Requirements

The following additional documents must be obtained for DU Refi Plus and Refi Plus mortgage loans.

<b>Documentation Requirements</b>	<b>DU Refi Plus</b>	<b>Refi Plus</b>
<b>Uniform Residential Loan Application (Form 1003 or 1003(S))</b>	A new executed Uniform Residential Loan Application ( <a href="#">Form 1003</a> ) or Uniform Residential Loan Application (Spanish) ( <a href="#">Form 1003S</a> ) from the borrower with all information completed including borrower income, employment, and assets.	

<b>Documentation Requirements</b>	<b>DU Refi Plus</b>	<b>Refi Plus</b>
<b>Credit Report</b>	A new merged credit report with the borrower's credit score.  The representative credit score will be used for pricing purposes. For representative credit scores see B3-5.1-02, Determining the Representative Credit Score for a Mortgage Loan.	
<b>Verification of Employment</b>  (For verbal verifications of employment see B3-3.1-02, Verbal Verification of Employment.)	<b>DU Refi Plus</b> — DU offers the following reduced employment documentation requirements: <ul style="list-style-type: none"> <li>• Salary/Bonus/Overtime earnings: one paystub and a verbal VOE.</li> <li>• Commission Income/Self-Employment: one year's federal income tax return.</li> </ul>	<b>Refi Plus</b> — Lenders must: <ul style="list-style-type: none"> <li>• Verify the borrower's employment or self-employment with a verbal VOE.</li> <li>• Verify the borrower's source of non-employment income, if any.</li> </ul>
<b>Assets and Reserves</b>	Reserves and assets must be verified to the extent that the DU Underwriting Findings Report requires such verification.	No verification required.
<b>Mortgage Note, Security Instrument</b>	For each new DU Refi Plus and Refi Plus mortgage loan, a new mortgage note, security instrument, and applicable riders and addenda are required  Except as otherwise expressly provided under DU Refi Plus or Refi Plus described herein, all other loan documentation requirements contained in this <i>Selling Guide</i> applicable to newly-originated mortgages apply.	

### Multiple Financed Properties for the Same Borrower

For DU Refi Plus and Refi Plus, there are no limits on the number of financed properties the borrower may own. Special Feature Code 150 must not be delivered for DU Refi Plus or Refi Plus mortgage loans even if the mortgage loan otherwise meets the requirements of SFC 150.

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## Property Listing Requirements

For DU Refi Plus and Refi Plus, the lender does not need to confirm the subject property is not currently listed for sale.

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## Converting DU Refi Plus to Refi Plus

Lenders may convert or re-underwrite DU loan casefiles as Refi Plus transactions after submission to DU provided one of the following conditions is met:

- The loan casefile was not underwritten as a DU Refi Plus loan due to an inability to match the subject property address or the borrower(s) Social Security number(s) entered on the loan application to an existing Fannie Mae mortgage loan in the DU Refi Plus database. These loans are identified by one or more messages in the DU Underwriting Findings Report. Lenders must confirm that the existing mortgage loan is currently owned or securitized by Fannie Mae.
- The loan casefile was underwritten as DU Refi Plus and received one of the following recommendations:
  - Approve/, EA-I/, EA-II/, EA-III/Ineligible: The only reason for the ineligible recommendation is an excessive debt-to-income ratio.
  - Refer With Caution/IV: The loan is ineligible due to the recommendation, and may be ineligible due to an excessive debt-to-income ratio.

**Note:** Loans originally submitted to DU for underwriting that receive an Approve/, EA-I/, EA-II/Eligible recommendation must be documented in accordance with the DU Underwriting Findings Report and are not eligible for manual underwriting.

DU loan casefiles that are converted to Refi Plus must meet all Refi Plus requirements, including the requirement that the lender must 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 B5-5.1-05, DU Refi Plus and Refi Plus Eligibility, B5-5.1-07, DU Refi Plus and Refi Plus Property Valuation and Project Standards, and B5-5.1-08, DU Refi Plus and Refi Plus Closing, Pricing, Delivery, and Quality Control. Special feature code 288 is required at delivery.

The following tables provide policies pertaining to conversions of loans from DU Refi Plus to Refi Plus.

<b>DU Eligible Recommendations</b>	<b>Loan casefile underwritten as DU Refi Plus</b>	<b>Loan casefile not underwritten as DU Refi Plus</b>
		<b>received message — no match on property address or no match on Social Security number.</b>
	<b>Can it be re-underwritten manually as a Refi Plus?</b>	<b>Can it be re-underwritten manually as a Refi Plus?</b>
<b>Approve/Eligible, EA-I, II, III/Eligible</b>	No.  Must remain DU Refi Plus, documented in accordance with the DU Underwriting Findings Report, and delivered with SFC 147.	Yes.  May be manually underwritten as Refi Plus.

<b>DU Ineligible Recommendations</b>	<b>Loan casefile underwritten as DU Refi Plus</b>	<b>Loan casefile not underwritten as DU Refi Plus</b>
		<b>received message — no match on property address or no match on Social Security number.</b>
	<b>Can it be re-underwritten manually as a Refi Plus?</b>	<b>Can it be re-underwritten manually as a Refi Plus?</b>
<b>Approve/Ineligible, EA-I, II, III/Ineligible</b>	Yes.  May be manually underwritten as Refi Plus as long as the ineligibility is due to excessive DTI ratio.	Yes.  May be manually underwritten as Refi Plus as long as the ineligibility is due to: <ul style="list-style-type: none"> <li>• excessive DTI ratio</li> <li>• exceeding the standard LTV ratio limits (allowed up to 125%).</li> </ul>
<b>Refer W Caution/IV</b>	Yes.	Yes.



<b>DU Ineligible Recommendations</b>	<b>Loan casefile underwritten as DU Refi Plus</b>	<b>Loan casefile not underwritten as DU Refi Plus</b>  <b>received message — no match on property address or no match on Social Security number.</b>
	May be manually underwritten as Refi Plus as long as the ineligibility is due to: <ul style="list-style-type: none"> <li>• excessive DTI ratio,</li> <li>• receiving a Refer W Caution/IV recommendation.</li> </ul>	May be manually underwritten as Refi Plus as long as the ineligibility is due to: <ul style="list-style-type: none"> <li>• excessive DTI ratio,</li> <li>• exceeding the standard LTV ratio limits (allowed to 125%), or</li> <li>• receiving a Refer W Caution/IV recommendation.</li> </ul>

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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:

<b>Original LTV of Existing Loan</b>	<b>MI In Force on Existing Loan?</b>	<b>Refi Plus: MI Required for New Refinance Loan?</b>	<b>DU Refi Plus MI Required for New Refinance Loan?</b>
≤ 80%	No	No	No
> 80%	No  Mortgage Insurance previously canceled or terminated per <i>Selling Guide</i> and <i>Servicing Guide</i> requirements	No	DU will require the lender to determine that the existing loan does not have mortgage insurance.  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  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.  Lenders are encouraged to use their best efforts to obtain mortgage insurance coverage that provides the lowest cost option available to the	

<b>Original LTV of Existing Loan</b>	<b>MI In Force on Existing Loan?</b>	<b>Refi Plus: MI Required for New Refinance Loan?</b>	<b>DU Refi Plus MI Required for New Refinance Loan?</b>
		borrower. Lenders are required to fully comply with all requirements of the mortgage insurance provider regardless of those established by Fannie Mae.	

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 three 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 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 note dates on or before June 30, 2012 and whole loans that are purchased by Fannie Mae no later than October 31, 2012, or in an MBS pool with an issue date no later than October 1, 2012.

### 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-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

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## **B5-5.1-07, DU Refi Plus and Refi Plus Property Valuation and Project Standards (06/28/2011)**

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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 and Natural Disasters
  - Refi Plus: Representations and Warranties
  - Refi Plus: Natural Disasters and FEMA Disaster Areas
  - Refi Plus Appraisal Reports and Forms
  - DU Refi Plus and Refi Plus: No New Appraisal Obtained
  - 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 eligible loan casefiles, DU waives the requirement for an appraisal or exterior-only property inspection.

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### **DU Refi Plus Property Fieldwork Waiver and Natural Disasters**

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 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.

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.

The lender may not exercise a DU Refi Plus property fieldwork waiver, and must order the minimum level of property fieldwork as specified by DU, if the lender has reason to believe that fieldwork is warranted based on:

- additional information obtained about the property, or
- subsequent events such as a hurricane or other natural disaster, or
- additional information provided by DU regarding the subject property or loan casefile.

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. As such, lenders should not make any representations to third parties that Fannie Mae has performed any kind of property review, appraisal, or valuation of the subject property for these loans.

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.

Lenders that elect to exercise the DU Refi Plus property fieldwork waiver must include SFC 807 at delivery. A \$75.00 fee will be charged for each exercised waiver. For loans delivered into MBS, the fee will be drafted in a manner similar to LLPAs. For loans delivered pursuant to a whole loan commitment, the fee will be netted from the purchase price upon delivery. See C1-1-01, Execution Options.

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### **Refi Plus: Representations and Warranties**

For Refi Plus transactions, the following representations and warranties apply:

- The lender must represent and warrant that the current value is not less than the value reflected in the original appraisal report. If the lender is not able to provide the representation and warranty, the lender must obtain an appraisal. See below.
- The lender is responsible for the standard representations and warranties related to the value, marketability, and condition of the property as reflected in the property valuation used to support the refinance transaction. This valuation could be based on the original appraisal obtained for the existing mortgage loan or a new property valuation as required below. If a new property valuation is obtained, the lender is relieved of the standard representations and warranties related to any prior appraisal.

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### Refi Plus: Natural Disasters and FEMA Disaster Areas

If the lender is aware that the property has been impacted by a natural disaster or has knowledge that the property is located within a [FEMA](#) disaster area eligible for individual assistance within two years of the disaster declaration date, and the lender is relying on the value reflected in the original appraisal report, upon sale of the Refi Plus loan to Fannie Mae, the lender additionally represents and warrants there was no damage to the property.

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### Refi Plus Appraisal Reports and Forms

The following table provides property appraisal reports and forms requirements for Refi Plus mortgage loans:

Property Type or Loan Attribute	Required Appraisal
<b>Manufactured Homes</b>	Manufactured Home Appraisal Report ( <a href="#">Form 1004C</a> )
<b>Two- to Four-Unit Properties</b>	Small Residential Income Property Appraisal ( <a href="#">Form 1025</a> )
<b>Lender-estimated LTV ratio ≤ 95%</b>	At a minimum, an exterior-only inspection appraisal report must be obtained on the applicable form based on the property type: <ul style="list-style-type: none"> <li>• Exterior-Only Inspection Residential Appraisal Report (<a href="#">Form 2055</a>),</li> <li>• Exterior-Only Inspection Individual Condominium Unit Appraisal Report (<a href="#">Form 1075</a>), or</li> <li>• Exterior-Only Inspection Individual Cooperative Interest Appraisal Report (<a href="#">Form 2095</a>).</li> </ul>
<b>Lender-estimated LTV ratio ≥ 95%</b>	An interior and exterior appraisal report on the applicable form based on the property type must be obtained: <ul style="list-style-type: none"> <li>• Uniform Residential Appraisal Report (<a href="#">Form 1004</a>),</li> </ul>



Property Type or Loan Attribute	Required Appraisal
	<ul style="list-style-type: none"> <li>• Individual Condominium Unit Appraisal Report (<a href="#">Form 1073</a>), or</li> <li>• Individual Cooperative Interest Appraisal Report (<a href="#">Form 2090</a>).</li> </ul>

### DU Refi Plus and 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.

### 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:

Condo, Co-op, and PUD Project Review Requirements	DU Refi Plus	Refi Plus
Project Review	<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</li> </ul>	Fannie Mae will rely on the project eligibility determination made by the lender when the original mortgage loan was delivered to Fannie Mae.

<b>Condo, Co-op, and PUD Project Review Requirements</b>	<b>DU Refi Plus</b>	<b>Refi Plus</b>
	property is not in a condo or co-op hotel or motel.  For assistance in determining whether the project is a condo or cooperative hotel or motel, see B4-2.1-02, Ineligible Projects.	
<b>Project Insurance</b>	Confirmation of hazard, flood, liability, and fidelity insurance coverage is required.	

### 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="#">Announcement SEL-2011-05</a>	June 28, 2011
<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



## **B5-5.1-08, DU Refi Plus and Refi Plus Closing, Pricing, Delivery, and Quality Control (09/20/2010)**

---

### **Introduction**

This topic contains information on DU Refi Plus and Refi Plus closing, pricing, delivery requirements, and quality control processes, including:

- 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%
- 

### **Resubordination**

Lenders must resubordinate any existing subordinate liens 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, Legal Documents* on eFannieMae.com.

---

### **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.

---

### **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 Pricing Matrix](#).

---

### **Delivery Data Elements**

For DU Refi Plus and Refi Plus mortgage loans, lenders must provide all loan delivery data elements as indicated in the *Selling Guide* including (but not limited to):

- SFC 147 for all DU Refi Plus,
  - SFC 807 if the lender elects to exercise the DU Refi Plus property fieldwork waiver,
  - SFC 288 for all Refi Plus,
  - SFC 001 for Refi Plus mortgage loans, which are required to be delivered with life of loan recourse,
  - the DU Refi Plus loan casefile ID,
  - the borrower(s) representative credit score from a new merged credit report for pricing purposes,
  - the CLTV,
  - MI code 95 if the LTV ratio is greater than 80% and no MI coverage is obtained, and
  - the date of the mortgage note.
- 

### **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.

---

### **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 (or TBA-eligible Fannie Majors pools) but must be included in pools specifically created for DU Refi Plus and Refi Plus loans with LTV ratios above 105%.

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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-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 B5-5.2, Loans with Resale Restrictions



### B5-5.2-01, Loans With Resale Restrictions: Lender Eligibility (04/01/2009)

---

#### Introduction

This topic contains general information on loans with resale restrictions.

- 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.

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.

---

### **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.



## **B5-5.2-02, Loans with Resale Restrictions: Loan and Borrower Eligibility (04/01/2009)**

---

### **Introduction**

This topic contains information on Loans with Resale Restrictions Loan and Borrower Eligibility.

- Eligible Transaction Types
  - Eligible Products
  - Eligible Subsidy Providers
  - Eligible Borrowers
  - Eligible Properties
- 

### **Eligible Transaction Types**

Eligible transaction types include first mortgages that are either purchase or refinance transactions.

---

### **Eligible Products**

Eligible products include Fannie Mae products described in this Guide.

Fixed-rate mortgages and adjustable-rate mortgages with an initial fixed period of five years or more are eligible.

Mortgages with an interest-only feature are not eligible.

---

### **Eligible Subsidy Providers**

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**

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 income limits for Fannie Mae's community lending mortgages, the income limits established by the resale restrictions apply.

---

### **Eligible Properties**

Fannie Mae will purchase mortgages subject to resale restrictions secured by one-unit properties (including eligible condo projects and PUDs) or two-unit properties. The property must be the borrower's principal residence.

Mortgages secured by manufactured homes, co-op projects, and three- or four-unit properties are not eligible.

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## **B5-5.2-03, Loans with Resale Restrictions: Underwriting and Collateral Considerations (04/01/2009)**

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### **Introduction**

This topic provides information on loans with resale restrictions: underwriting and collateral considerations.

- Calculation of LTV Ratios
- Allowable Resale Restrictions
- Duration of Resale Restrictions
- Resale Restriction Appraisal Requirements

---

### **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 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 ratio.

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).

When using this alternative method of calculating the LTV ratio, the mortgage must be manually underwritten and is not eligible for submission through DU.

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 ratio, 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.

When the standard method for calculating the LTV ratio is applied, these mortgages may be underwritten with DU.

---

### **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 limits (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.

---

### **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.”

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.



## **B5-5.2-04, 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.

- 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.

---

### **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.

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.

---

## **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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## **B5-5.2-05, 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.

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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## **B5-5.2-06, Loans with Resale Restrictions: Pricing, Mortgage Insurance and Special Feature Codes (04/01/2009)**

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### **Introduction**

This topic contains information on loans with resale restrictions: pricing, mortgage insurance and special feature codes.

- 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 sufficiently trained staff to originate and service those mortgages.

---

### **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 and Adverse Market Delivery Charge \(AMDC\) Information](#).

---

### **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 use SFC 630 as part of the delivery data on [Form 1068](#), [Form 1069](#), or [Form 2005](#) 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 if the lender uses the optional calculation to compute the LTV ratio based on the appraised value of the property without resale restriction. This LTV ratio, calculated using the appraised value of the property without resale restrictions, must also be reported as part of the delivery data.

Lenders must use SFC 631 as part of the delivery data on [Form 1068](#), [Form 1069](#), or [Form 2005](#) when delivering mortgages secured by properties with resale restrictions that survive foreclosure or deed-in-lieu of foreclosure.

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.



## **B5-5.2-07, Massachusetts Resale Restriction Loan Eligibility Requirements (04/01/2009)**

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### Introduction

This topic contains information on Massachusetts Resale Restriction Loan Eligibility Requirements.

- Lender Eligibility
- Loan Eligibility Requirements
- Legal Considerations

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### 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.

---

### **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, MyCommunityMortgage (MCM)



## MyCommunityMortgage (MCM)

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### Introduction

This chapter describes MCM policies and requirements.

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### In This Chapter

This chapter contains the following topics:

B5-6-01, MyCommunityMortgage (04/01/2009) .....	805
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## B5-6-01, MyCommunityMortgage (04/01/2009)

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### Introduction

This topic contains information on MyCommunityMortgage.

- Overview
- Lender Approval Requirements
- Negotiated Variance and Volume Limitations

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## **Overview**

MyCommunityMortgage (MCM) is a conventional community lending mortgage that offers underwriting flexibilities to qualified borrowers who meet specific income criteria or properties that meet geographic location (FannieNeighbors®) eligibility criteria.

MCM also permits additional eligibility-based options: Community Solutions™ for public safety, education, military and health care professionals, and Community HomeChoice™ for individuals with disabilities.

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## **Lender Approval Requirements**

MCM 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, MCM 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 MCM with any lender.

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## **B5-6-02, MyCommunityMortgage Loan and Borrower Eligibility (08/30/2011)**

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### **Introduction**

This topic contains information on MCM loan and borrower eligibility, including:

- General Loan Eligibility
  - Ownership of Other Property
  - Maximum LTV, CLTV, and HCLTV Ratios
  - Subordinate Financing
  - Eligible Loan/Amortization Types
  - Temporary Buydowns
  - Borrower Income Limits and Calculations
  - Home-buyer Education and Counseling
- 

### **General Loan Eligibility**

MCM 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 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.

Manufactured housing is not eligible.

**Note:** Three- and four-unit properties are not eligible for Community Solutions and Community HomeChoice mortgage loans.

---

### **Ownership of Other Property**

The property must be owner-occupied and the borrower may not have an ownership interest in any other residential dwelling at the time of loan closing.

A manufactured home, regardless of the type of land ownership, is considered a residential dwelling for this purpose.

Ownership in a timeshare, either as a deeded interest or a right-to-use arrangement, is not considered ownership in a residential dwelling for MCM purposes due to the very limited (typically one or two weeks per year) access to the unit.

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### **Maximum LTV, CLTV, and HCLTV Ratios**

Refer to the *Eligibility Matrix* for maximum allowable LTV, CLTV, and HCLTV ratios for MCM loans.

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### **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 MCM.

---

### **Eligible Loan/Amortization Types**

MCM loans must be fully amortizing loans. One- and two-unit properties are eligible for adjustable-rate mortgages and fixed-rate mortgages with a term of 40 years or less.

Three- and four-unit properties are limited to fixed-rate mortgages with a term of 40 years or less.

The following table identifies the ARM plans that are available for MCM loans by delivery method:

<b>ARM Plans Eligible for MCM</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
40-year	Five-Year ARMs	2238, 3557
	Seven-Year ARMs	2704, 3558
	Ten-Year ARMs	2703, 3559
<b>ARM Plans Eligible for Whole Loan Delivery</b>		
30-year	Five-Year ARMs	2725

### Temporary Buydowns

Temporary interest rate buydowns are allowed for:

- purchase money transactions secured by one- and two-unit properties;
- rate reductions that will not exceed 2%, and rate increases of a maximum of 1% per year; and
- fixed-rate and seven- and ten-year ARMs.

See also:

- Chapter B2-2, Borrower Eligibility; and
- B5-6-04, MyCommunityMortgage: Additional Eligibility and Underwriting Requirements for Community Solutions and Community HomeChoice.

### 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 be listed on 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 MCM as the lender uses in reporting “Monthly Income” for purposes of FRM/GEM Loan Schedule ([Form 1068](#)), ARM/GPARM Loan Schedule ([Form 1069](#)), or Schedule of Mortgages ([Form 2005](#)).

Eligibility for an MCM loan compares the borrower's income to the applicable area median income (AMI) for the property's location.

The AMIs used to determine borrower income eligibility are provided to Fannie Mae by its regulator, the Federal Housing Finance Agency (FHFA). The AMIs used by Fannie Mae are available at [Area Median Incomes](#).

Income may not exceed 100% of the annual HUD AMI for the property's location, except:

- higher income limits allowed for certain high-cost areas,
- an income limit of 115% of the AMI for non-metropolitan counties,
- borrower income limits imposed by other organizations, or
- no income limits in FannieNeighbors areas.

For additional information, see B5-6-04, MyCommunityMortgage: Additional Eligibility and Underwriting Requirements for Community Solutions and Community HomeChoice.

---

## Home-buyer Education and Counseling

Home-buyer education and counseling is required for certain MCM loans. Refer to B2-2-06, Home-buyer Education and Counseling 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.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2011-09</a>	August 30, 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-2010-06</a>	April 30, 2010
<a href="#">Announcement 09-19</a>	June 8, 2009



## **B5-6-03, MyCommunityMortgage Underwriting Methods and Requirements (12/01/2010)**

---

### **Introduction**

This topic contains information about MCM loans, including:

- Underwriting Options
  - Minimum Borrower Contribution for Purchase Transactions
  - Occupying and Non-Occupying Co-Borrowers
  - Rental Income Calculations on Two- to Four-Unit Properties
  - Boarder Income
  - Cash-on-Hand
  - Sweat Equity Accepted for MCM
  - Borrower Down Payment Requirements and Sweat Equity for MCM
  - Minimum Reserve Requirements: Manual Underwriting Only
  - MCM Borrowers with Nontraditional Credit: Manual Underwriting Only
  - MCM Borrowers with Low Credit Scores: Manual Underwriting Only
- 

### **Underwriting Options**

Most MCM loans can be underwritten with DU or may be manually underwritten.

For MCM loans that can be underwritten through DU, the lender must enter data in the online loan application, identify the loan as a community lending mortgage, and select the MyCommunityMortgage product.

As an alternative to underwriting through DU, the lender may manually underwrite the loan. For all manually underwritten loans, the limited waiver of representations and warranties typically granted for loans underwritten with DU will not apply.

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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 follows:

Number of Units	Minimum Borrower Contribution <sup>1</sup>	Down Payment Requirement (Loan Underwritten With DU)	Down Payment Requirement (Loan Underwritten Manually)
One	None	3%	5%
Two	3%	5%	5%
Three or four	3%	5%	5%

1

See Asset Assessment, and B5-5.1-02, Community Seconds Loan Eligibility, for information about allowable sources of funds for completing the transaction.

Also, no minimum contribution is required in connection with a limited cash-out refinance transaction.

---

### Occupying and Non-Occupying Co-Borrowers

For manually underwritten loans, up to 30% of the total qualifying income for the mortgage loan may be represented by the stable and continuing income of an occupying co-borrower for whom neither an acceptable traditional credit profile nor an acceptable nontraditional credit profile can be developed because the co-borrower has an insufficient credit history.

**Note:** Non-occupying co-borrowers are not allowed. For unique eligibility, see B5-6-04, MyCommunityMortgage: Additional Eligibility and Underwriting Requirements for Community Solutions and Community HomeChoice.

---

### Rental Income Calculations on Two- to Four-Unit Properties

The lesser of the actual or projected rents for the rental unit should be added as qualifying income as follows:

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<sup>1</sup>These minimum borrower contribution requirements also apply to high-balance mortgage loans.



- If the property has two units and one unit is rented or intended to be rented to third-party tenants, 75% of the lesser of the actual or projected rents for the rental unit should be added as qualifying income.
- If the property has three or four units and a unit(s) is rented or intended to be rented to third-party tenants, 65% of the lesser of the actual or projected rents for the rental unit(s) should be added as qualifying income.

---

### **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 when qualifying for a one-family 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, bank statement, etc., 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. Payment of rent by the boarder directly to a third party is not acceptable.

---

### **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 and/or funds for closing costs and/or 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.

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### **Sweat Equity Accepted for MCM**

Fannie Mae considers sweat equity an acceptable source of funds for MCM 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.

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### **Borrower Down Payment Requirements and Sweat Equity for MCM**

When sweat equity is accepted toward the down payment, the borrower must contribute at least 5%, with at least 3% coming from his or her own funds and the remaining 2% coming from sweat equity; provided, however, see B3-4.3-14, Sweat Equity, for case-by-case acceptability.

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### **Minimum Reserve Requirements: Manual Underwriting Only**

For manually underwritten loans, the reserve requirements for the transaction must comply with the following:

<b>Number of Units</b>	<b>Minimum Reserves Required</b>
One	None
Two	two months (may not be gifted)
Three or four	two months (may not be gifted)

Community Solutions and HomeChoice have different reserve requirements. See B5-6-04, MyCommunityMortgage: Additional Eligibility and Underwriting Requirements for Community Solutions and Community HomeChoice.

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### **MCM Borrowers with Nontraditional Credit: Manual Underwriting Only**

When the lender requests a credit score for the borrower, but the borrower has no score due to a lack of credit history with the repository, an acceptable nontraditional credit profile must be established which includes the following:

- a minimum of three sources of nontraditional credit that have been active for at least 12 months:
  - one of the sources must be housing related, i.e., rental housing payments;
  - one of the sources must be a utility company; and
  - the remaining source may represent any reasonable service or purchase as long as the repayment terms are in writing and the borrower can provide canceled checks or money order receipts that show the creditor as the payee to document the payments;
- no history of delinquency on rental housing payments within the past 24 months (or since inception, if less than 24 months);
- only one account, excluding rental payments, may have had a 30-day delinquency in the last 12 months;
- no collections or judgments (other than medical collections) filed within the past 24 months. Any/all judgments must be satisfied. Collection accounts (including medical) in excess of \$250 per individual account or \$1,000 in the aggregate must be paid in full; and
- if a borrower with no credit score has a prior bankruptcy or foreclosure in his or her credit history, he/she must have re-established credit that satisfies the requirements of B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit.

---

### **MCM Borrowers with Low Credit Scores: Manual Underwriting Only**

When the lender obtains a representative credit score for the borrower, but the score is less than the minimum score required for MCM, the lender may use one of the options set forth below.

- For borrowers with 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), the lender may supplement the traditional credit file (referred to as “thin files”) with the development of an acceptable nontraditional credit profile as described above. This policy applies without regard to the borrower's actual score even if the score is below 620. The lender must deliver SFC 818 at loan delivery to identify MCM loans that have borrowers with thin files in addition to delivering the credit scores for the borrowers. This requirement applies only to manually underwritten loans.

**Note:** Special feature code 818 should not be used for any other purpose outside of thin file MCM loans.

- If the borrower’s credit history was heavily influenced by credit deficiencies that were the result of documented extenuating circumstances, the minimum credit score for the transaction must be met, or the credit score must be no less than the greater of 620 or 40 points below the minimum required threshold as outlined in the *Eligibility Matrix*. Special feature code 818 is **not** applicable for these loans and should not be used. See B3-5.3-08, Extenuating Circumstances for Derogatory Credit for extenuating circumstances.

**Note:** If the borrower has a sufficient amount of credit to obtain a credit score, but the representative credit score is less than the minimum required, the lender **may not** develop an acceptable traditional credit profile.

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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
<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, MyCommunityMortgage: Additional Eligibility and Underwriting Requirements for Community Solutions and Community HomeChoice (12/01/2010)**

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### **Introduction**

This topic contains information on additional eligibility and underwriting requirements for Community Solutions and Community HomeChoice, including:

- Community Solutions: Additional Borrower Eligibility
  - Community Solutions: Overtime and Part-Time Income
  - Community Solutions: Eligible Properties
  - Community Solutions: Qualifying Ratios and Reserve Requirements for Manually Underwritten Loans
  - Community Solutions: Maximum LTV, CLTV, and HCLTV Ratios
  - Community HomeChoice: Additional Eligibility Requirements
  - Community HomeChoice: Support Organizations
  - Community HomeChoice: Non-Occupying Co-Borrowers
  - Community HomeChoice: Eligible Properties
  - Community HomeChoice: Qualifying Ratios and Reserve Requirements for Manually Underwritten Loans
  - Community HomeChoice: Income Limits
  - Community HomeChoice: Maximum LTV, CLTV, and HCLTV Ratios
- 

### **Community Solutions: Additional Borrower Eligibility**

To be eligible for Community Solutions, a borrower must be a full-time employee employed in one of the following professions:

- an accredited or state recognized private or public school; a certified teacher or administrator in an education agency; or an employee of a post-secondary level educational institution; or

- a law enforcement agency or fire department administered by an agency or subdivision of a state or local government; or a sworn law enforcement officer responsible for crime prevention and detection, law enforcement, or criminal incarceration; or a sworn member of a fire department involved in the fire suppression or prevention, emergency medical response, hazardous materials response, or management or response to terrorism; or
- a certified, accredited, or licensed health care worker who is a medical resident or fellow; a nurse, nursing assistant, pharmacist, pharmacy technician, physician's assistant, medical technician, technologist, or therapist; or
- a member of the United States Armed Forces who is on full-time active duty; a member of a reserve component of the United States Armed Forces or a former member of the United States Armed Forces or of a reserve component of the United States Armed Forces who has been Honorably discharged and has been separated or retired from either active duty or a reserve component for no more than two years at the time of the mortgage loan application.

For purposes of Community Solutions, "state" includes any state of the United States, the District of Columbia, or the Commonwealth of Puerto Rico.

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### **Community Solutions: Overtime and Part-Time Income**

Overtime and part-time income can be used to qualify the borrower if the employer:

- verifies that the borrower has received such income for the last 12 months, and
- indicates that the overtime and/or part-time income will in all probability continue.

The lender must develop an average of overtime and/or part-time income over the last 12 months to determine the amount of income that can be considered in evaluating the borrower's qualifications.

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### **Community Solutions: Eligible Properties**

One- and two-unit properties are allowed; however, three- and four-unit properties and manufactured homes are not eligible. See B5-6-02, MyCommunityMortgage Loan and Borrower Eligibility for additional information.

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### **Community Solutions: Qualifying Ratios and Reserve Requirements for Manually Underwritten Loans**

The following table establishes Community Solutions qualifying ratios and reserve requirements:

Number of Units	Qualifying Ratios	Minimum Reserves Required
One	45% with strong compensating factors	One month of PITIA (may be gifted)
Two	43%	Two months (may be gifted)

**Note:** DU does not support underwriting of the Community Solutions feature. However, lenders may use the standard MCM product that is available in DU in lieu of manually underwriting loans for Community Solutions. DU offers flexibility in the maximum allowable DTI ratio similar to the qualifying ratios outlined above. The lender must follow the reserve requirements required by DU.

### Community Solutions: Maximum LTV, CLTV, and HCLTV Ratios

Refer to the [Eligibility Matrix](#) for maximum allowable LTV, CLTV, and HCLTV ratios.

### Community HomeChoice: Additional Eligibility Requirements

To be eligible for Community HomeChoice, the borrower, or a family member residing with the borrower, must be handicapped as defined under the federal Fair Housing Act.

For purposes of Community HomeChoice, “family member” is defined as the borrower’s spouse, child, dependent, domestic partner, fiancé, fiancée, or any other individual related to the borrower by blood, marriage, adoption, or legal guardianship.

The federal Fair Housing Act defines a person with a handicap (referred to herein as a person who is “disabled” or who has a “disability”) as a person who:

- has a physical or mental impairment, which substantially limits one or more of such person’s major life activities;
- has a record of having such an impairment; or
- is regarded as having such an impairment.

The term does not, however, include current, illegal use of or addiction to a controlled substance as defined under federal law.

The lender may determine eligibility for Community HomeChoice by:

- requiring the borrower, or, as applicable, the family member, to self-identify according to the definition of disability specified above;

- considering the nature of one or more sources of income as being consistent with the borrower or a family member having a disability; or
- any other means the lender believes appropriate.

These eligibility requirements are not applicable to any co-borrower who is not an occupant of the subject property.

Further, for purposes of Community HomeChoice:

- An eligible borrower who has a legally appointed, court-approved guardian may participate in the Community HomeChoice. The lender must verify that the legal guardian has a 24-month history of managing the financial affairs of the borrower and intends to continue managing such affairs for the foreseeable future.
- When an eligible borrower has a representative payee who has been appointed by the Social Security Administration to accept and administer SSI or SSDI on behalf of the borrower, the lender must verify that the representative payee has a 24-month history of managing the borrower's benefit payments and intends to continue managing such payments for the foreseeable future.

**Note:** Community HomeChoice is not the exclusive product available to persons otherwise meeting the definition of “disability.” Instead, Community HomeChoice is a special product providing benefits to disabled persons that are not otherwise available under Fannie Mae's non-Community HomeChoice guidelines. As in all cases, the lender and borrower together must make the determination of the product that best serves the borrower's particular needs. If the borrower applies for a Fannie Mae product other than Community HomeChoice, the definition of disability is not relevant, and the lender should not seek to determine disability.

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### **Community HomeChoice: Support Organizations**

In connection with Community HomeChoice, it is recommended, but not required, that lenders partner with one or more nonprofits, government agencies, or other organizations that provide support to the disabled community (“organization servicing people with disabilities”).

This entity should be able to demonstrate at least some of the following capabilities:

- experience in serving people with disabilities;
- technical homeownership development skills;



- funding support for its staff, down payment, and closing costs;
- market analysis of the target population;
- marketing and outreach plans;
- experience in budget management (especially for persons with credit problems); and
- capability to provide financial assistance (including gifts, grants, and subordinate financing as described below) for down payments, closing costs, access modifications, and rehabilitation.

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### **Community HomeChoice: Non-Occupying Co-Borrowers**

Non-occupying co-borrowers are allowed with maximum qualifying ratios of 33% for housing and 38% for total obligations to income.

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### **Community HomeChoice: Eligible Properties**

One- and two-unit properties are allowed; however, three- and four-unit properties and manufactured homes are not eligible. See B5-6-02, MyCommunityMortgage Loan and Borrower Eligibility for additional information.

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### **Community HomeChoice: Qualifying Ratios and Reserve Requirements for Manually Underwritten Loans**

A single qualifying ratio of 45% is required with the following exceptions:

- 43% when used with a temporary buydown,
- if non-occupying co-borrower, maximum ratios limited to 33/38.

The following table lists minimum reserve requirements:

<b>Number of Units</b>	<b>Minimum Reserves Required</b>
One	Qualifying ratio: <ul style="list-style-type: none"><li>• <math>\leq 43\%</math>; no reserves are required</li><li>• <math>&gt; 43\%</math> and <math>\leq 45\%</math>; one month PITIA is required and may be gifted.</li></ul>

<b>Number of Units</b>	<b>Minimum Reserves Required</b>
Two	Two months (may be gifted)

**Note:** DU does not support underwriting of the Community HomeChoice feature. Mortgage loans must be manually underwritten to take advantage of the benefit of having a non-occupant borrower. Lenders may use the standard MCM product that is available in DU in lieu of manually underwriting loans for Community HomeChoice if the non-occupant co-borrower is not needed. DU offers flexibility in the maximum allowable DTI ratio similar to the qualifying ratios outlined above. The lender must follow the reserve requirements required by DU.

### **Community HomeChoice: Income Limits**

Income may not exceed 115% of the annual HUD AMI for the property’s location, except:

- higher income limits allowed for certain high-cost areas as specified in B5-6-06, MyCommunityMortgage: High-Cost Areas and FannieNeighbors,
- borrower income limits imposed by other organizations, or
- no income limit in FannieNeighbors areas.

### **Community HomeChoice: Maximum LTV, CLTV, and HCLTV Ratios**

Refer to the [Eligibility Matrix](#) for maximum allowable LTV, CLTV, and HCLTV ratios.

### **Related Announcements**

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

<b>Announcement</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2010-16</a>	December 1, 2010
<a href="#">Announcement 09-02</a>	February 6, 2009
<a href="#">Announcement 08-35</a>	December 18, 2008



## **B5-6-05, MyCommunityMortgage Pricing, Mortgage Insurance, and Special Feature Codes (12/01/2010)**

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### **Introduction**

This topic contains information about MCM loans, including:

- Loan-Level Price Adjustments
  - Mortgage Insurance Coverage
  - MyCommunityMortgage Special Feature Codes
- 

### **Loan-Level Price Adjustments**

An LLPA applies to MCM 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 and Adverse Market Delivery Charge \(AMDC\) Information](#).

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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 MCM. Refer to B7-1-04, Financed Borrower-Purchased Mortgage Insurance for additional information about financed mortgage insurance and MCM loans.

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### **MyCommunityMortgage Special Feature Codes**

The following special feature code must be delivered for all MCM loans — 460.

In addition, one or more of the following special feature codes may also be required:

- MCM loans with a Community Seconds —118,
- MCM loans with the Community HomeChoice option —222,
- MCM loans with financed mortgage insurance — 281, and
- MCM loans for borrowers with “thin” traditional credit files —818.

**Note:** The Expanded Approval special feature code does not apply to MCM loan casefiles with an Expanded Approval recommendation.  
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.

Announcements and Release Notes	Issue Date
<a href="#">Announcement SEL-2010-16</a>	December 1, 2010
<a href="#">Announcement SEL-2010-13</a>	September 20, 2010
<a href="#">Announcement 09-32</a>	October 30, 2009
<a href="#">DU Version 8.0</a>	September 22, 2009
<a href="#">Announcement 09-29</a>	September 22, 2009



## **B5-6-06, MyCommunityMortgage: High-Cost Areas and FannieNeighbors (09/20/2010)**

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### Introduction

This topic includes information on MyCommunityMortgage loans, including:

- High Cost Areas
- FannieNeighbors
- FannieNeighbors Area and Property Requirements

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### High Cost Areas

Fannie Mae permits higher income limits in certain high-cost areas as follows:

- 120% of area median income in the Portland-Vancouver-Hillsboro, OR-WA-MSA;
- 120% of area median income in the Seattle-Tacoma-Bellevue, WA MSA;

- 135% of area median income in the Boston-Cambridge-Quincy, MA-NH MSA;
- 140% of area median income in the State of California;
- 165% of area median income in the New York-Northern New Jersey-Long Island, NY-NJ-PA MSA;
- 165% of area median income in Dutchess, Orange, and Ulster Counties (New York); and
- 170% of area median income in the State of Hawaii.

**Note:** The income limits described do not apply when Fannie Mae's MyCommunityMortgage product is combined with the FannieNeighbors option.

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## **FannieNeighbors**

FannieNeighbors is a nationwide, neighborhood-based mortgage option designed to increase homeownership and revitalization in those geographic areas that qualify as underserved for purposes of calculating Fannie Mae's housing goals performance.

The FannieNeighbors option adds underwriting flexibility to community lending mortgages by removing the income limit if a property is located in one of these areas.

Lenders and other housing professionals can use the [Fannie Mae Property GeoCoder™](#) to determine whether a specific property qualifies for the FannieNeighbors option.

---

## **FannieNeighbors Area and Property Requirements**

The following are eligible FannieNeighbors areas:

- any metropolitan area census tract that has both a minority (nonwhites and Hispanics) population of at least 30% and a median family income at or below 120% of the median family income of the metropolitan area;
- any metropolitan area census tract that has a median family income at or below 90% of the median family income for the metropolitan area;
- any nonmetropolitan (rural) census tract that has both a minority (nonwhites and Hispanics) population of at least 30% and a median family income at or below 120% of the greater of the state nonmetropolitan median family income or the nationwide nonmetropolitan median family income;

- any nonmetropolitan (rural) census tract that has a median family income at or below 95% of the greater of the nonmetropolitan area median family income for the state or the nationwide nonmetropolitan area median family income; and
  - other areas Fannie Mae designates.
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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 2010–13</a>	September 20, 2010

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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 eligible government mortgage programs.

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### In This Subpart

This subpart contains the following chapter:

B6-1, Government Insured and Guaranteed Mortgages .....	828
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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 government mortgage and program requirements.

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### In This Chapter

This chapter contains the following topics:

B6-1-01, General Government Mortgage Requirements (07/26/2011) .....	829
B6-1-02, Eligible FHA-Insured Mortgage Loans (06/28/2011) .....	832
B6-1-03, Eligible VA-Guaranteed Mortgages (10/30/2009) .....	834
B6-1-04, Eligible HUD-Guaranteed Section 184 Mortgages (10/30/2009) .....	835
B6-1-05, Eligible RD-Guaranteed Mortgages (10/30/2009) .....	836
B6-1-06, Government Mortgage Loan Guaranty or Insurance (04/01/2009) .....	837

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## **B6-1-01, General Government Mortgage Requirements (07/26/2011)**

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### **Introduction**

This topic contains information on general government mortgage requirements, including:

- Overview
  - 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
- 

### **Overview**

All eligible government mortgages purchased or securitized by Fannie Mae must comply with the respective government agency's requirements. Those loans must also comply with Fannie Mae requirements for government loans as specifically addressed in this Selling Guide.

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### **Mortgage Term**

The term of a government mortgage may not extend more than 30 years beyond the date of the first monthly payment.

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## Seasoned Mortgages

All government mortgages 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.

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## Lien Requirements

The security instrument for a government mortgage 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 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.

---

## 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,

the monthly payment shown on the Loan Schedule ([Form 1068](#) or [Form 1069](#)) or Schedule of Mortgages ([Form 2005](#)) and the one Fannie Mae calculates cannot differ by more than \$1.00.

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### Notice of Transfer

When lenders deliver government 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.

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### MBS Pool Parameters

Government loans (e.g., FHA-insured, VA-guaranteed, HUD-guaranteed, and RD-guaranteed) that are securitized must be pooled in government-prefix MBS pools. Government loans cannot be commingled in the same pool with conventional mortgages.

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### Remittance Types

For all government loans, the actual/actual remittance type is required for whole loans. The scheduled/scheduled remittance type is required for all government loans delivered into MBS. (Lenders should refer to [eCommitting](#) and [eCommitONE](#) for additional information regarding eligible whole loan remittance types.)

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### Credit Score

All government loans are subject to a minimum representative credit score of 620. Manually underwritten government loans with nontraditional credit are exempt from this 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-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 (06/28/2011)**

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### **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.

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### **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 eFannieMae.com 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.

<b>Announcements</b>	<b>Issue Date</b>
<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 (10/30/2009)**

---

### **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 the following sections in the United States Code:

- Section 3710 of Title 38 for fixed-payment mortgages, and
  - Section 3703(d) of Title 38 for graduated-payment mortgages.
- 

### **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 09-09</a>	April 3, 2009
<a href="#">Announcement 08-27</a>	October 16, 2008



## **B6-1-04, Eligible HUD-Guaranteed Section 184 Mortgages (10/30/2009)**

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### 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

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### 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.

---

### **Delivery of HUD-Guaranteed Section 184 Mortgages**

A lender must report SFC 202 on FRM/GEM Loan Schedule ([Form 1068](#)) or Schedule of Mortgages ([Form 2005](#)) when delivering a HUD Section 184 mortgage 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 09-09</a>	April 3, 2009



## **B6-1-05, Eligible RD-Guaranteed Mortgages (10/30/2009)**

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### **Introduction**

This topic contains information on eligible RD-guaranteed mortgages, including:

- Overview
- RD Higher Balance Mortgage Loans
- Delivery of RD-Guaranteed Section 502 Mortgages



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## Overview

Fannie Mae will purchase or securitize RD-guaranteed Section 502 mortgages under the following conditions:

- The loans must be secured by one-unit residential properties.
- Manufactured home loans are accepted under negotiated transactions only.
- Fixed-rate RD Section 502 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.

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## RD Higher Balance Mortgage Loans

Lenders may deliver higher balance RD Guaranteed Section 502 mortgage loans subject to the same Fannie Mae high-cost area loan limits that apply to conventional loans.

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## Delivery of RD-Guaranteed Section 502 Mortgages

Lenders must report SFC 087 on FRM/GEM Loan Schedule ([Form 1068](#)) or Schedule of Mortgages ([Form 2005](#)) when delivering RD Section 502 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.

Announcements	Issue Date
<a href="#">Announcement 09-09</a>	April 3, 2009
<a href="#">Announcement 08-27</a>	October 16, 2008



## **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 documents Fannie Mae's requirements for mortgage, title, hazard, flood and liability, fidelity and rent loss insurance.

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### In This Subpart

This subpart contains the following chapters:

B7-1, Mortgage Insurance/Loan Guaranty .....	840
B7-2, Title Insurance .....	854
B7-3, Hazard and Flood Insurance .....	867
B7-4, Additional Project Insurance .....	892

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# Chapter B7-1, Mortgage Insurance/Loan Guaranty



## Mortgage Insurance/Loan Guaranty Overview

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### Introduction

This chapter contains Fannie Mae policies and requirements for standard conventional mortgage insurance coverage and government loan guaranty.

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### In This Chapter

This chapter contains the following topics:

B7-1-01, Provision of Mortgage Insurance (05/24/2011) . . . . .	840
B7-1-02, Mortgage Insurance Coverage Requirements (05/27/2010) . . . . .	844
B7-1-03, Lender-Purchased Mortgage Insurance (05/27/2010) . . . . .	846
B7-1-04, Financed Borrower-Purchased Mortgage Insurance (12/01/2010) . . . . .	847
B7-1-05, Government Mortgage Loan Guaranty or Insurance (10/30/2009) . . . . .	850

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## B7-1-01, Provision of Mortgage Insurance (05/24/2011)

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### Introduction

This topic contains information on mortgage insurance, including:

- General Requirements
- LTV Ratio Determination in New York State
- Payment of Mortgage Insurance Premiums
- Representations and Warranties
- 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 [Acceptable Conventional Mortgage Insurers and MI Codes for Loan Delivery](#). The Web site 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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## LTV Ratio Determination in New York State

Fannie Mae permits lenders to base their determination of when to require mortgage insurance for a mortgage secured by a New York property solely on the "appraised value" of the property instead of using the lower of the sales price or current appraised value.

Under a New York statute, a mortgage insurer may not issue mortgage insurance if the mortgage amount is less than 80% of the original "fair market" value of the property. The term "fair market value" is not defined in the statute, but has been defined by the regulator as being the appraised value.

Fannie Mae continues to use its standard definition of value to calculate the LTV ratio that is used in determining whether the mortgage satisfies any of Fannie Mae's other eligibility

criteria that are based on the LTV ratio of the mortgage. The LTV ratio calculated in accordance with standard Fannie Mae requirements must be provided at the time of loan delivery. See B2-1.1-01, Loan-to-Value (LTV) Ratios, for additional information.

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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.
- 

### **Representations and Warranties**

Lender represents and warrants that each loan it delivers is insurable and that no fraud or material misrepresentation has been committed (by any lender employee, any agent of the lender, or any third party including, without limitation, the borrower), by act or omission, in connection with the origination of the mortgage or servicing prior to the sale, regardless of the level or type of documentation, verification, or corroboration of information that may be required by this Guide or any contract with that particular lender. 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.

These instructions do not relieve lenders of their obligations under the *Selling* and *Servicing Guides* 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 disclosure template and release instructions are posted on [eFannieMae.com](http://eFannieMae.com). 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 [eFannieMae.com](http://eFannieMae.com). 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.

Announcements	Issue Date
<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 (05/27/2010)**

### Introduction

This topic contains information on mortgage insurance coverage requirements for first mortgage loans.

### Mortgage Insurance Coverage Requirements

The table below provides the mortgage insurance coverage requirements for first mortgages. For certain transactions, Fannie Mae offers two mortgage insurance coverage level options: standard coverage (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 Adverse Market Delivery Charge \(AMDC\) Information](#), 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>Mortgage 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>Fully amortizing fixed-rate, term ≤ 20 years</b>	6%	12%	16%* + MI LLPA	18%* + MI LLPA
			25%^	35%^
<b>Fully amortizing fixed rate, term &gt; 20 years; ARMs; Interest-only; and Manufactured Homes</b>	6%* + MI LLPA	12%* + MI LLPA	16%* + MI LLPA	18%* + MI LLPA
	12%^	25%^	30%^	35%^
<b>MCM</b>	6%	12%	16%	18%

**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 B5-5.1-05, DU Refi Plus and Refi Plus Eligibility

See B7-1-04, Financed Borrower-Purchased Mortgage Insurance, for additional information about mortgage insurance coverage for financed mortgage insurance transactions.

### 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



## **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
- 

### **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.

Announcements	Issue Date
<a href="#">Announcement SEL-2010-07</a>	May 27, 2010



## **B7-1-04, Financed Borrower-Purchased Mortgage Insurance (12/01/2010)**

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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

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### 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 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 net 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.

**Note:** Refer to the *Loan-Level Price Adjustment (LLPA) Matrix and Adverse Market Delivery Charge (AMDC) Information* for certain exceptions to LLPAs for mortgage loans with financed mortgage insurance.

- The lender must obtain a Financed Mortgage Insurance Premium Endorsement to the mortgage insurance policy. This endorsement must provide 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 net 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.

---

### **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” must be delivered. See the *2000-Character Loan Delivery Field Format* and related *Field Definitions for the 2000-Character Loan Delivery File Format*.
- 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 net LTV ratio.
- The loan must be delivered with SFC 281.
- All other mortgage insurance-related data elements must be provided (MI Code, Percent of MI Coverage, and Certificate Number).

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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 “net 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 Financed MI Amount.
- 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.

Announcements and Release Notes	Issue Date
<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 (10/30/2009)**

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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.

Loan Type	Evidence
FHA	FHA Mortgage Insurance Certificate (HUD Form 59100)
VA	VA Loan Guaranty Certificate (VA Form 26-1899)
RD	RD Loan Note Guarantee (Form RD 1980-17)
HUD Section 184	Indian Loan Guarantee Certificate (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 to Fannie Mae, if a lender fails to obtain the guaranty or insurance in a timely manner, as determined by Fannie Mae, the lender may be required to repurchase the mortgage and make Fannie Mae whole for any losses suffered. 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.

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 it has suffered 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 insert SFC 001 on the FRM/GEM Loan Schedule ([Form 1068](#)), 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 09-09</a>	April 3, 2009

## Chapter B7-2, Title Insurance



### Title Insurance

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#### Introduction

This chapter contains information on title insurance.

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#### In This Chapter

This chapter contains the following topics:

B7-2-01, Provision of Title Insurance (04/01/2009) .....	854
B7-2-02, Title Insurer Requirements (04/01/2009) .....	855
B7-2-03, General Title Insurance Coverage (05/24/2011) .....	856
B7-2-04, Special Title Insurance Coverage Considerations (06/28/2011) .....	858
B7-2-05, Title Exceptions and Impediments(08/12/2010) .....	863

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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.

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## **B7-2-02, Title Insurer Requirements (04/01/2009)**

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### **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. ([Title Insurer Rating Agencies](#) provides contact information for the rating agencies.)

<b>Rating Agency</b>	<b>Rating Requirements</b>
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
LACE Financial Corporation	“C” or better
Moody’s Investors Service	“Baa” 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 [eFannieMae.com](#).

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### **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.



## **B7-2-03, General Title Insurance Coverage (05/24/2011)**

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### **Introduction**

This topic contains information on general title insurance coverage.

- Terms of Coverage
- Effective Date of Coverage
- Amount of Coverage
- Other Requirements

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### **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	The title policy must be written on one of the following forms: <ul style="list-style-type: none"><li>• the 2006 American Land Title Association (ALTA) standard form</li><li>• the ALTA short form, or</li><li>• the ALTA form with amendments required by state law in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not yet been adopted, provided that those amendments do not materially impair protection to Fannie Mae.</li></ul>
Prior to January 1, 2008	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.

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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. If the principal amount of a first mortgage loan can increase due to negative amortization, the title insurance must cover the maximum possible increase.

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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 beneficiary 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 not used or in which the 2006 ALTA forms have not yet been adopted, provided that those amendments 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 and Release Notes	Issue Date
<a href="#">Announcement SEL-2011-04</a>	May 24, 2011



## **B7-2-04, Special Title Insurance Coverage Considerations (06/28/2011)**

### 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.

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.
- 

### **Co-op Share Loans**

Where 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.

Where co-op shares are considered personal property and therefore cannot be insured under standard title policies, Fannie Mae relies on the lender's representations and warranties that the title is generally acceptable, the borrower has title to the shares, and the co-op corporation has 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 ([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.

Mortgage Type	Title Insurance Requirements
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 without negative amortization	The policy must include ALTA Endorsement 6-06.
Adjustable-rate mortgage with possible negative amortization	The policy must include ALTA Endorsement 6.2-06.
Manufactured home mortgage	The policy must include ALTA Endorsement 7, 7.1, or 7.2.
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	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

<b>Mortgage Type</b>	<b>Title Insurance Requirements</b>
	requirements. 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.
Texas Section 50(a)(6) mortgage	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 B5-4-05, Texas Section 50(a)(6) Mortgage Legal Considerations for more information.
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 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>

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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 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(08/12/2010)**

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### 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 is able to substantiate that a first mortgage title policy was issued without a survey exception (and provides a warranty to that effect), Fannie Mae will purchase or securitize a second mortgage secured by the same property even though it has a survey exception.

By delivering the loan to Fannie Mae, the lender warrants that any minor impediments do not materially affect the marketability of the property and agrees to indemnify Fannie Mae if Fannie Mae should later incur a loss 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.
- 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.

**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 Subject to Unexpired Redemption Periods</b>	
	<p>The property must be located in a state where it is common and customary to sell single-family residential property during the redemption period.</p> <p><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.</p>
	<p>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.</p>
	<p>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.</p>

<b>Requirements for Mortgage Loans Subject to Unexpired Redemption Periods</b>	
	By delivering the mortgage loan to Fannie Mae, the lender warrants that Fannie Mae will not incur any loss due to the exercise of any party of a right to redeem the mortgaged property, including without limitation, a loss related to a borrower default due to a dispute with the redeeming party over the terms of the redemption, and lender agrees to indemnify Fannie Mae if Fannie Mae should incur a loss that can be directly attributed to the impediment(s).

**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).

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### Related Announcements

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

<b>Announcement</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2010-10</a>	August 12, 2010
<a href="#">Announcement SEL-2010-07</a>	May 27, 2010

# Chapter B7-3, Hazard and Flood Insurance



## Hazard and Flood Insurance

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### Introduction

This chapter contains information on hazard and flood insurance.

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### In This Chapter

This chapter contains the following topics:

B7-3-01, Provision of Hazard Insurance (04/01/2009) .....	867
B7-3-02, Hazard Insurance Policy Requirements (06/28/2011) .....	868
B7-3-03, General Hazard Insurance Coverage (06/28/2011) .....	871
B7-3-04, Determining the Amount of Required Hazard Insurance Coverage (04/01/2009) .....	873
B7-3-05, Hazard Coverage for Units in Project Developments (10/30/2009) .....	874
B7-3-06, Additional Insurance Coverage (04/01/2009) .....	879
B7-3-07, Evidence of Hazard Insurance (04/01/2009) .....	882
B7-3-08, Flood Insurance Coverage Requirements (12/30/2009) .....	884
B7-3-09, Mortgagee Clause for Hazard and Flood Insurance (05/24/2011) .....	890

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## B7-3-01, Provision of Hazard Insurance (04/01/2009)

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### Introduction

This topic contains information on provision of hazard insurance.

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### Provision of Hazard Insurance

The lender must ensure that any hazard insurance Fannie Mae requires for the security property is in place.

Each borrower has the right to select his or her own insurance carrier to provide hazard 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.



## **B7-3-02, Hazard Insurance Policy Requirements (06/28/2011)**

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### **Introduction**

This topic contains information on hazard insurer requirements, including:

- Rating Requirements
  - Other Acceptable Insurance Underwriters
  - Exceptions to the Rating Requirements
- 

### **Rating Requirements**

Unless Fannie Mae has approved alternative arrangements in advance, the hazard insurance policy for a property securing any first mortgage—including blanket policies for condos, co-ops, and PUDs—must be written by a carrier that meets the following rating requirements. The carrier only 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 types of hazard 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-mandated windstorm and beach erosion insurance pools—if that is the only coverage that is available, and
- A separate windstorm and earthquake policy issued by the Virgin Islands Windstorm and Earthquake Insurance Authority (for properties in the Virgin Islands) or 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 hazard 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 hazard 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 hazard insurance coverage is with a firm that meets its rating requirements (although the lender must 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 ([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. The [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 mortgage 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.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2011-05</a>	June 28, 2011



## **B7-3-03, General Hazard Insurance Coverage (06/28/2011)**

---

### **Introduction**

This topic contains information on general hazard insurance coverage, including:

- Coverage Requirements
  - First Mortgages
  - Second Lien Mortgages
  - Construction-to-Permanent Mortgages
  - Deductible Amount
- 

### **Coverage Requirements**

Hazard insurance for property securing loans delivered to Fannie Mae must protect against loss or damage from fire and other hazards covered by the standard extended coverage 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 hazard 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 hazard 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.

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### **First Mortgages**

For a first mortgage, 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 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.

Topic B7-3-04, Determining the Amount of Required Hazard Insurance Coverage, provides a formula for determining the amount of hazard insurance coverage generally required for a first mortgage.

---

## 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 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.

---

## Construction-to-Permanent Mortgages

Hazard insurance coverage is not required for some construction-to-permanent mortgages that are covered by construction site insurance during the construction period, although Fannie Mae's standard hazard insurance requirements apply for construction-to-permanent mortgages as soon as the borrower occupies the property or the construction is completed.

Although the hazard 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-2011-05</a>	June 28, 2011



## **B7-3-04, Determining the Amount of Required Hazard Insurance Coverage (04/01/2009)**

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### Introduction

This topic contains information on determining the amount of required hazard insurance coverage.

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### Determining the Amount of Required Hazard Insurance

The following table describes how to calculate the amount of required hazard 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 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



## **B7-3-05, Hazard Coverage for Units in Project Developments (10/30/2009)**

### **Introduction**

This topic contains information on hazard coverage for units in project developments, including:

- Coverage for Units in Project Developments
- Required Coverage for PUDs, Condos, or Co-op Projects
- Prohibited Project Insurance Practices
- Amount of Coverage
- Maximum Deductible Amounts
- Special Endorsements
- Special Endorsements for Condo Projects
- Named Insured
- Notices of Changes or Cancellation

### **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 B7-3-07, Evidence of Hazard Insurance, and Chapter B7-3, Hazard and Flood Insurance.

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### **Required Coverage for PUDs, Condos, or Co-op Projects**

This section covers property insurance requirements for insurance policies covering the common elements of PUDs, condos, and co-op projects. Fannie Mae’s hazard insurance requirements (project’s blanket policy) apply to PUD, condo, and co-op projects.

The insurance policy must at least 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” endorsement. If the policy does not include an “all risk” endorsement, Fannie Mae will accept a policy that includes the “broad form” covered causes of loss. The following list provides the applicable requirements.

- **PUD Requirements** — The homeowners’ association 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, excavations, etc. 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 owners’ association maintains a master or blanket type of insurance policy, with premiums being paid as a common expense. 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 homeowners’ association. The policy also must cover fixtures, equipment, and replacement of improvements and betterment coverage to cover any improvements that the borrower may have made. If the master or blanket policy does not cover the unit’s interior, then the borrower must obtain a “walls-in” policy, commonly known as an HO-6 policy.

The HO-6 insurance policy must provide coverage in an amount that is no less than 20% of the condo unit’s appraised value. In the event such coverage can not be obtained, the lender should contact Fannie Mae’s Project Standards Team (see E-1-03, List of Contacts). The standard requirement for a 5% deductible applies.

- **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.
- 

### **Prohibited Project Insurance Practices**

The following are not permitted:

- a blanket policy that covers multiple unaffiliated condo associations or projects, or
  - a self insurance arrangement whereby the owners' association is self-insured or has banded together with other unaffiliated associations to self insure all of the general and limited common elements of the various associations.
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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 a co-op or condo project. An insurance policy that includes either of the following endorsements ensures full insurable value replacement cost coverage:

- a Guaranteed Replacement Cost Endorsement (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance); or
  - a Replacement Cost Endorsement (under which the insurer agrees to pay up to 100% of the property's insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).
- 

### **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 PUD, condo, and co-op 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 results in loss or damage, increased cost of repairs or reconstruction, or additional demolition and removal costs. (The endorsement must provide for contingent liability from the operation of building laws, demolition costs, and increased costs of reconstruction.); and
- Steam Boiler and Machinery Coverage 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 stand-alone boiler and machinery coverage.

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### Special Endorsements 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 the homeowners' association.
- The policy must be primary, even if a unit owner has other insurance that covers the same loss.

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### 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 homeowners' association as the named insured. If the condo's legal documents permit it, the policy can

Coverage Type	Requirement for Named Insured
	specify an authorized representative of the homeowners' association, including its insurance trustee, as the named insured. The "loss payable" clause should show the homeowners' association 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 homeowners' association as the named insured.
Co-op project common areas	The policy must show the co-op corporation as the named insured.

The insurance policy also must include the standard mortgagee clause and must name as mortgagee either Fannie Mae or the servicers for the mortgage loans or share loans Fannie Mae holds on units in the project. When a servicer is named as the mortgagee, its name must be followed by the phrase "its successors and assigns."

### 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 homeowners' association (or insurance trustee) and each first mortgage loan holder named in the mortgagee clause 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 homeowners' association (or insurance trustee) and each first mortgage loan holder named in the mortgagee clause at least 30 days before it cancels or substantially changes a co-op project's coverage.

### 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 08-34</a>	December 16, 2008



## **B7-3-06, Additional Insurance Coverage (04/01/2009)**

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### **Introduction**

This topic contains information on additional hazard insurance coverage, including:

- Additional Hazard Insurance Coverage
  - Earthquake and Typhoon Insurance
  - Construction Site Insurance
  - Optional Coverage
  - Mortgage Defaults
  - Unacceptable Types of Optional Coverage
- 

### **Additional Hazard 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.

In Guam, Fannie Mae requires earthquake insurance for buildings of masonry construction only as well as a typhoon endorsement. The amount of required coverage and the deductible limitations are the same as those for fire and special coverage.

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### **Construction Site Insurance**

When Fannie Mae purchases—under either its standard guidelines for conversions of construction-to-permanent financing or the guidelines for its Native American Housing Initiatives—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 construction site insurance.

Construction site 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 construction site insurance coverage must be equal to the original mortgage loan amount.

The construction site insurance may be canceled after the borrower obtains hazard (and, if applicable, flood) insurance that meets Fannie Mae's standard requirements once the improvements are completed or the borrower occupies the property (whichever comes first).

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### **Optional Coverage**

Fannie Mae allows hazard 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,
- 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.

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 hazard 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).



## **B7-3-07, Evidence of Hazard Insurance (04/01/2009)**

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### **Introduction**

This topic contains information on evidence of hazard insurance, including:

- Overview
  - Short-Form Certificates of Insurance
  - Master or Blanket Policies
  - Data Files in Lieu of Policies
- 

### **Overview**

Lenders are required to follow the guidelines below relative to documenting and retaining evidence of hazard 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.
- 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 hazard 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 ten days' 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 hazard insurance policies. Instead, they provide a data file that includes essential information about the insurance policies they have 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 hazard insurance (such as reviewing the policy terms, amount of coverage, and deductible limits; confirming that premiums have been paid; processing loss drafts; etc.).
- 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.



## **B7-3-08, Flood Insurance Coverage Requirements (12/30/2009)**

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### **Introduction**

This topic contains information on Fannie Mae's flood insurance coverage requirements, including:

- General Requirements
- Location of the Property Within the SFHA
- 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
- Deductibles

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### **General Requirements**

The lender must ensure that any flood insurance required for the security property is in place. Fannie Mae generally requires flood insurance for any property that has a building, dwelling, structure, or improvement situated in a Special Flood Hazard Area (SFHA) that has federally mandated flood insurance purchase requirements (unless the mortgage is an FHA Section 240 mortgage).



The lender must determine whether any of the improvements for a security property are located in an SFHA by using a Standard Flood Hazard Determination (FEMA Form 81-93). SFHAs are shaded on a Flood Hazard Boundary Map and designated on a Flood Insurance Rate Map. These areas are designated by the following symbols: A, AE, AH, AO, AR, A1-30, A-99, V, VE, VO, and V1-30.

If flood insurance is not available in certain flood hazard areas because the community does not participate in the National Flood Insurance Program (NFIP), Fannie Mae will not purchase mortgages secured by properties located in those areas.

Fannie Mae will waive flood insurance requirements if the borrower obtains a letter from FEMA stating that its maps have been amended so that the principal structure is no longer in an SFHA.

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### **Location of the Property Within the SFHA**

Flood insurance is required if any part of the principal structure is located within an SFHA. Detached buildings—such as stand-alone garages, sheds, or greenhouses—are not considered part of the principal structure, although flood insurance may be required for them if they are also a part of the security for the mortgage.

If the principal structure on a property is not located within a SFHA, flood insurance generally will not be required even if another detached structure on the property is located within the SFHA. However, if the detached structure is attached to the land and serves as part of the security for the mortgage, flood insurance will be required for the detached structure (and may be purchased through a separate policy on a general property insurance form)—unless the lender determines that the principal structure represents sufficient security for the mortgage and releases the detached structure from the security.

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### **Acceptable Flood Insurance Policies**

Flood insurance generally should be in the form of the standard policy issued under the NFIP. The Policy Declaration page of a policy is acceptable evidence of coverage. Policies that meet NFIP requirements—such as those issued by licensed property and casualty insurance companies that are authorized to participate in NFIP’s “Write Your Own” program—are acceptable.

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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 lower of:

- 100% of the replacement cost of the insurable value of the improvements;
- the maximum insurance available from the National Flood Insurance Program (NFIP), which is currently \$250,000 per dwelling; or
- the unpaid principal balance of the mortgage.

The amount of flood insurance coverage for a PUD project should be at least equal to the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the appropriate National Flood Insurance Program. For co-op projects and most condo projects, the amount of coverage should be at least equal to the lesser of 100% of the insurable value of each insured building (including all common elements and property) or the maximum coverage available under the applicable National Flood Insurance Program. For those condo projects that consist of high-rise buildings or other vertical buildings, the required coverage has three components: (1) the building coverage should equal 100% of the insurable value of the common elements and property (including machinery and equipment that are part of the building); (2) the contents coverage should equal 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members; and (3) the coverage for each unit should be the lesser of \$250,000 or the amount of its replacement cost. If this required coverage exceeds the maximum coverage available under the National Flood Insurance Program, Fannie Mae will accept coverage equal to the maximum amount that is available.

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**

The amount of flood insurance required for a second mortgage depends on whether the property already is covered by a flood insurance policy or, if it is not, on whether Fannie Mae has an ownership interest in the first mortgage.

If a property is already covered by a flood insurance policy because the holder of the first mortgage required the coverage, the lender must review the coverage to ensure that it provides the minimum amount of coverage for first mortgages (using the combined unpaid principal balances of both the first and second mortgages to make the determination). If the existing coverage does not meet this requirement, the lender must require the borrower to obtain appropriate endorsements to bring the coverage into line with Fannie Mae's requirements and name Fannie Mae (or the second mortgage servicer) as the second mortgagee. The lender must then send a copy of the endorsements to the servicer of the first mortgage.

If a property is not covered by a flood insurance policy because the holder of the first mortgage did not require flood insurance coverage (and Fannie Mae does not have an interest in the first mortgage), the lender must require the borrower to obtain a flood insurance policy that will cover at least the unpaid principal balance of the second mortgage (or the maximum coverage available under the appropriate NFIP) and name Fannie Mae (or the second mortgage servicer) as the mortgagee.

If a property for which Fannie Mae has an interest in the first mortgage is not covered by a flood insurance policy because flood insurance was not required when Fannie Mae purchased or securitized the first mortgage, and the property improvements are now considered to be in an SFHA, the lender must require the borrower to obtain flood insurance coverage in the minimum amount (using the combined unpaid principal balances of both the first and second mortgages to make the determination) and name Fannie Mae (or the first and second mortgage servicers) as mortgagee.

Unless a higher maximum is required by state law, the maximum allowable deductible for a flood insurance policy for a second mortgage is the higher of \$1,000 or one percent of the face amount of the policy

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### Requirements for Project Developments

If a first mortgage is secured by a unit in a PUD, condo, or co-op project and any part of the improvements are in an SFHA, the lender must verify that the homeowners' association or co-op corporation is maintaining a master or blanket policy of flood insurance and is providing for premiums to be paid as a common expense.

<b>Project Type</b>	<b>Coverage Requirements</b>
PUD	Individual PUD units:  Fannie Mae requires the same flood insurance for individual PUD units that is required for other one- to four-unit properties.  PUD projects:  The policy must cover any common element buildings and any other common property located in an SFHA.
Co-op	Individual co-op units:  Fannie Mae does not require flood insurance for individual co-op units.

<b>Project Type</b>	<b>Coverage Requirements</b>
	<p>Co-op projects:</p> <p>The co-op corporation must have a separate flood insurance policy 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.</p>
Condo	<p>Individual condo units:</p> <p>Fannie Mae generally does not require flood insurance for individual condo units.</p> <p>Condo projects:</p> <ul style="list-style-type: none"> <li>• The policy must cover common element buildings and any other common property.</li> <li>• When the project consists of high-rise or other vertical buildings, the homeowners' association must obtain a Residential Condominium Building Association Policy for each building that is located in an SFHA. The policy must cover all of the common elements and property, as well as each of the individual units in the building.             <ul style="list-style-type: none"> <li>– A separate policy is required for each dwelling unit that secures a mortgage that is delivered when a homeowners' association refuses to obtain a Residential Condominium Building Association Policy or when the Residential Condominium Building Association Policy does not comply with Fannie Mae's insurance requirements.</li> <li>– The coverage required for the individual unit should be based on the coverage requirement for first mortgages secured by one-to four-unit properties as specified above. Owners of co-op units are not generally required to obtain individual flood insurance policies.</li> </ul> </li> </ul>

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### Properties Located in the Coastal Barrier Resources System or in an Otherwise Protected Area

Properties located within the Coastal Barrier Resources System (CBRS) or within an Otherwise Protected Area (OPA), as defined by the Coastal Barrier Resources Act, may not be eligible for federal flood insurance. When a servicer (or a flood zone determination company) determines that a property is located within the CBRS or is within an OPA, the lender must verify that the project or the unit is covered by a flood insurance policy before it delivers to Fannie Mae a mortgage or share loan on an individual unit in a PUD, condo, or co-op project.

Fannie Mae will accept flood insurance policies from private insurance carriers when a property securing a mortgage within the CBRS or within an OPA is not eligible for federal flood insurance. 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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### Deductibles

The maximum allowable deductibles are as follows:

Coverage Type	Maximum Deductible
First and second mortgages	The maximum deductible available from the NFIP (currently \$5,000)
Condo, co-op, and PUD projects	\$25,000
Private flood insurance policies	No greater than the NFIP maximums based on the property type (i.e., currently a maximum of \$5,000 for one- to four-unit properties and a maximum of \$25,000 for condo, co-op, and PUD 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 09-28</a>	August 21, 2009



## **B7-3-09, Mortgagee Clause for Hazard and Flood Insurance (05/24/2011)**

### **Introduction**

This topic contains information on mortgagee clause for hazard 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's 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, bills, and so on, 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.

<b>Type of Mortgage</b>	<b>Mortgagee Clause Requirements</b>
A 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.
A second mortgage	The mortgagee clause in the hazard 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.  The lender should inform the insurer about which mortgage servicer is responsible for payment of the insurance premium.

<b>Type of Mortgage</b>	<b>Mortgagee Clause Requirements</b>
A unit in a condo or co-op project	The policy must include the standard mortgagee clause and must name as mortgagee either Fannie Mae or the servicers for the mortgages or shared loans Fannie Mae holds on units in the project.  When a servicer is named as the mortgagee, its name should be followed by the phrase “its successors or assigns.”

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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-2011-04</a>	May 24, 2011
<a href="#">Announcement SEL-2010-02</a>	March 2, 2010

## Chapter B7-4, Additional Project Insurance



### Additional Project Insurance

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#### Introduction

This chapter discusses additional types of insurance (liability, fidelity, and rent loss) 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:

B7-4-01, Liability Insurance (04/01/2009) .....	892
B7-4-02, Fidelity Insurance (10/30/2009) .....	893
B7-4-03, Rent Loss Insurance for Co-op Projects (04/01/2009) .....	895

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### B7-4-01, Liability Insurance (04/01/2009)

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#### Introduction

This topic contains information on liability insurance.

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#### Liability Insurance

Fannie Mae's project liability insurance requirements for PUD, condo, and co-op projects are as follows:

- The lender must verify liability insurance coverage as part of its review of a project. However, the lender does not need to verify liability insurance coverage for Type E PUD projects or PUD and condo projects processed under the Limited Project Review procedures.
- The homeowners' association (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 homeowners' association (or co-op corporation), even if they are leased to others. The commercial general 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.

- The amount of coverage must be at least \$1 million for bodily injury and property damage for any single occurrence. For co-op projects that consist of elevator buildings, the minimum coverage is \$3 million. Higher amounts of coverage may be required if similar amounts are usually required by mortgage investors in other projects in the area.
- If the policy does not include "severability of interest" 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 homeowners' association (or co-op corporation) or of other unit owners.
- The policy should provide for at least ten days' written notice to the homeowners' association (or co-op corporation) before the insurer can cancel or substantially modify it. For condo and co-op projects, similar notice also must be given to each holder of a first mortgage or share loan on an individual unit in the project.



## **B7-4-02, Fidelity Insurance (10/30/2009)**

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### **Introduction**

This topic contains information on fidelity insurance, including:

- Projects Requiring Fidelity Insurance
- Who Should Be Covered
- Amount of Coverage
- Cancellation/Modification Requirements

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### **Projects Requiring Fidelity Insurance**

Fidelity insurance is required for condo or co-op projects consisting of more than 20 units. This requirement applies to all condo and co-op review processes.

In states that have statutory fidelity insurance requirements, Fannie Mae accepts those requirements in place of its own. The lender must verify coverage as part of its review of the project.

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### **Who Should Be Covered**

The homeowners' association (or co-op corporation) must have blanket fidelity 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. The insurance policy should name the homeowners' association (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 homeowners' association (or co-op corporation) should be covered by its own fidelity insurance policy, which must provide the same coverage required of the homeowners' association (or co-op corporation).

---

### **Amount of Coverage**

The policy must cover the maximum funds that are in the custody of the homeowners' association (or co-op corporation) or its management agent at any time while the policy is in force.

A lesser amount of coverage is acceptable if the project's legal documents require the homeowners' association (or co-op corporation) and any management company to adhere 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 homeowners' association (or co-op corporation).
- The management company maintains separate records and bank accounts for each homeowners' association (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 homeowners' association's (or co-op corporation's) reserve account.
- Two members of the Board of Directors must sign any checks written on the reserve account.

Even then, the fidelity insurance coverage must equal at least the sum of three months of assessments on all units in the project.

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### **Cancellation/Modification Requirements**

The policy for a condo project must include a provision that calls for ten days' written notice to the homeowners' association (or insurance trustee) before the policy can be canceled or

substantially modified for any reason. This same notice also must be given to each servicer that services a Fannie Mae-owned or Fannie Mae-securitized mortgage in the condo 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.

Announcement	Issue Date
<a href="#">Announcement 08-34</a>	December 16, 2008



## **B7-4-03, Rent Loss Insurance for Co-op Projects (04/01/2009)**

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### Introduction

This topic contains information on rent loss insurance for co-op projects.

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### Rent Loss Insurance for Co-op Projects

For co-op projects in which fewer than 70% of the units have been sold to owner-occupants, a rent loss insurance policy is required to cover losses due to fire or other casualties.

Number of Floors	Amount of Rent Loss Coverage
Up to three stories (garden-type co-op)	6 months
More than three stories	12 months

# 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 .....	897
B8-2, Security Instruments .....	900
B8-3, Notes .....	908
B8-4, Riders and Addenda .....	916
B8-5, Special-Purpose Legal Documents .....	920
B8-6, Mortgage Assignments .....	929
B8-7, Mortgage Electronic Registration System (MERS) .....	935

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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.

For signatory requirements for the HUD-1 Settlement Statement, see A2-5.1-02, Individual Mortgage Loan Files

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### In This Chapter

This chapter contains the following sections:

B8-1-01, Publication of Legal Documents (06/28/2011) ..... 897

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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 Web site, [eFannieMae.com](http://www.efanniemae.com). 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 eFannieMae.com 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.

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### **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.

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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-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) .....	900
B8-2-02, Special-Purpose Security Instruments (04/30/2010) .....	903
B8-2-03, Signature Requirements for Security Instruments (04/01/2009) .....	907

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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.

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 Web site 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 (e.g., 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 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](#).

---

### **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 (see B8-2-01, Security Instruments for Conventional 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.

<b>Announcements</b>	<b>Issue Date</b>
<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 (04/30/2010)**

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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
- 

### **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 Legal 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—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.)

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## **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;
- 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 and the lender 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 and contains 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. If assistance is needed in preparing an acceptable Affidavit, the lender should contact its lead Fannie Mae regional office (see E-1-03, List of Contacts).

- 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.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2010-06</a>	April 30, 2010



## **B8-2-03, Signature Requirements for Security Instruments (04/01/2009)**

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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.
  - 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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## Chapter B8-3, Notes



### Notes

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#### Introduction

This chapter provides information on notes.

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#### In This Chapter

This chapter contains the following sections:

B8-3-01, Notes for Conventional Mortgages (04/01/2009) .....	908
B8-3-02, Special Note Provisions and Language Requirements (03/02/2010) .....	910
B8-3-03, Signature Requirements for Notes (04/01/2009) .....	912
B8-3-04, Note Endorsement (04/01/2009) .....	913

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### B8-3-01, Notes for Conventional Mortgages (04/01/2009)

---

#### 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.



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 at [Riders & Addenda](#). 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 regularly amortizing 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 regularly amortizing ARMs and for ARMs with an interest-only feature may be found on [Notes](#). 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 mortgage type, lien type, property type, and product type.



## **B8-3-02, Special Note Provisions and Language Requirements (03/02/2010)**

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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
  - Notes Subject to Prepayment Premiums
  - 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 (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.

---

### **Notes Subject to Prepayment Premiums**

Fannie Mae does not generally purchase conventional loans that have prepayment penalties; therefore, Fannie Mae's notes do not provide for a prepayment provision. However, a borrower

who wants a lower monthly payment or lower closing costs may agree to accept a mortgage that includes a prepayment premium in connection with an early payoff of the mortgage.

When a lender delivers a mortgage with a prepayment premium under a negotiated contract that permits enforcement of the prepayment provision, Fannie Mae encourages the lender to waive all or part of the prepayment premium if prepayment is due to the sale of the home. The following list provides the requirements for adding a prepayment premium provision to a note:

- The mortgage terms must provide some benefit to the borrower (such as a rate or fee reduction for accepting the prepayment premium), and the borrower must have been offered the choice of another mortgage product that did not require a prepayment premium.
- The terms of the prepayment provision must be adequately disclosed to the borrower.
- The term of the prepayment premium may not exceed three years.
- The prepayment premium may not be charged when the mortgage debt is accelerated as the result of the borrower's default in making his or her mortgage payments.

---

### **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 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 released that are related to this topic.

Announcements	Issue Date
<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 (04/01/2009)

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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

---

### 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 undersigning (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.

---

### **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, as long as the lender obtains a copy of the applicable 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.
- 



### **B8-3-04, Note Endorsement (04/01/2009)**

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#### **Introduction**

This topic contains information on note endorsement, including:

- Note Endorsement
  - Using an Allonge for the Endorsement
  - Signature Requirements for Allonges
- 

#### **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

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### **Using an Allonge for the Endorsement**

The endorsement must appear on the note. An allonge may be used for the endorsement so 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 from any loss or damage Fannie Mae may incur as a result of the use of an allonge for the note endorsement(s).

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### **Signature Requirements for Allonges**

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.
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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) .....	916
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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).



## 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 Multistate Planned Unit Development Rider ( <a href="#">Form 3150</a> ) or the Multistate Condominium Rider ( <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.  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 E-1-03, List of Contacts) to determine Fannie Mae's documentation requirements for co-op share loan riders.
The Multistate One- to Four-Family Rider ( <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 Multistate Second Home Rider ( <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

<b>Uniform or Fannie Mae-Specific Rider</b>	<b>Purpose</b>
	rider for Texas Section 50(a)(6) adjustable-rate mortgages.
The model Construction Loan Rider to Security Instrument ( <a href="#">Form 3737</a> ) and the Investor Rider to Security Instrument ( <a href="#">Form 3738</a> )	Must be appropriately modified and used for HomeStyle Renovation mortgages. For other special-purpose documents for these HomeStyle products, see B8-5-04, HomeStyle Mortgage Documentation Requirements.
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 B8-5-02, Revocable Trusts, 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



# Chapter B8-5, Special-Purpose Legal Documents



## Special-Purpose Legal Documents

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### Introduction

This chapter provides information on special-purpose legal documentation.

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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) . . . . .	920
B8-5-02, <i>Inter Vivos</i> Revocable Trusts (04/01/2009) . . . . .	921
B8-5-03, Texas Section 50(a)(6) Mortgage Documentation (03/29/2010) . . . . .	924
B8-5-04, HomeStyle Mortgage Documentation Requirements (12/30/2009) . . . . .	925
B8-5-05, Sample Legal Documents (01/27/2011) . . . . .	926

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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 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 Trusts (04/01/2009)**

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### **Introduction**

This topic contains information on execution and signature requirements for *inter vivos* revocable trusts.

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### **Execution and Signature Requirements**

When the income and assets of a trustee and individual establishing an *inter vivos* revocable trust are used to qualify for the mortgage, each of them 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.

When the income and assets of the individuals establishing the trust are used to qualify for the mortgage, each individual 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).

The topic E-2-06, Signature Requirements for Mortgages to 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.

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### **Defining the Responsible Borrower in an *Inter Vivos* Trust**

The topic E-2-05, 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.

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).

For a mortgage secured by a property located in a state other than California, the lender must “hold Fannie Mae harmless” should foreclosure proceedings later have to be initiated to acquire the property and Fannie Mae suffers a loss that relates either to the modifications the lender made (or to the inappropriate use of Fannie Mae’s sample rider) or to any ambiguity in the application of the covenants in the security instrument. In such cases, the lender must either repurchase the mortgage or the acquired property or “make Fannie Mae whole.”

---

### **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 “hold Fannie Mae harmless” should foreclosure proceedings later have to be initiated to acquire the property and Fannie Mae suffers a loss that relates either to the lender’s amendment or to any ambiguity in the application of the covenants in the security instrument. In such cases, the lender must either repurchase the mortgage or the acquired property or “make Fannie Mae whole.”

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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 “hold Fannie Mae harmless” should foreclosure proceedings later have to be initiated to acquire the property and Fannie Mae suffers a loss that relates to any ambiguity in the application of the covenants in the security instrument. In such cases, the lender must either repurchase the mortgage or the acquired property or “make Fannie Mae whole.”



## **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](#).

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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 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, Community Land Trusts, and DU Refi Plus and Refi Plus, 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 the [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.

<b>Announcement</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2011-01</a>	January 27, 2011
<a href="#">Announcement 08-35</a>	December 18, 2008

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# Chapter B8-6, Mortgage Assignments



## Mortgage Assignments

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### Introduction

This chapter provides information on mortgage assignments.

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### In This Chapter

This chapter contains the following topics:

B8-6-01, General Information (04/01/2009) . . . . .	929
B8-6-02, Mortgage Assignment to Fannie Mae (04/01/2009) . . . . .	930
B8-6-03, Authorized Use of Intervening and Blanket Assignments (04/01/2009) . . . . .	932

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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 (04/01/2009)**

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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

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### **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 when the lender is not able to insert the information related to recordation of the mortgage that is needed to put the mortgage assignment to Fannie Mae into recordable form, Fannie Mae purchases or securitizes the mortgage based on the lender's warranty that the only reason it submitted an incomplete assignment was the fact that the mortgage recordation data 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 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.



## **B8-6-03, Authorized Use of Intervening and Blanket Assignments (04/01/2009)**

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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).

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.

If Fannie Mae experiences delays or other problems in the foreclosure process or suffers any other loss because clear title to a property cannot be established due to the lender's failure to obtain, record (if applicable), and retain the necessary intervening assignments, Fannie Mae may ask the lender to "indemnify Fannie Mae" for any costs that can be attributed to the delay or problem (by reimbursing Fannie Mae for additional attorney's fees, disallowed interest on the claim, etc.) or 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 applicable recording jurisdiction. Each blanket assignment must relate to a single recording jurisdiction.



# Chapter B8-7, Mortgage Electronic Registration System (MERS)



## Mortgage Electronic Registration System (MERS)

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### Introduction

This chapter provides information about MERS.

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### In This Chapter

This chapter contains the following topic:

B8-7-01, Mortgage Electronic Registration Systems (MERS) (05/24/2011) . . . . . 935

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## B8-7-01, Mortgage Electronic Registration Systems (MERS) (05/24/2011)

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### Introduction

This topic contains information about MERS, including:

- Naming MERS as the Nominee for the Beneficiary in the Security Instrument
  - 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](#)).

The lender is responsible for the accurate and timely preparation and recordation of the security instrument 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.

---

## 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 and on the FRM/GEM Loan Schedule ([Form 1068](#)), ARM/GPARM Loan Schedule ([Form 1069](#)), or Schedule of Mortgages ([Form 2005](#)). 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 and, at that time, provide the custodian with a copy of the original Form 2005, which it has appropriately annotated to indicate that a mortgage originally registered with MERS is no longer registered (by deleting the MIN that was originally reported) or to indicate that an unregistered mortgage has subsequently been registered with MERS (by inserting the applicable MIN); 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.

---

### **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="#">Announcement SEL-2011-04</a>	May 24, 2011
<a href="#">Announcement 08-37</a>	December 19, 2008

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# Part C, Selling, Securitizing, and Delivering Loans



## Selling, Securitizing, and Delivering Loans

---

### 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, third-party security interests, and borrower payment remittance options.

---

### 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 the pool purchase contract, guaranty and buyup and buydown fees, pooling loans into fixed-rate and ARM MBS and Fannie Majors, and delivering and trading MBS.

---

**In This Part**

This part contains the following subparts:

Subpart C1, General Information on Execution Options and Loan Delivery .....	941
Subpart C2, Whole Loan Transactions .....	960
Subpart C3, Mortgage-Backed Securities (MBS) .....	999

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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 .....	942
C1-2, Loan Delivery Overview .....	946
C1-3, Loan Remittance Types Overview .....	957

---

# 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:

C1-1-01, Execution Options (04/30/2010) .....	942
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## C1-1-01, Execution Options (04/30/2010)

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### Introduction

This topic provides general information about selling whole loans to Fannie Mae and pooling loans into MBS, including:

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### Whole Loan Sale Commitments

Using Fannie Mae's Web applications, eCommitting or eCommitONE, respectively, 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 pay Fannie Mae a fee, called a pair-off fee.
- 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 closes and a lender fails to deliver it, the lender pays a failed-delivery fee.

For additional information, see Chapter C2-1, Mandatory and Best Efforts Commitments to Sell Whole Loans.

---

### **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, single-lender pools: \$1 million
- Adjustable-rate single-lender pools: \$500,000
- Fannie Majors, multiple-lender pools: \$1,000 (Majors pools in aggregate must meet the minimum amounts noted above to be opened).

For additional information, see Subpart C3, Mortgage-Backed Securities (MBS).

---

### **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 for cash or securitization via a bulk transaction. Contact the Capital Markets Sales Desk (see E-1-03, List of Contacts).

---

### **Pricing, Fees, Price Adjustments, and Adverse Market Delivery Charges**

When lenders commit to sell whole loans for cash to Fannie Mae, 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 are posted on eCommitting and for best efforts commitments on eCommitONE. 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 pool purchase contract between Fannie Mae and the lender.

Lenders that elect to trade their MBS can obtain price indications by contacting Fannie Mae's Capital Markets 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 cumulative.

Fannie Mae will also apply an Adverse Market Delivery charge (AMDC) to all mortgage loans delivered to Fannie Mae. The process for calculating and drafting this charge is similar to how LLPAs are calculated and drafted. The charge also applies to loans committed under long-term standby commitments.

All applicable LLPAs and the AMDC for whole loan transactions will be deducted from the purchase proceeds. For certain whole loan deliveries, including interest-only loans and loans with 40-year terms, the product-specific LLPAs are reflected in the commitment price available via eCommitting and eCommitOne. All applicable LLPAs and the AMDC for MBS transactions will be drafted from the lender's account designated for that purpose.

For a current listing of LLPAs and AMDC charges, see [Loan-Level Price Adjustment \(LLPA\) Matrix and Adverse Market Delivery Charge \(AMDC\) Information](#).

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## No Assignment of Whole Loan Commitments or MBS Pool Purchase Contracts

Typically, lenders are not permitted to assign Fannie Mae whole loan commitments or MBS pool purchase contracts (or any of the rights or obligations under the commitments or MBS pool contracts) 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.

Announcements	Issue Date
<a href="#">Announcement SEL-2010-06</a>	April 30, 2010
<a href="#">Announcement 09-29</a>	September 22, 2009



# 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. For delivery information specific to whole loan sales and MBS transactions, 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.

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### In This Chapter

This chapter contains the following topics:

C1-2-01, General Information on Delivering Loan Data and Documents (10/30/2009) . . . . .	947
C1-2-02, Loan Data and Documentation Delivery Requirements (07/26/2011) . . . . .	949
C1-2-03, Third-Party Security Interests Overview (10/30/2009) . . . . .	951
C1-2-04, Bailee Letters (10/30/2009) . . . . .	952

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## **C1-2-01, General Information on Delivering Loan Data and Documents (10/30/2009)**

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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
- 

### **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, and an MBS contract number under an active master agreement for MBS mortgages. 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.

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### **Delivery Tolerances**

For both whole loan and MBS deliveries, lenders may deliver an amount slightly higher or lower than the original commitment or contract 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 and match the terms of the commitment or for MBS loans, the pool purchase contract, including mortgage type, amortization, original term, and pass-through rate(s) selected for delivery when the commitment or contract 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.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement 08-32</a>	December 10, 2008

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## **C1-2-02, Loan Data and Documentation Delivery Requirements (07/26/2011)**

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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
  - Required Data Elements and Post-Purchase Delivery of Additional Data Elements
  - Special Feature Codes
  - Documentation Requirements
- 

### **Electronic Submission via Loan Delivery**

Loan data for all mortgages must be electronically transmitted to Fannie Mae using Loan Delivery for whole loan deliveries or MBS mortgages.

Electronic file submissions are accepted at any hour of the day or night, in the Fannie Mae 2000-Character format via Loan Delivery. See [Loan Delivery Data Requirements](#), [Fannie Mae 2000-Character Loan Delivery File Format](#), and [Field Definitions for Fannie Mae 2000-Character Loan Delivery File Format](#).

Lenders delivering electronically agree:

- to be legally bound by the electronic submission of documents and information without the need for submission of hard-copy follow-up documents, and
- to ensure the security and integrity of all of its electronic submissions.

In the event of an emergency in which the lender is unable to transmit data electronically, it may submit hard copies of the appropriate Loan Schedule or Schedule of Mortgages to Fannie Mae's DDC or to the applicable document custodian:

- FRM/GEM Loan Schedule ([Form 1068](#)),
- ARM/GPARM Loan Schedule ([Form 1069](#)), or
- For MBS loans, Schedule of Mortgages ([Form 2005](#)).

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## 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 it reports for whole loan transactions on Form 1068 or Form 1069. For MBS transactions, this information must be provided on Form 2005. 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 eFannieMae.com.

When providing race and ethnicity data for loans closed prior to January 1, 2004, lenders must convert the race codes by using the [Race and Ethnicity Delivery Data Conversion Chart](#) on eFannieMae.com.

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## Special Feature Codes

Lenders must include specific special feature code(s) 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.

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## 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 [RDC guide](#) for document delivery and certification 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-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, Third-Party Security Interests Overview (10/30/2009)

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### Introduction

This topic provides information on conflicts regarding third-party security interests in mortgages.

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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 Custodial Agreement, ([Form 2003](#)), the warehouse 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 08-32</a>	December 10, 2008



## C1-2-04, Bailee Letters (10/30/2009)

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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.

<b>If...</b>	<b>Then ...</b>
The document custodian receives a bailee letter,	It must fax a copy of the bailee letter to the Fannie Mae Custodian Oversight Monitoring office (see E-1-03, List of Contacts).
The document custodian does not receive a bailee letter, but is nevertheless aware that a	It must fax an explanatory letter that identifies the applicable mortgage notes to the Custodian Oversight Monitoring office.

If...	Then ...
third party has an interest in certain mortgage notes,	

The document custodian must include in its fax the name, telephone number, and e-mail address of an authorized representative whom Fannie Mae can contact.

To confirm that Fannie Mae received the fax, the document custodian must call the Custodian Oversight Monitoring – 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 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), or FRM/GEM Loan Schedule (Form 1068), or ARM/GPARM Loan Schedule (Form 1069), or Schedule of Mortgages (Form 2005).

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	<p>Fannie Mae contacts the mortgage seller and the warehouse lender (or other third party) to resolve the discrepancy.</p> <p>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.</p> <p>When a warehouse lender wants to change its delivery instructions, it must submit a Release of Interest in Mortgages (Form 2004A) to Fannie Mae at:</p> <p>Fannie Mae's Custodian Oversight Monitoring or New Loan Submissions office (see E-1-03, List of Contacts).</p>

When delivery instructions ...	Then the following process is applied:
	The Certification Service Center accepts a fax transmission of <a href="#">Form 2004A</a> 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.
Match (or after an initial mismatch is subsequently resolved)	Fannie Mae sends an e-mail message to the document custodian's authorized representative to indicate that the document custodian may complete its certification.  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.

**Note:** If the document custodian needs to return one or more notes for any reason (e.g., 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.

---

### 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.

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### 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.

Announcements	Issue Date
<a href="#">Announcement 08-32</a>	December 10, 2008



# 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 (12/30/2009) ..... 957

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## C1-3-01, General Information on Remittance Types (12/30/2009)

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### Introduction

This topic provides a overview of borrower payment remittance types, including:

- Overview
- Actual/Actual
- Scheduled/Scheduled
- Scheduled/Actual

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## 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 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.

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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 RD-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 for whole loans, including interest-only mortgages, 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. This type is not available for mortgages with an interest-only feature.

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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 09-29</a>	September 22, 2009
<a href="#">Announcement 09-28</a>	August 21, 2009



# 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

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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.

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### In This Chapter

This chapter contains the following sections:

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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 eCommitting, 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 eCommitting by contacting their lead Fannie Mae regional office or the Capital Markets Sales Desk, or by referring to training on [eCommitting](#).

Lenders can obtain commitments on any weekday, with the exception of bond market observed holidays as defined by American Securitization Forum (ASF).

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 (04/01/2009)

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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

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### 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 1/8th percent 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 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 eCommitting.

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. 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, 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 and, if so, the amount. Pair-off amounts are calculated from the original commitment amount, not the low delivery tolerance. See C2-1.2-02, Best Efforts Commitment Pricing, Fees, and Pricing Adjustments, for additional details. See C2-2-01, General Requirements for Good Delivery of Whole Loans, for information on overdeliveries.

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.

A lender must designate a non-MBS P&I custodial account from which Fannie Mae can and will automatically draft whole loan transaction and related fees that it owes 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 up-front commitment, extension, and pair-off fees from the lender's designated account on the day following the request for the commitment, extension, 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.

For information on LLPAs and the Adverse Market Delivery Charge, see [Loan-Level Price Adjustment \(LLPA\) Matrix and Adverse Market Delivery Charge \(AMDC\) Information](#).



## **C2-1.1-03, Mandatory Commitment Terms, Amounts, Periods and Other Requirements (06/28/2011)**

---

### **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
- 

### **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 a list of products eligible for sale to Fannie Mae.
- Loan type — Conventional or government
- Lien type — First or second mortgages
- Amortization type — Fixed-rate or adjustable-rate
- Mortgage term — 10-, 15-, 20-, 30-, or 40-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 eCommitting, 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).

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 via eCommitting.

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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.

<b>Mortgage Type</b>	<b>Payment Status</b>
12 or fewer months old at the time of delivery	The borrower must not have any 30-day delinquencies since the mortgage was originated.

<b>Mortgage Type</b>	<b>Payment Status</b>
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 cash 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.

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-2011-05</a>	June 28, 2011
<a href="#">Announcement 09-28</a>	August 21, 2009



## C2-1.1-04, Mandatory Commitment Extensions and Pair-Offs (04/01/2009)

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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

---

### 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.

---

### 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 not 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 and pair-offs via eCommitting or through the Capital Markets Sales Desk between 8:15 a.m. and 5:00 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 via eCommitting or by contacting the Capital Markets Sales Desk (see E-1-03, List of Contacts), 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. See C2-1.1-02, Pricing, Fees, and Pricing Adjustments, for information on the fees associated with a lender-requested pair-off.

After Fannie Mae verifies the information required for calculating a pair-off fee, it will provide the lender with a fee quotation either through eCommitting or through the Capital Markets Sales Desk. The lender must accept the quotation within a short interval (currently 60 seconds for eCommitting) if it wants to exercise the pair-off. Confirmation of the pair-off can be obtained in the "View Commitment Fees" section of eCommitting.

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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. See C2-1.1-02, Pricing, Fees, and Pricing Adjustments, for information on the fees associated with an automatic pair-off.

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## **C2-1.1-05, Servicing Fees (06/28/2011)**

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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
- 

### **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 P&I 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.

<b>Announcements</b>	<b>Issue Date</b>
<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
- 

### **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.)

---

### **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 (04/01/2009)

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### 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 (6-month to 10-year), indices (LIBOR, COFI, for example) and conversion options.

See [ARM Index Values](#) 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") 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 [Whole Loan Sales Q&A](#). 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.

---

### 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

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
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 obtained its MBS pool purchase contract
3.	Continue any recourse or credit enhancement that initially applied to the mortgage unless the lender and Fannie Mae agree otherwise, and
4.	Obtain a Converted ARM Resale commitment number from Fannie Mae  <b>Note:</b> Only mortgages originally delivered under an MBS pool purchase contract that had a 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.

<b>Date Of Commitment Request</b>	<b>Price</b>
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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## Section C2-1.2, Best Efforts Commitments to Sell Whole Loans



### C2-1.2-01, Best Efforts Commitment Process (10/30/2009)

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#### Introduction

This topic describes the process for obtaining a best efforts commitment.

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#### Best Efforts Commitment Process

To obtain a best efforts commitment, lenders may use eCommitONE, a free Web-based application available to subscribers, or may contact the Capital Markets Sales Desk. Lenders can obtain information on subscribing to eCommitONE 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 [eCommitting & eCommitONE Training](#).

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 ASF. 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.

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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

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## **C2-1.2-02, Best Efforts Commitment Pricing, Fees, and Pricing Adjustments (04/01/2009)**

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### **Introduction**

This topic provides information on best efforts commitment pricing, fees, and pricing adjustments, including:

- Best Efforts Commitment Pricing
  - Best Efforts Commitment Pair-off and Extension Fees
- 

### **Best Efforts Commitment Pricing**

As is the case with mandatory whole loan commitments, Fannie Mae offers lenders a “live” price via eCommitONE as its purchase price for loans delivered via best efforts commitment. Live prices move throughout the day, generally in tandem with the MBS markets. Fannie Mae may charge fees or make pricing adjustments in conjunction with a best efforts commitment. See also C1-1-01, Execution Options.

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### **Best Efforts Commitment Pair-off and Extension Fees**

Under the best efforts commitment option, generally a pair-off fee will not be assessed for commitments that are cancelled. Fannie Mae will charge a pair-off fee if the loan committed for sale to Fannie Mae closes and is not subsequently delivered to it via a best efforts commitment.

Lenders may extend commitments on or before the original commitment expiration date for up to a maximum of 30 days. Lenders may request multiple extensions as long as the total extension period is not longer than 30 days. Each request must be made before the contract expiration date in effect following the previous extension. As is the case with mandatory commitments, Fannie Mae may charge lenders a fee for extending the end date of their commitment.

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## **C2-1.2-03, Best Efforts Commitment Terms, Amounts, Periods, and Other Requirements (05/24/2011)**

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### **Introduction**

This topic provides information on terms and other requirements associated with best efforts commitments, including:

- Best Efforts Commitment Terms, Amounts, Periods, and Other Requirements
  - DU Recommendations on Loans Delivered via Best Efforts Commitments
- 

### **Best Efforts Commitment Terms, Amounts, Periods, and Other Requirements**

The legally binding terms of a best efforts commitment are reflected in a Schedule to the Fannie Mae Software Subscription Agreement. Loan substitution is not allowed.

Best efforts commitments are for a specific borrower, address, product type, time frame, and loan amount.

Lenders may change the loan amount of the original best efforts commitment without restriction except that the loans committed for delivery cannot exceed Fannie Mae's loan limits. Lenders may also change the note rate of the loans to be delivered without restriction.

As is the case with mandatory commitments, best efforts commitment periods may be as short as 1 day and as long as 90 days. Multiple extensions are allowed up to 30 days from the date the initial commitment was executed, for a fee.

Lenders may retain, release, or sell the servicing rights associated with the loans they deliver in fulfillment of a best efforts commitment. 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.

Lenders may also execute a concurrent transfer of servicing via eCommitONE.

Fannie Mae's 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 refer to [Early Funding Options](#), or contact their lead Fannie Mae regional office or the Capital Markets Sales Desk.

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### **DU Recommendations on Loans Delivered via Best Efforts Commitments**

Lenders may fulfill best efforts commitments with a valid DU loan casefile ID, in which case they must have received a DU recommendation of Approve/Eligible, EA-I/Eligible, EA-II/Eligible, or EA-III/Eligible no earlier than 60 days prior to commitment. Or they may use Fannie Mae's Alternative Underwriting Flexibility (AUF) option, in which case a DU recommendation is not required.

**Note:** EA-II/ and EA-III/Eligible are only acceptable for DU Refi Plus. See B5-5.1-05, DU Refi Plus and Refi Plus 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-2011-04</a>	May 24, 2011
<a href="#">Announcement 09-29</a>	September 22, 2009
<a href="#">Announcement 08-32</a>	December 10, 2008

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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 (03/31/2011) . . . . .	981
C2-2-02, Documentation Requirements for Whole Loan Deliveries (06/28/2011) . . . . .	984
C2-2-03, General Information on Whole Loan Purchasing Policies (06/28/2011) . . . . .	986
C2-2-04, Timing of Distribution of Whole Loan Purchase Proceeds (06/28/2011) . . . . .	988
C2-2-05, Whole Loan Purchasing Process (06/28/2011) . . . . .	990
C2-2-06, Authorization to Transfer Funds (04/01/2009) . . . . .	992
C2-2-07, Purchase Payee Codes (04/01/2009) . . . . .	994
C2-2-08, Triparty Wiring Instructions (04/01/2009) . . . . .	996

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## **C2-2-01, General Requirements for Good Delivery of Whole Loans (03/31/2011)**

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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 data elements specified in the *eCommitOne User's Guide*. (Note that for best efforts commitments, the loan amount for a committed loan can be changed any time prior to delivery.)

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## Limitations on High-Balance Whole Loan Deliveries

The following outlines key whole loan requirements:

- In eCommitting, high-balance 10-, 15-, 20-, and 30-year fully amortizing fixed-rate mortgage loans are eligible for delivery under standard whole loan 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 eCommitting 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 eCommitting to high-balance mortgage loans originated with non-TBA-eligible products (for example, ARMs, interest-only, and 40-year terms) which may be delivered against standard conforming whole loan commitments, with no restriction on concentration.
- In eCommitONE, 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, interest-only, and 40-year terms) are not accommodated in eCommitONE.

See B5-1.1-01, High-Balance Mortgage Loan Eligibility and Underwriting and B5-1.1-02, 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 eCommitting 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 \$187,500 (\$150,000 + \$37,500).

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 and that are related to this topic.

Announcements	Issue Date
<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 (06/28/2011)

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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
- Portfolio Mortgage Deliveries to Fannie Mae's DDC

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### Required Documents for Whole Loan Mortgages

See E-2-02, Document Submission Packages for All Mortgages, for a list of the mortgage documents that should be included in the document submission package for all mortgage loans.

After transmitting the loan data for construction-to-permanent mortgages, lenders must send overnight a hard copy of the custody documents (for example, original note, construction loan addendum amending note, original unrecorded assignment of mortgage) to Fannie Mae's DDC, Attention: Fannie Mae New Loan Submissions. See E-1-03, List of Contacts.

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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 (FRM/GEM Loan Schedule, [Form 1068](#); ARM/GPARM Loan Schedule, [Form 1069](#); or Schedule of Mortgages, [Form 2005](#)).

The DDC will certify the loans in accordance with the Designated Custodian Master Custodial Agreement, [Form 2010](#), the Guides, and the *RDC Guide*. There may be delays in funding if document submission packages are not delivered to the appropriate address.

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### **Portfolio Mortgage Deliveries to Fannie Mae's DDC**

Lenders are required to deliver data for portfolio mortgages to Fannie Mae via Loan Delivery for regularly amortizing loans. The seller must use a "Purchase Document" code of 4. The Purchase Document code field is located in the [2000-Character Loan Delivery File Format](#) in position 361. 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 portfolio mortgage.

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-2011-05</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 (06/28/2011)

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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 loans 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 C1-2-03, Third-Party Security Interests Overview.

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-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®, and the application lenders use to submit requests for early funding, see [Early Funding Options](#) 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 (06/28/2011)**

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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
- 

### **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 immediately preceding the date 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 for [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 identification number;
- the ten-digit Fannie Mae loan number;
- copies of
  - the Purchase Advice;
  - the Loan Schedule ([Form 1068](#) or [Form 1069](#));
  - 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 9500809994 on the 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-2011-05</a>	June 28, 2011
<a href="#">Announcement SEL-2011-03</a>	March 31, 2011



## C2-2-06, Authorization to Transfer Funds (04/01/2009)

### 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

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### 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 Authority, Incumbency, and Specimen Signatures ([Form 360](#)) that designates the person or persons authorized to establish, change, or delete transfer instructions on the lender's behalf.

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### **Lender's Agreement Related to the Execution of the Authorization to Transfer Funds**

When the (Form 360) is executed by the lender's Chairman of the Board, Chief Executive Officer, or President and the lender is unable to provide the required corporate resolution at the time it submits the form, Fannie Mae may agree to transfer the purchase proceeds to the lender's designated payee if the lender agrees to provide the resolution within 90 days. When this is done as an accommodation to the lender, Fannie Mae will not be responsible for any erroneous, misdirected, fraudulent, or otherwise unauthorized transfers.

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 penalties, losses, liabilities, damages, expenses, actions, and claims 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 Lender's Designation/Deletion of Payee Information (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 Lender's Designation/Deletion of Payee Information ([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 Certificate of Authority, Incumbency, and Specimen Signatures ([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 eight months of inactivity.



## **C2-2-07, Purchase Payee Codes (04/01/2009)**

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### **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

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### 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 submits a Lender's Designation/Deletion of Payee Information ( <a href="#">Form 482</a> ).
2.	Fannie Mae contacts the lender's authorized representative if the payee code the lender provides is not on file.
3.	The payee code is added to Fannie Mae's records. Fannie Mae calls the lender's authorized representative to acknowledge the addition, and mails the lender a notice of its outstanding payee arrangements.

The lender's authorized representative(s) should:

	Requirement
	Review Fannie Mae's notice of the lender's payee arrangements to verify the information.
	Immediately notify Fannie Mae if any of the information in the notice is incorrect by calling Asset Acquisitions (see E-1-03, List of Contacts) and, if necessary, submit a new <a href="#">Form 482</a> , or a revised Triparty Wiring Instruction Agreement that is executed by the lender and the warehouse lender, to correct the erroneous information.
	Inform the appropriate lender employees who prepare the Loan Schedules ( <a href="#">Form 1068</a> and <a href="#">Form 1069</a> ) for mortgage deliveries about the correct payee codes to use for each payee arrangement.

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### Changing or Deleting Purchase Payee Codes From Fannie Mae's Records

After lenders request Fannie Mae to enter a specific payee code into its records by submitting a Lender's Designation/Deletion of Payee Information ([Form 482](#)), to change a 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.

- For a lender to change or delete the instructions relating to payee codes, the lender's authorized representative must submit a new [Form 482](#).

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.

- Fannie Mae will make the requested change within two business days after receiving the [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.
- In emergency situations, Fannie Mae will delete a payee code based on the lender's authorized representative's requesting the deletion in a telephone call and a fax transmission; 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.
- After the change or deletion of the payee code has been made, Fannie Mae mails the lender a list of its outstanding payee arrangements.



## **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

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### **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 the pool purchase contract, 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 .....	1000
C3-2, Entering Into an MBS Pool Purchase Contract .....	1007
C3-3, MBS Guaranty Fees and Guaranty Fee Buyups and Buydowns .....	1018
C3-4, Pooling Loans into Fixed-Rate MBS .....	1025
C3-5, Pooling Loans into ARM MBS .....	1030
C3-6, Pooling Loans into Fannie Majors .....	1050
C3-7, Delivering and Trading MBS .....	1054

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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:

C3-1-01, General Information About Fannie Mae's MBS Program (10/30/2009) . . . . .	1001
C3-1-02, Preparing to Pool Loans into MBS (10/30/2009) . . . . .	1005

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## **C3-1-01, General Information About Fannie Mae's MBS Program (10/30/2009)**

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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,” 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 pool purchase 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, loan type, or ARM plan number; or
- a multiple-lender pool, known as a Fannie Majors, that consists of pools of whole mortgages delivered by more than one lender.

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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 2009 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 January 1, 2009.

The June 1, 2007 Single-Family Master Trust Agreement as amended and restated was effective for fixed-rate and adjustable-rate mortgage loans in pools for MBS with issue dates from June 1, 2007 through December 1, 2008.

Prior to June 1, 2007, MBS were issued pursuant to one or more Trust Indentures. The terms of the MBS backed by fixed-rate loans prior to June 1, 2007 are documented by a Trust Indenture dated 11/01/81 as it was amended by nine Supplemental Indentures dated 02/15/82, 10/01/82, 08/01/83, 05/01/84, 07/01/84, 05/01/85, 08/01/86, 01/01/87 and 05/01/02, respectively.

The terms of MBS backed by adjustable-rate loans prior to June 1, 2007 are documented by a Trust Indenture dated 07/01/84 as it was amended by three Supplemental Indentures dated 05/01/85, 01/01/87 and 05/01/02, respectively.

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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 C3-2-04, 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 percent 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 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 (i.e., accounted for using the scheduled/scheduled remittance type). Unless otherwise directed by, or agreed upon with, Fannie Mae, lenders may choose the date by which the monthly remittances are due to Fannie Mae by selecting one of three remittance cycles: standard, Rapid Payment Method (RPM®), and MBS Express®. All mortgages in an MBS pool must have the same remittance cycle.

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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 Sales Desk, 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.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement 08-31</a>	December 8, 2008



### **C3-1-02, Preparing to Pool Loans into MBS (10/30/2009)**

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#### **Introduction**

This topic provides information on the steps lenders need to take before they can obtain a pool purchase contract and pool loans into MBS, including:

- Obtaining a Master Agreement
- Selecting a Document Custodian

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## Obtaining a Master Agreement

A Master Agreement must be in place before a lender can obtain a pool purchase contract. This is an “umbrella” document that sets out any specific terms and conditions associated with the lender’s deliveries.

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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 a pool purchase contract. The document custodian certifies and 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 A3-3.1-02, Document Custodian Arrangement/Relationship, 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.

Announcements	Issue Date
<a href="#">Announcement 08-37</a>	December 19, 2008

# Chapter C3-2, Entering Into an MBS Pool Purchase Contract



## Entering Into an MBS Pool Purchase Contract

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### Introduction

This chapter provides information on the 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 (07/26/2011) . . . . .	1007
C3-2-02, Establishing the Contract Amount (12/30/2009) . . . . .	1011
C3-2-03, Selecting a Servicing Option (04/01/2009) . . . . .	1012
C3-2-04, MBS Remittance Type and Selecting a Remittance Cycle (04/01/2009) . . . . .	1013
C3-2-05, Obtaining a Pool Purchase Contract (12/30/2009) . . . . .	1015

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## C3-2-01, Determining Eligibility for Loans Pooled into MBS (07/26/2011)

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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
- 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 pool purchase contract 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, (1) 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 (2) 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.

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. Lenders must warrant that no more than 10% of the issue date UPB of a TBA MBS pool is comprised of the following nonstandard loans or loans with nonstandard characteristics:

- co-op share loans,
- restricted relocation loans,
- loans with significant interest rate buydowns, and
- high-balance loans.

Nonstandard loans or loans with nonstandard characteristics 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 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.

## Example

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.

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 contracts 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.

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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 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.

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.

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.

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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. When most fixed-rate mortgages are pooled, Fannie Mae allows the annual interest (note) rates on the underlying mortgages to fall within a 2% (200 basis points) range. For any MBS pool of fixed-rate growing equity mortgages that provide for annual payment increases, there cannot be more than a 1% (100 basis points) range between the highest and lowest interest rate of the mortgages in the pool.

Fannie Mae specifies the minimum and maximum spread between a pooled MBS loan's interest rate and pass-through rate of the MBS pool (or, if the mortgage is an ARM, the pool accrual rate or weighted-average accrual rate). The minimum allowable spread for any pooled MBS loan is the sum of the 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 spread is 2% (200 basis points) or 1% (100 basis points) over the minimum allowable spread depending on mortgage type as described in the paragraph above.

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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.

Announcements	Issue Date
<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, Establishing the Contract Amount (12/30/2009)

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### Introduction

This topic provides information lenders need in order to establish the contract amount in the MBS pool purchase contract.

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### MBS Pool Size Requirements

The contract amount represents the maximum aggregate issue date principal balance of the loans to be delivered under the contract. (Note that lenders may deliver more than one MBS pool under the same pool purchase contract provided that all the pools meet the terms of the contract).

The minimum pool size (aggregate UPB) for a fixed rate, single-lender pool is \$1 million. For ARMs or balloon mortgages, the minimum pool size is \$500,000.

For Fannie Mae to open a Fannie Majors pool, the pool's aggregate UPB must meet the minimum amounts noted above. Once opened, however, a lender may deliver loans with unpaid principal balances as low as \$1,000.

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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 09-29</a>	September 22, 2009



## C3-2-03, 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.



## **C3-2-04, MBS Remittance Type and Selecting a Remittance Cycle (04/01/2009)**

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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
- Remittance Cycles
- Standard Remittance Cycle
- Rapid Payment Method
- MBS Express

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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.

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### **Remittance Cycles**

Unless otherwise required by their related servicing contract, when pooling loans into MBS, a lender may choose to remit monthly principal and interest in one of three remittance cycles: standard, RPM or MBS Express. The choice of remittance cycle determines when the funds related to the securitized mortgages must be available for automatic drafting by Fannie Mae.

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### **Standard Remittance Cycle**

Unless the lender designates RPM or MBS Express as the remittance cycle for the pooled loans, its guaranty fee is based on the standard remittance cycle. Under this 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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### **Rapid Payment Method**

Lenders who select RPM must remit P&I payments on any and all loans delivered in fulfillment of an MBS pool purchase contract on a designated remittance date, usually the 10th calendar day of the month, although other dates can be negotiated. Scheduled P&I payments are due to Fannie Mae on the designated date of the month they are due from the borrower; unscheduled principal is due on the designated date of the month following collection. If the designated remittance date is not a business day, funds are due on the preceding day. Designating an RPM remittance date prior to the 18th of the month may result in a lower guaranty fee than the lender would receive if it selected the standard cycle. Designating an RPM remittance date after the 18th may result in a higher guaranty fee than the lender would receive if it selected the standard cycle.

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### **MBS Express**

Under the MBS Express remittance cycle, scheduled P&I payments on all loans delivered in fulfillment of an MBS pool purchase contract must be remitted on the 18th of the month in which they are due from borrowers, the same as with the standard remittance cycle. However, unscheduled principal payments (payoffs, curtailments, etc.) are due on the 4th business day of the month following collection, rather than the 18th. Typically, use of MBS Express results in a lower guaranty fee than would be charged under the standard remittance cycle.

Once a lender selects the MBS Express remittance cycle under a specific MBS pool purchase contract, the MBS Express remittance cycle is mandatory for all deliveries made under that pool purchase contract. If after a lender initially delivers mortgages under a pool purchase contract with an MBS Express remittance cycle later decides that it wants to use the standard remittance cycle for its entire monthly remittance for future deliveries, it may request both an amendment to its contract and an adjustment to the guaranty fee remittance for future deliveries under that contract. This amendment does not affect the remittance cycle for MBS pools already issued under that contract.

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## **C3-2-05, Obtaining a Pool Purchase Contract (12/30/2009)**

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### **Introduction**

This topic contains general information on pool purchase contracts and requirements for obtaining them, including

- MBS Pool Purchase Contracts Overview
  - Information Required When Obtaining a Pool Purchase Contract
  - Loans Requiring Separate Pool Purchase Contracts
  - Terms Established in Pool Purchase Contracts
  - MBS Pool Purchase Contract Extensions
- 

### **MBS Pool Purchase Contracts Overview**

A lender must obtain a pool purchase contract before it can deliver mortgages into a single-lender MBS pool or a Fannie Majors. A lender must have a Master Agreement with Fannie Mae in order to obtain a pool purchase contract.

The pool purchase contract 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. Fannie Mae does not accept requests for MBS pool purchase contracts from lenders whose selling or servicing privileges have been suspended or who have not performed satisfactorily under other pool purchase contracts.

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### **Information Required When Obtaining a Pool Purchase Contract**

Lenders may request MBS pool purchase contracts by contacting their lead Fannie Mae regional office on any business day during regular business hours.

For standard contracts, the lender will be asked to provide the following information:

- the types of mortgages (by amortization type and mortgage term) to be delivered.
- the servicing option (regular or special),

- the remittance cycle (standard, RPM, or MBS Express), and
- the contract amount (approximate total aggregate issue date principal balance of the loans to be delivered).

In addition, for contracts to pool ARMs, the lender will be asked to identify:

- the pooling structure (stated or weighted-average), and
- any applicable plan number and, if the plan has a conversion to fixed-rate option, the selected post-conversion disposition option.

Different ARM plans that have the same post-conversion option can be covered by the same contract—although each different ARM plan must be delivered as a separate MBS pool.

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### **Loans Requiring Separate Pool Purchase Contracts**

Unless the pool purchase contract states otherwise, mortgages with original terms of 10, 15, 20, 25, 30, or 40 years may be delivered under the same contract—subject to the limitation on commingling mortgages that have intermediate terms (15 years or less) with longer-term mortgages (greater than 15 years). However, the following types of loans must be delivered under separate pool purchase contracts:

- fixed-rate mortgages with monthly payments,
- adjustable-rate mortgages, and
- Interest-only mortgages.

Mortgages delivered under different pool purchase contracts may be included in the same MBS pool, even if they have different servicing options and guaranty fees, as long as all of the mortgages in the pool meet all applicable pooling requirements and will have the same remittance cycle.

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### **Terms Established in Pool Purchase Contracts**

Each pool purchase contract is assigned a unique contract number on its face. The number will be needed to request MBS pool numbers and CUSIP® numbers, via Loan Delivery, Fannie Mae's web application, used to deliver whole and MBS pool loans to Fannie Mae.

The contract specifies the following terms:

- types of mortgages to be delivered,
- the contract amount (approximate aggregate issue date principal balance of the loans to be delivered),
- the latest issue date for mortgages delivered under the contract,
- the applicable servicing option,
- the applicable remittance cycle,
- the applicable guaranty fee,
- the applicable buyup and buydown “grid” selected by lenders (“early” or “late”),
- for ARMs, the selected pooling structure, and
- any additional conditions that may apply to the loans delivered under the contract.

The contract will also specify which guaranty fee buyup or buydown grid that must be used to determine the parameters for the weighted-average coupon and maturities that are used in calculating the buyup or buydown amount. See Chapter C3-3, MBS Guaranty Fees and Guaranty Fee Buyups and Buydowns, for more information.

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### **MBS Pool Purchase Contract Extensions**

Lenders may request an extension of a pool purchase contract provided that it cannot be extended beyond the expiration of the related 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.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement 09-29</a>	September 22, 2009

# 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 (04/01/2009) .....	1019
C3-3-02, Accessing Buyup and Buydown Ratios and Calculating Payments or Charges (04/01/2009) .....	1021
C3-3-03, Buying Up or Buying Down the Guaranty Fee for Fixed-Rate Mortgage MBS (04/01/2009) .....	1023
C3-3-04, Buying Up or Buying Down the Guaranty Fee for ARM MBS (04/01/2009) . . . .	1023

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## **C3-3-01, Determining and Remitting Guaranty Fees (04/01/2009)**

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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
- 

### **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.

Using the RPM remittance cycle can increase or decrease the guaranty fee charged under the standard remittance cycle, depending on the date chosen for the RPM remittance. The guaranty fee stated in the pool purchase contract will be the fee in effect before the reduction for having funds available to Fannie Mae earlier in the month is applied.

Using the MBS Express remittance cycle typically lowers the guaranty fee. The guaranty fee stated in the pool purchase contract will be the fee in effect after the reduction for having some of the funds available to Fannie Mae earlier in the month.

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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.

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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## **C3-3-02, Accessing Buyup and Buydown Ratios and Calculating Payments or Charges (04/01/2009)**

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### **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
- 

### **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,

- subscribers to Loan Delivery or Message Manager can obtain them on the day 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).

Two buyup/buydown ratio grids are posted each month for MBS pools that will be issued in the following month.

- The first (or "early") grid will be posted on the 6th business day of the month.
- The second (or "late") grid will be posted on the 6th business day preceding the last business day of the month. (The last business day of the month should be counted as one of the six business days when determining the exact date of the late grid posting.)

**Note:** The lender's grid selection will apply to all MBS pools that it delivers under the same pool purchase contract.

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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.



### **C3-3-03, Buying Up or Buying Down the Guaranty Fee for Fixed-Rate Mortgage MBS (04/01/2009)**

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#### **Introduction**

This topic contains information on buying up and buying down guaranty fees on fixed-rate mortgage MBS.

#### **Guaranty Fee Buyup Maximums and Buydown Minimums for Fixed-Rate Mortgages**

The weighted-average coupon of the mortgages in the pool may not be more than 0.875% (87-1/2 basis points) higher than the pass-through rate for the pool as of the issue date. The guaranty fee cannot be bought up more than 20 basis points nor bought down to a number less than zero.



### **C3-3-04, Buying Up or Buying Down the Guaranty Fee for ARM MBS (04/01/2009)**

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#### **Introduction**

This topic contains information on buying up and buying down guaranty fees on ARM MBS, including:

- Eligibility Requirements for ARM Guaranty Fee Buyups and Buydowns
- Guaranty Fee Buyup Maximums and Buydown Minimums for ARMs

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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 that have the RPM remittance cycle must be calculated on the reduced guaranty fee remittance rate that applies to this type of remittance cycle.

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### **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% (87-1/2 basis points for mortgages originated under ARM plans that have initial fixed-rate periods of 3, 5, 7, or 10 years.

Additionally, for ARM plans that have extended initial fixed-rate periods, the guaranty fee buyup is limited to 0.20% (20 basis points). For all other ARM plans, the buyup maximum is 0.165% (16-1/2 basis points). The guaranty fee rate buydown cannot be less than zero.

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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 three types of MBS: Fixed-rate MBS, ARM MBS, and Fannie Majors. This chapter provides information on pooling loans into fixed-rate MBS.

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### In This Chapter

This chapter contains the following topics:

C3-4-01, Term-Related Fixed-Rate Mortgage Pooling Parameters (12/30/2009) . . . . .	1025
C3-4-02, Commingling Fixed-Rate Mortgages in MBS (03/02/2010) . . . . .	1027

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## C3-4-01, Term-Related Fixed-Rate Mortgage Pooling Parameters (12/30/2009)

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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:

- 40-year (Extra Long-Term) FRM MBS
- 30-year (Long-Term) FRM MBS
- 15-year (Intermediate-Term) FRM MBS

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### **40-year (Extra Long-Term) FRM MBS**

These pools must have a specified maturity date no greater than 40 years from their issue date, which represents the date by which all loans in the pool are liquidated and the securities are retired.

The loans must have original terms of no less than 361 months and no more than 480 months.

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### **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 single-issuer pools, and
- have original terms of no less than 300 months and no more than 360 months for Majors.

Loans that provide for interest to be paid in advance may be included in a pool purchase transaction without converting the interest payment to interest in arrears on a loan-by-loan basis.

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### **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 8 years and no more than 15 years, 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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## 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 09-29</a>	September 22, 2009



## **C3-4-02, Commingling Fixed-Rate Mortgages in MBS (03/02/2010)**

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### 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
- Special Considerations for Fixed-Rate Prepayment Premium and Interest-Only Mortgages

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### Fixed-Rate Loan Types that May Be Commingled in the Same Pool

Fixed interest rate co-op share loans, certain types of relocation mortgages, 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.

Loans that provide for annual payment increases (growing-equity mortgages) may be commingled in the same pool as long as each loan in the pool has the same percentage payment increase and the increases occur within four months of each other.

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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 with each other in the same pool:

- Loans with constant monthly payments and increasing loan payments may not be commingled with each other (except as noted above).
- Government-guaranteed and government-insured loans may not be commingled with conventional loans.

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### **Special Considerations for Fixed-Rate Prepayment Premium and Interest-Only Mortgages**

Lenders approved to deliver fixed rate prepayment premium mortgages must pool these loans separately. These loans may not be commingled with non-prepayment mortgages. In addition, the pools must be comprised entirely of:

- mortgages with one year prepayment premium provisions (SFC 723),
- mortgages with three year prepayment premium provisions (SFC 300), or
- a mixture of loans with different prepayment provisions (SFC 197).

Fixed-rate interest-only mortgages must be pooled separately. Pools must be comprised entirely of loans with interest-only periods in the following ranges:

- greater than or equal to 3 and less than or equal to 5 years,
- greater than or equal to 7 and less than or equal to 10 years,
- greater than 10 and less than or equal to 15 years,
- greater than 15 years and less than or equal to 20 years.

See C3-7-04, Delivering Data and Documents, for future feature codes required at delivery.

Fixed-rate interest-only mortgages may not be commingled in the same pool with non-interest-only loans. The interest-only MBS prefixes can be located in the [Pool Prefix Glossary](#) on FannieMae.com. (There are no special prefixes for interest-only ARMs.)



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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-2010-02</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

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# 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 (08/30/2011) . . . . .	1031
C3-5-02, Stated-Structure ARM MBS Pooling Process (04/01/2009) . . . . .	1033
C3-5-03, Creating Weighted-Average ARM MBS (04/01/2009) . . . . .	1038
C3-5-04, Calculating the Weighted-Average Pool Accrual Rates for ARM Flex Pools Using a Fixed MBS Margin (04/01/2009) . . . . .	1039
C3-5-05, Calculating the Weighted-Average Pool Accrual Rates for ARM Flex Pools Using a Weighted-Average MBS Margin (04/01/2009) . . . . .	1042
C3-5-06, Pooling ARMs with a Conversion Option (04/01/2009) . . . . .	1045
C3-5-07, Uniform Hybrid ARM MBS (04/01/2009) . . . . .	1047
C3-5-08, Commingling ARMs in MBS (04/01/2009) . . . . .	1049

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## C3-5-01, Creating Stated-Structure ARM MBS (08/30/2011)

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### 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
- 

### 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 40 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.

<b>If ...</b>	<b>Then ...</b>
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/When ...	Then ...
The borrower elects to exercise his or her conversion option under an ARM plan that allows for conversion to a fixed-rate loan,	Lenders must repurchase the loan from the ARM MBS pool.
Lenders request an MBS pool purchase contract to deliver convertible ARMs,	<p>Lenders must select one of the following post-conversion disposition options:</p> <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-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.

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## 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).

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### 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 1/8%. (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 1/8% 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.

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 1/8%. (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 1/8%. (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%.

---

**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 1/8%—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 1-3/8%.

---

**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—0.25% ( $0.525\% - 0.275\% = 0.25\%$ )—is developed as follows:

Category	Interest Rate	Margin	Ceiling
Mortgage	7.95	2.75	13.75
– Pool	7.125	2.125	12.875
– Guaranty Fee	0.35	0.35	0.35
Servicing Fee	0.475	0.275	0.525

- For **Loan B**, the variance between the highest and lowest servicing fees—0.15% ( $0.425\% - 0.275\% = 0.150\%$ )—is developed as follows:

Category	Interest Rate	Margin	Ceiling
Mortgage	7.75	2.85	13.65
– Pool	7.125	2.125	12.875
– Guaranty Fee	0.35	0.35	0.35
Servicing Fee	0.275	0.375	0.425

- For Loan C, the variance between the highest and lowest servicing fees—0.25% (0.525% – 0.275% = 0.25%)—is developed as follows:

Category	Interest Rate	Margin	Ceiling
Mortgage	7.875	3.00	13.50
– 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 (04/01/2009)**

#### **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

#### **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 40 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.

Printed copies may not be the most current version. For the most current version, go to the online version at <http://www.efanniemae.com/sf/guides/ssg/>.

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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 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.



## **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) (06/30/02)**

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%	2.75%
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%

Category	Loan A	Loan B	Loan C
Servicing Fee	0.40%	0.65%	0.90%

**Step Two:**

Determine the net mortgage interest rate.

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%

**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.

**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.

<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.

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 **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) (06/30/02)**

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%	2.75%
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.

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**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%

Category	Loan A	Loan B	Loan C
–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%



Category	Loan A	Loan B	Loan C
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
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.

**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  
 (04/01/2009)**

**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

If the take-out post-conversion option was specified in the original pool purchase contract, 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.

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 mortgage commitment or pool purchase contract 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
- an MBS pool purchase contract.



## **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:

<b>Parameter</b>	<b>Description</b>
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.
Transaction Type	The pools may be delivered as a single-lender or multiple-lender transaction

Parameter	Description
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 one quarter of one percent (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 one eighth of one percent (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 one eighth of one percent (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>

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>



## **C3-5-08, Commingling ARMs in MBS (04/01/2009)**

### **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 with 15- and 30-year terms originated under the same ARM plan may be commingled in the same pool. Co-op share loans with adjustable rates may be commingled with other similar loans on a “spot” loan basis only—and they must not represent more than 10% of the aggregate principal balance of the pool as of the issue date.

### **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.

# 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 (03/31/2011) . . . . . 1050

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## C3-6-01, Parameters for Pooling Loans Into Fannie Majors (03/31/2011)

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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

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## Fannie Majors Overview

Fannie Majors are pools of loans that are contributed by more than one lender. Lenders participating in a 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 eFannieMae.com 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.

There are some limitations on the terms of loans to be included in pools delivered as part of a multiple pool transaction. Generally:

- Fannie Majors backed by 20-year fixed-rate loans must consist of loans that have original terms greater than 15 years but not more than 20 years.
- Fannie Majors backed by 30-year fixed-rate loans must consist of loans that have original terms of not less than 25 years.

Lender should refer to [Fannie Majors](#) for specific mortgage term pooling parameters.

As with single-lender, fixed-rate MBS pools, the allowable range of note rates within a Fannie Majors pool is 200 basis points (2%) above the minimum allowable note rate (equal to the pass-

through rate plus the servicing fee plus the guaranty fee). 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 use Fannie Mae's Loan Delivery Web application to submit the loan. The minimum submission requirement for loans delivered by tape or hard copy is \$1,000,000.

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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 Majors pool, it may select different settlement dates for each.

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 and loans with nonstandard characteristics 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 restricted relocation mortgages may not exceed 10% individually.
- The delivered UPB of two or more of these nonstandard characteristics — co-op share loans, loans with significant interest rate buydowns, and restricted relocation mortgages — 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 characteristics. 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-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

# 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 from capital markets dealers. 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 (10/30/2009) .....	1055
C3-7-02, Initiating an MBS Sale (10/30/2009) .....	1061
C3-7-03, Making Good Delivery (10/30/2009) .....	1064
C3-7-04, Delivering Data and Documents (10/30/2009) .....	1067
C3-7-05, Confirming Presettlement Information (04/01/2009) .....	1073
C3-7-06, Settling the Trade (03/31/2011) .....	1075
C3-7-07, Sale of Fannie Mae Securities to Third Parties (04/01/2009) .....	1079

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## **C3-7-01, Establishing an MBS Trading Account (10/30/2009)**

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### **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
  - 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 E-1-03, List of Contacts.
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>

Stage	Description
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 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 the ASF 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 ASF 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 and margin requirements specific to a lender,
- amend or cancel any trading limits or margin requirements 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**

A price differential exists if, at any time:

- the market value of any securities the lender is committed to purchase from the Desk is less than the purchase price for the securities, or
- if the purchase price of any securities the lender is committed to sell to the Desk is less than the market value of the securities.

If a price differential exists, at Fannie Mae's request, the lender must deposit with Fannie Mae cash or U.S. Treasury securities with a market value equal to the existing price differential.

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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.

Lender’s payments, deliveries, and transfers for one transaction may be applied (“netted”) against 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 Fannie Mae incurs 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.

If ...	Then ...
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 loss that occurs 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 loss that occurs 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 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 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 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 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**

Lender acknowledges, at all times, that Fannie Mae is not acting as a fiduciary or an advisor with respect to any transaction with the Desk.

Lender and Fannie Mae also agree that transactions between the Lender and the Desk are intended to be:

- “securities contracts” as the term is defined in Section 741 of Title 11 of the United States Code, 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.



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 of Title 11 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.

Announcements	Issue Date
<a href="#">Announcement 09-32</a>	October 30, 2009

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## C3-7-02, Initiating an MBS Sale (10/30/2009)

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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 selling MBS, a lender's trade may be TBA or specified. With a TBA trade, any MBS meeting the agreed-upon terms of the trade may be delivered. 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 ASF 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 the ASF, 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 ASF’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 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 ASF 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 ASF 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)

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### 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

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## 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.

Announcements	Issue Date
<a href="#">Announcement 09-32</a>	October 30, 2009



## C3-7-04, Delivering Data and Documents (10/30/2009)

### 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
- Delivering Interest-Only Fixed-Rate Mortgages
- Future Feature Codes for Interest-Only Loans

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## Required Documents for MBS Pool Loans

See E-2-02, Document Submission Packages for All Mortgages 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

In most cases, loan delivery data for MBS pools must be transmitted to Fannie Mae via Loan Delivery. Other delivery methods are acceptable or required in some cases.

When a lender transmits its loan delivery data, it must include a Delivery Schedule ([Form 2014](#)) for MBS pools. The Delivery Schedule 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 the Delivery Schedule are necessary for MBS delivered using the early funding option As Soon as Pooled Sale.

The lender enters loan data into the Schedule of Mortgages ([Form 2005](#)) in 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 Me 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 pool purchase contract and Fannie Mae's *Guides*.

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 pool purchase 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 loan delivery data for any specific pool transaction to Fannie Mae, Fannie Mae may terminate the related pool purchase contract 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 purchase 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 for the DDC in the delivery file. The FIN for BNYM is 20000398668. The FIN code field is an 11 digit numeric field located on the [2000-Character Loan Delivery File Format](#) starting in position 472. 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 Redeliverie 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, from that point forward. 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. 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, 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 transmit a certification to Fannie Mae via the Document Certification application. See E-2-02, Document Submission Packages for All Mortgages.

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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. See C1-2-03, Third-Party Security Interests Overview, 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 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 has in its possession the required documents for the mortgages in the pool, and
- acknowledge that the documents appear regular on their faces and relate to the mortgages for which delivery data appears on Form 2005.

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. See E-2-02, Document Submission Packages for All Mortgages.

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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.

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 Purchase Document code of 4 in the [2000-Character Loan Delivery File Format](#) 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 a FIN of 99999398668. 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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### Delivering Interest-Only Fixed-Rate Mortgages

Interest-only fixed-rate MBS are available either through Fannie Majors or single-issuer pools. They will be assigned a special prefix. See [Fannie Majors](#) and the [Pool Prefix Glossary](#) for prefix information. When delivering these mortgages, lenders should continue to use the standard delivery process through Loan Delivery. The Interest-Only flag should be set to “Y.” The interest-only end date, representing the due date of the final interest-only payment, should be entered on each mortgage submitted via Loan Delivery.

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### Future Feature Codes for Interest-Only Loans

The appropriate Future Feature Code/X Code should be entered into Loan Delivery for both fixed-rate mortgages and ARM interest-only MBS mortgages.

Future Feature Code/X Code	Description
222	3-Year Interest-Only Period - IO
223	5-Year Interest-Only Period - IO
224	7-Year Interest-Only Period - IO
225	10-Year Interest-Only Period - IO
226	15-Year Interest-Only Period - IO

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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 08-37</a>	December 19, 2008



## **C3-7-05, Confirming Presettlement Information (04/01/2009)**

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### **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. Fax transmissions are to be sent to (202) 752-3439.

The lender must provide certain basic information for all pools, regardless of the types of mortgages included in them. This information includes:

	<b>Requirement</b>
	the MBS pool number and the related CUSIP number
	the original pool balance (which is the face amount of the security)
	the pass-through rate (which is the “coupon” rate of interest that will be paid to the investor)
	the price (which is the dollar amount paid for the MBS)
	the trade date (which is the date on which the parties agree to the terms of the transaction)

	<b>Requirement</b>
	the 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)
	the 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)

### **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>Requirement</b>
	the weighted-average maturity (which is the weighted-average of the remaining terms of the mortgages underlying the MBS as of the trade date)
	the weighted-average coupon (which is the weighted-average of the note rates of the mortgages underlying the MBS as of the trade date)
	the latest loan maturity (which is the maturity date of the latest maturing mortgage in the MBS)
	the 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>Requirement</b>
	the index on which the periodic interest rate adjustments for the underlying mortgages are based
	the periodic and lifetime interest rate caps for the underlying mortgages

	<b>Requirement</b>
	the periodic payment caps (if any) for the underlying mortgages
	the 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)
	the interest rate change date (which is the date on which the interest rates for the underlying mortgages will be adjusted)
	the frequency of the interest rate adjustments for the underlying mortgages
	the 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.

<b>If processing type is</b>	<b>And lender’s error-free transmission is received by:</b>	<b>And custodian’s certification is received by:</b>	<b>Then, book-entry delivery of securities will be by:</b>
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.

### **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.

### **“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.

<b>Information Type/Report</b>	<b>Location</b>
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 On-Line Report Services at <a href="#">Registration for Servicing &amp; Investor Reporting</a>
Final Schedule of Mortgages showing pool-level and loan-level characteristics, pools closed, and a history of its “closed” pools.	MBS On-Line Report Services at <a href="#">Registration for Servicing &amp; Investor Reporting</a>
Guaranty fee buyup and buydown ratio, pool proceeds and other pool-level and loan-level characteristics. A lender may download this report and use it to verify all of the information for “closed” MBS pools.	Message Manager

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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-2011-03</a>	March 31, 2011
<a href="#">Announcement 08-37</a>	December 19, 2008



## **C3-7-07, Sale of Fannie Mae Securities to Third Parties (04/01/2009)**

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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 Web Site Delivery
  - Indemnification Against Losses
- 

### **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 [Prospectuses & Related Documents](#).

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 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. These documents are also available at [Prospectuses & Related Documents](#).

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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 Web Site 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 Web Site Delivery option.

With respect to both the Standard Delivery and Alternative Web Site 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 (i.e., 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 (i.e., 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 at [Prospectuses & Related Documents](#). 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 e-mail address or by other electronic means.

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### **Alternative Web Site Delivery**

Another option to provide the required disclosure documentation is via Fannie Mae's Web site. Under this option, the lender informs the purchaser or offeree of a security, as applicable, that the required disclosure materials are available on Fannie Mae's Web site. If the lender selects this Alternative Web Site 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 (i.e., 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](#),
- state that the information about Fannie Mae incorporated by reference into the offering documentation is available at [Debt Tools & Resources](#),
- explain how to access the offering documentation and the documents incorporated by reference from the Web site,
- 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 Web Site 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**

A lender is obligated 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, judgments, claims, legal actions, and legal

expenses that are based on, or result from the lender's breach or alleged breach of any securities disclosure and settlement requirements.

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# Part D, Ensuring Quality Control (QC)



## Overview

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### Introduction

This part discusses the QC process for lenders and Fannie Mae. It contains the following subparts:

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### Subpart D1, Lender QC Process

This subpart describes Fannie Mae’s requirements for lender QC 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:

Subpart D1, Lender QC Process .....	1084
Subpart D2, Fannie Mae QC Process .....	1117

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# Subpart D1, Lender QC Process



## Lender QC 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 describes Fannie Mae's policies and procedures for staffing the QC function, selecting and reviewing mortgage loans, reporting results, and retaining records.

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### In This Subpart

This subpart contains the following chapters

D1-1, Lender QC Process .....	1085
D1-2, Lender Prefunding QC Mortgage Review .....	1094
D1-3, Lender Post-Closing QC Mortgage Review .....	1098

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# Chapter D1-1, Lender QC Process



## Lender QC Process

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### Introduction

This chapter provides information on the lender QC process, staff, and mortgage selection.

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### In This Chapter

This chapter contains the following topics:

D1-1-01, General Information on Lender QC Process (03/29/2010) . . . . .	1085
D1-1-02, Lender QC Process (03/29/2010) . . . . .	1087
D1-1-03, Lender QC Staff and Outsourcing of the QC Process (03/29/2010) . . . . .	1092

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## D1-1-01, General Information on Lender QC Process (03/29/2010)

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### Introduction

This topic provides definitions to a number of key terms used in the *Selling Guide* and an overview of the QC measures that relate to a lender's mortgage loan origination activities. QC measures that relate to a lender's servicing activities are described in the *Servicing Guide*.

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### Definitions

The following definitions refer to terms used in the *Selling Guide*:

Term	Definition
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.
Loan Defect	Specific characteristic of a loan that does not meet the credit, documentation, eligibility or pricing requirements of those that purchase or invest in the loan;

Term	Definition
	a loan may contain a defect(s) but still be considered to be of investment quality.
Loan Quality	The “quality” of a mortgage loan is a measurement of its compliance with the credit, documentation, eligibility, and pricing terms required by those that purchase or invest in the loan; loan quality is a measurement of investment quality.
Loan Quality Standard	The target defect rate established by the lender.
Material Defect	Characteristic(s) of a loan indicating error(s) in the origination, documentation, underwriting, closing and/or pricing such that the loan is not considered to be of investment quality; the nature of the error(s) is such that the integrity of the transaction could be adversely affected.
Quality Assurance	Utilization of the results of QC reviews to implement actions, policies, procedures, and other activities to ensure the desired quality of loans originated or acquired by the lender.
Quality Control	The evaluation of a loan’s compliance with its required terms; determination of loan quality.

**Note:** The term “investment quality” as it is used specifically in this Part of the *Selling Guide* denotes a set of standards developed to achieve a desired quality and expected level of performance.

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## Overview

A lender must establish its own set of standards for loan quality. The standards define the credit culture and aid in the development of the appropriate controls necessary to ensure that the mortgage loans originated and closed by the lender are investment quality.

The lender must also develop and maintain a QC program that defines its standards for loan quality and establishes processes designed to achieve those standards throughout its entire origination book of business. The program must include reporting results of the quality reviews to the lender’s senior management, who should prescribe actions addressing and remediating defects discovered in the lender’s review process.

Lenders must have QC systems and processes to:

- maintain compliance with their Contractual Obligations and applicable federal, state, and local laws and regulations;

- ensure that the mortgage loans meet Fannie Mae’s eligibility and underwriting requirements;
- 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; and
- assess compliance with internal policies.

The key components of QC systems and processes appear in D1-1-02, Lender QC Process.

A lender that fails to maintain effective QC systems and processes will be in breach of its Contractual Obligations with Fannie Mae.

Fannie Mae is expanding its monitoring and assessment of the effectiveness of lender QC plans to provide consistent feedback to lenders.

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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-2010-03</a>	March 29, 2010



## D1-1-02, Lender QC Process (03/29/2010)

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### Introduction

This topic contains information on the elements required for a QC process, including:

- QC Process Overview
- QC Plan Contents
- Prefunding QC
- Provisions for a Satisfactory QC Plan
- Appraiser Oversight
- Third-Party Originations
- Transfer of Servicing of Third-Party Originations

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## QC Process Overview

Lenders must have a QC process in place that meets Fannie Mae's requirements as long as the lender does business with Fannie Mae.

The purpose of performing a QC review is to:

- evaluate and monitor the overall quality of mortgage production through prefunding and post-closing review programs;
- improve loan quality and the loan production process; and
- verify the existence and accuracy of credit documentation, legal documents, and property appraisals that the lender uses to reach its underwriting decisions.

The lender's QC process must address its most critical business needs to ensure that mortgage loans:

- conform to the lender's eligibility and credit policies;
- are investment quality - of a quality acceptable to private, institutional, and other secondary market investors;
- comply with insurer or guarantor requirements;
- demonstrate prudent underwriting judgment; and
- are secured by properties that have adequate value to support the loans.

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## QC Plan Contents

The lender must establish standards for quality utilizing its QC plan as a means of achieving those standards. The QC Plan, at a minimum, must contain the following:

	<b>QC Plan Requirements</b>
	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
	Detailed operating and reporting procedures for all employees involved in or affected by the QC process, and QC staff training concerning standard operating procedures
	A process for performing QC during prefunding and post-closing

	<b>QC Plan Requirements</b>
	<p>The process for identifying a representative sample of loans using the random and discretionary selection processes that includes loans:</p> <ul style="list-style-type: none"> <li>• originated through each applicable production channel, e.g., retail, correspondent, third-party originations;</li> <li>• originated under all mortgage products, e.g., fixed-rate mortgage, ARM, special or niche programs;</li> <li>• originated using all underwriting methods, e.g., manual and each automated underwriting system; and</li> <li>• that all employees (e.g., loan originators, processors, underwriters, closers, etc.), vendors, appraisers, and contractors were involved in during the origination process</li> </ul>
	A process for reviewing the QC work performed by the lender’s contractors
	A process to evaluate compliance with Fannie Mae’s requirements, such as closing documentation, underwriting, data integrity, and property valuation
	<p>Written procedures for reporting, including:</p> <ul style="list-style-type: none"> <li>• the method of monthly reporting of review findings;</li> <li>• distributing loan-level findings to the business unit(s), specifically to parties within the business unit(s) responsible for resolution;</li> <li>• identifying all defects, including the defect rate, and providing the results to senior management;</li> <li>• documenting all corrective actions taken; and</li> <li>• maintaining accurate and detailed records of the results of the lender’s QC reviews</li> </ul>
	A process for maintaining records for three years for QC findings and reports, loan files reviewed, and all related documentation
	An audit process for the lender’s QC processes and procedures

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## Prefunding QC

Fannie Mae recommends that the QC Plan for loans selected for prefunding review contains the following information:

- timing of the prefunding QC review,
- a loan selection process,
- verification of data and documents, and
- reporting procedures.

For details, see D1-2-01, General Information on Lender Prefunding QC Review Process.

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## Provisions for a Satisfactory QC Plan

The lender must determine the appropriate balance among prefunding, post-closing, and contractor-performed QC reviews. For example, if a lender identifies a particular source of business as high-risk based on the mortgage loan product or type of origination, it may decide to conduct prefunding reviews for a sample of such mortgage originations.

There is no single, optimal QC plan that satisfies every lender's needs. Therefore, Fannie Mae encourages each lender to use a broad risk-management perspective in developing and changing its QC approach.

**Note:** Lenders that would like to discuss options for customizing an approach to QC should contact their lead Fannie Mae regional office (see E-1-03, List of Contacts).

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## Appraiser Oversight

Lenders are responsible for the qualifications and quality of work provided by the appraisers they select. If lenders enter into a contract with any vendor, contractor, or third-party service provider, they are still responsible for the quality of the work performed. Lenders are expected to have a clear approval, monitoring, and deselection (or watch list maintenance) process for appraiser oversight. The overall QC mortgage loan sampling may also include reviews of each appraiser.

Based on the examination of independent appraisal field review reports, Fannie Mae may refer unacceptable appraisal reports to the state appraiser licensing and regulatory boards for investigation and action. Lenders are encouraged to do the same.

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### Third-Party Originations

When a lender sells Fannie Mae mortgage loans originated by a third party, the lender's QC process must include additional steps to ensure that the third-party originations are quality originations. At a minimum, the lender's QC process must include:

<b>QC Requirements for Lenders Reviewing Third-Party Originations</b>	
	A review of 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
	The discretionary selection of the third-party originator's production may be based on, at a minimum: <ul style="list-style-type: none"><li>• property location,</li><li>• LTV ratios,</li><li>• mortgage product types,</li><li>• borrowers' credit scores, and</li><li>• third-party originator's past performance</li></ul>

For information on managing third-party originations, see A3-3-01, Outsourcing of Mortgage Processing and Third-Party Originations.

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### Transfer of Servicing of Third-Party Originations

When a lender assigns the servicing of its third-party originations to another Fannie Mae-approved lender, it must either retain sufficient documentation to enable it to complete a subsequent QC review or make arrangements with the servicer to ensure that it has access to any files required for the 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.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2010-03</a>	March 29, 2010



## D1-1-03, Lender QC Staff and Outsourcing of the QC Process (03/29/2010)

### Introduction

This topic contains information on lender QC staff and outsourcing of the QC process, including:

- QC Plan Requirements for Staffing
- Outsourcing of the QC Process

### QC Plan Requirements for Staffing

The lender's written QC plan must include:

Requirement	Description
QC Reporting Structure	<p>Identify the reporting structure for the department and staff that will be responsible for managing the QC process.</p> <p>To preserve the integrity of the process, all QC operations, including those related to establishing, monitoring, and enforcing procedures, must be independent of the production, underwriting, and closing departments, regardless of the scope, timing, or type of lender QC review. Fannie Mae recommends that the QC operations report to the lender's senior management.</p> <p><b>Note:</b> If a lender's QC process is part of a reporting structure that also includes production, underwriting, or closing activities, the lender must be able to justify the use of the reporting structure by explaining how it leads to more effective management of specific risks.</p>
Training	<p>Properly train employees and provide detailed standard operating procedures to all employees who will be involved with, or affected by, the QC process.</p>



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## Outsourcing of the QC Process

A lender may outsource its QC processes; however, Fannie Mae holds the lender fully accountable for the work performed by its contractors.

The lender must establish a process within its written QC plan for reviewing the contractor's work to ensure that the requirements and guidelines are applied consistently and that the review results accurately reflect the quality of the lender's loan originations. The lender's QC plan must also have procedures to address findings identified in its mortgage loan reviews and implement corrective actions within the lender's organization.

QC contractors must be proficient in knowledge and use of all automated underwriting systems utilized by the lender and demonstrate competency in the review of manually underwritten loans. The QC contractor must have written policies and procedures detailing its review methodologies, including selections based on results of prior post-closing reviews, identification of defects and trends, and reporting those results to the lender. The lender must ensure that the contractor's review staff members possess the qualifications and experience required to provide quality reviews and meaningful analysis.

A lender's contract for services is not a substitute for the lender's proprietary QC procedures.

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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-2010-03</a>	March 29, 2010

# Chapter D1-2, Lender Prefunding QC Mortgage Review



## General Information on Lender Prefunding QC Review Process

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### Introduction

This chapter provides information on prefunding loan quality verification.

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### In This Chapter

This chapter contains the following section:

D1-2-01, General Information on Lender Prefunding QC Review Process (03/29/2010) . . . 1094

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## D1-2-01, General Information on Lender Prefunding QC Review Process (03/29/2010)

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### Introduction

This topic contains information on prefunding loan quality verification, including:

- Overview
- Timing of Mortgage Loan File Reviews
- Loan Selection Process
- Verification of Data and Documents
- Reporting

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## Overview

The lender's written QC plan must include a process for reviewing a sampling of its loans prior to closing. Reviews performed prior to funding provide important and timely feedback to the origination staff and may prevent closing mortgage loans with significant defects such as misrepresentation, inaccurate data, or inadequate documentation. Lenders may choose a method appropriate to their business model for monitoring their origination policies and ensuring the accuracy of the loan data, however the next several sections provide lenders with examples of what Fannie Mae believes is included in an effective QC process.

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## Timing of Mortgage Loan File Reviews

Fannie Mae recommends that lenders allow adequate time to make loan selections and complete prefunding reviews in order to properly inform the loan production organization so that corrections/revisions can be made.

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## Loan Selection Process

Fannie Mae recommends that the lender establish a process for loan selection, which may include a sampling of loans with characteristics related to errors or defects identified in prior prefunding and post-closing review results (for example, unsupported property values or incorrectly calculated income). It is recommended that the lender regularly re-evaluate its loan selection process to ensure its effectiveness.

At a minimum, Fannie Mae recommends that the lender's discretionary sampling methodology include the following loans with higher risk characteristics, such as:

- LTV ratios > 90%,
- credit scores considered in the high-risk range,
- loans secured by investment properties, and
- cash-out refinances.

In addition, the lender's sampling methodology may include mortgages:

- originated by third parties;
- representing all property types including condominiums, cooperatives, leasehold estates, and manufactured housing;

- originated or processed by newly hired loan officers, processors, appraisers, or other personnel or third parties involved in the loan origination process; and
  - underwritten by all underwriters.
- 

### **Verification of Data and Documents**

An effective prefunding QC process includes validation or verification of the following:

- data entered into an automated underwriting system,
- borrower Social Security number(s) used to verify borrower identity,
- income calculations and supporting documentation,
- employment - verbal verification of employment,
- assets needed to close or meet reserve requirements,
- appraisal or other property valuation data, and
- documentation of adequate mortgage insurance coverage.

Data verification may be obtained either directly from the information source, e.g., the Social Security Administration, IRS, employer, financial institution, or reliable third parties. Responsibility for validation of the data and authenticity of the documentation may be delegated to functions within the origination, underwriting, or QC areas of the lender's operation.

Lenders must also ensure that they have a method for retaining the project documentation needed to support the warranty that the project meets Fannie Mae's eligibility criteria. In addition, for units in condominium projects that were approved through Condo Project Manager (CPM), Fannie Mae recommends that the lender validate that the loan file has been documented with the CPM decision and verify that they have identified the loan with the correct project review type code.

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### **Reporting**

Fannie Mae recommends that the lender have procedures for reporting defects identified in the review and an action plan that includes:

- notifying senior management about the defects,
- informing the parties responsible for resolving the defects,

- documenting the resolution of the defects, and
  - reporting results of the resolution efforts to senior management and other appropriate parties within the organization.
- 

### **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-2010-03</a>	March 29, 2010

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# Chapter D1-3, Lender Post-Closing QC Mortgage Review



## Lender Post-Closing QC Mortgage Review

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### Introduction

This chapter describes the lender post-closing QC mortgage review process.

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### In This Chapter

This chapter contains the following topics:

D1-3-01, General Information on Lender Post-Closing QC Review Process (03/29/2010)	1098
D1-3-02, Lender Mortgage Selection Process for Post-Closing QC Mortgage Reviews (03/29/2010)	1099
D1-3-03, Lender Post-Closing QC Review of Underwriting Documents (03/29/2010)	1102
D1-3-04, Lender Post-Closing QC Review of Data Integrity (03/29/2010)	1104
D1-3-05, Lender Post-Closing QC Review of Appraisers and Appraisals (12/01/2010)	1107
D1-3-06, Lender Post-Closing QC Review of Underwriting Decisions (03/29/2010)	1109
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## D1-3-01, General Information on Lender Post-Closing QC Review Process (03/29/2010)

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### Introduction

This topic contains information on the lender's post-closing QC mortgage review process.

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### Mortgage Review Process

The lender's written QC plan must include its processes for evaluating and monitoring the overall quality of its mortgage production and its reverification procedures.

The post-closing mortgage review process described in this chapter must include an evaluation of the following:

- the underwriting documents, including reverification of underwriting documents and a data integrity review for mortgage loans underwritten with DU or other automated underwriting systems;
- compliance with the terms of the *Selling Guide*, other program requirements, and is in all respects eligible for delivery to Fannie Mae;
- the appraisal or property inspection report;
- the underwriting decision;
- the closing documents; and
- compliance with all federal, state, and local laws. (For additional information, see A3-2-01, Compliance With 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-2010-03</a>	March 29, 2010



### **D1-3-02, Lender Mortgage Selection Process for Post-Closing QC Mortgage Reviews (03/29/2010)**

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#### Introduction

This topic contains information on selecting mortgage loans for the post-closing QC reviews, including:

- Timing of Mortgage Loan File Reviews
- Loan Selection Process
- Random Mortgage Selections and Statistical Sampling
- Discretionary Mortgage Selections

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### **Timing of Mortgage Loan File Reviews**

Mortgage loans must be selected for QC reviews on at least a monthly basis, if not more frequently. A lender that wishes to select mortgage loans for QC reviews less often than monthly must request permission from its lead Fannie Mae regional office (see E-1-03, List of Contacts).

Selections must be made within 30 days of closing and reviews must be completed within 60 days of the selection. For example, selections for the month of June are made from those loans closed in May. Review of selections would be completed not later than the end of August.

**Note:** Lenders must notify Fannie Mae if their QC cycle is in arrears more than one 30-day cycle.

---

### **Loan 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, taking into consideration the lender's size, production channels, and geographic areas of operations.

---

### **Random Mortgage Selections and Statistical Sampling**

The lender must select for review a minimum of 10% of the residential mortgage loans that it originates or acquires from a third party. The mortgages selected must meet the following criteria:

- represent the lender's overall book of business;
- include the different types of mortgage loans that the lender offers;
- represent mortgage loans originated by each branch office and by third-party originators; and
- were originated using an automated underwriting system, including DU and electronic commerce (i.e., various Internet channels or other Web-based applications).

A lender may use statistical sampling for its selection process instead of the standard 10% random selection process. However, if the lender elects to utilize statistical sampling methodology, the lender must 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 (population size, precision rate, percentage of defect rate, and confidence level); and
- periodic evaluation of the process and variables and establishment of time periods for the evaluations.

---

### Discretionary Mortgage Selections

Discretionary selections are a required function of an effective QC plan and supplement, but do not replace random or statistical selections. Criteria include, but are not limited to, mortgage loans that:

- are delinquent 60 days or more within the first 12 months of origination;
- present a higher risk, including mortgage loans with multiple risk layers, e.g., high LTV and DTI ratios, etc.;
- were created using unusual or unique underwriting, processing, or appraisal techniques;
- were approved with nontraditional credit;
- were processed by a particular branch office, staff person, contractor, third-party originator, or appraiser;
- may be subject to concerns about delinquency rates or patterns identified in other reviews;
- are secured by properties located in areas with high delinquency rates or areas experiencing rapid increases or decreases in property values; or
- represent all property types including condominiums, cooperatives, leasehold estates, and 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-2010-03</a>	March 29, 2010



## **D1-3-03, Lender Post-Closing QC Review of Underwriting Documents (03/29/2010)**

---

### **Introduction**

This topic contains information on the lender's post-closing QC review of underwriting documents, including:

- Overview
  - Use of IRS Form 4506-T in the Lender's QC Plan
  - Reverification of Social Security Number
  - Reverification of Borrower Income, Employment, and Asset Information
  - Reverification of Borrower's Traditional Credit History
  - Reverification of Nontraditional Credit
  - Verification of Owner-Occupancy
- 

### **Overview**

The lender must reverify the accuracy and integrity of the information used to support the lending decision for any mortgage loans selected for a QC review. At the time of the mortgage loan application, Fannie Mae recommends that the lender obtain written authorization from the borrowers to release information to be used in its reverification process. All reverification documentation must be retained in the underwriting file, although reverifications that lead to QC findings may also be documented in the lender's QC records.

**Note:** For loans underwritten with DU, the reverification of information also includes a data integrity review to determine that the data entered into DU was complete and accurate, and that it matched information found on the documents in the underwriting file. Therefore, the lender's QC staff must have access to, and be proficient in, the use of DU.

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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. All loans selected for the lender's QC reviews, whether under

the random, statistical, or discretionary sampling method, must include the lender's execution of the IRS Form 4506-T with the IRS (or designee) and reconciliation of the transcript information with the income documents in the loan file. See B3-3.1-01, Requirements and Uses of IRS Form 4506-T for detailed information.

**Note:** 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.

---

### **Reverification of Social Security Number**

As part of the lender's QC plan, the lender must ensure that the borrower(s)' Social Security number on loans selected for review have been validated directly with the Social Security Administration. Direct verification by a third party also is acceptable.

---

### **Reverification of Borrower Income, Employment, and Asset Information**

For each selected loan, 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 verbal reverification may be accepted provided the lender documents the conversation in writing stating the name, title, or position, and contact information of the interviewee, and includes that documentation 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.

Fannie Mae recognizes that reverification of asset information directly from the borrower's financial institution may not be possible in all instances. Fannie Mae recommends that the lender attempt to reverify the borrower(s)' 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 Traditional Credit History**

The lender must reverify the borrower's credit history by obtaining a new in-file credit report for loans underwritten manually and through DU or other automated underwriting systems. The credit report must be from a source other than the original credit reporting agency.

---

### Reverification of Nontraditional Credit

If a borrower's credit history was evaluated by using a 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.

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### Verification of Owner-Occupancy

The lender must attempt to verify that the borrower is occupying the residence if the property is a primary residence or second home, and document the loan file accordingly.

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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-2010-03</a>	March 29, 2010
<a href="#">Announcement 09-19</a>	June 8, 2009



## D1-3-04, Lender Post-Closing QC Review of Data Integrity (03/29/2010)

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### Introduction

This topic contains information on the lender's post-closing QC review of data integrity, including:

- Verification of Data Integrity for DU
- Review of Red Flag and Alert Messages

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### Verification of Data Integrity for DU

To verify the data integrity of a loan underwritten with DU, the lender must:

<b>Data Integrity Verification</b>	
	<p>Compare the following DU data elements to the information that appears in the actual underwriting file documents:</p> <ul style="list-style-type: none"> <li>• borrower’s name;</li> <li>• borrower's Social Security number;</li> <li>• borrower’s employment and employment type (e.g., self-employed);</li> <li>• borrower’s income and assets;</li> <li>• property address, including unit number (if applicable);</li> <li>• property type;</li> <li>• mortgage loan term, type, and purpose;</li> <li>• LTV ratio; and</li> <li>• source of documentation used to determine the borrower’s ability to repay the mortgage loan.</li> </ul>
	Verify that documentation exists to support all data used to underwrite the mortgage loan and that the documentation appears reliable.
	Verify the accuracy of “matches” on DU’s liability and real estate owned reconciliation worksheets (including any amounts omitted from the underwriting analysis).

When there are material inconsistencies between the data submitted to DU and in the source documents, the lender must:

<b>Step</b>	<b>Description</b>
1	Determine whether discrepancies are within the tolerances permitted by this Guide (see B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report).
2	If discrepancies are outside the DU allowed tolerances, resubmit the mortgage loan to DU using correct data.
3	If, upon reunderwriting with correct data, the mortgage loan was not eligible for delivery to Fannie Mae, or the data on which the closed mortgage loan was based results in a DU recommendation other than Approve/Eligible, the lender must

<b>Step</b>	<b>Description</b>
	determine whether the mortgage loan was actually eligible for delivery to Fannie Mae.
4	If the lender determines that the file includes adequate documentation to compensate for any DU Refer recommendations or to indicate the mortgage loan was eligible for delivery, it may document the underwriting file to reflect its decision (without taking any further action).
5	If the lender determines that the mortgage loan was not eligible for delivery to Fannie Mae, the lender must advise its lead Fannie Mae regional office (see E-1-03, List of Contacts) of these findings.

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### **Review of Red Flag and Alert Messages**

The lender's QC process must include a review of any red flag messages appearing in the DU Findings Reports 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 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>Announcement</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2010-03</a>	March 29, 2010
<a href="#">Announcement SEL-2010-01</a>	March 2, 2010



## **D1-3-05, Lender Post-Closing QC Review of Appraisers and Appraisals (12/01/2010)**

---

### **Introduction**

This topic contains information on the lender's post-closing QC review of appraisers and appraisals, including:

- Evaluation of Appraiser's Work and Property Fieldwork
  - Review of Appraisals or Property Inspections
  - Review of Appraisal Forms
  - Reverification of Appraisals Through a Desk Review
  - Automated Valuation Models for Desk Reviews
  - Appraiser Independence Requirements
- 

### **Evaluation of Appraiser's Work and Property Fieldwork**

The lender must continually evaluate the quality of an appraiser's work through the normal underwriting review of all appraisal reports, as well as through the spot-check field review of appraisals.

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### **Review of Appraisals or Property Inspections**

The lender must reverify the appraisal or property inspection for 10% of the mortgage loans selected for QC review by ordering a review appraisal, additional appraisal reports, property inspection report, or other appropriate documentation to check the work of the original appraiser. The selection process must also include appraisals on the basis of the relative risk of the mortgage loan especially if the lender uses an automated valuation model as its sampling tool.

The review appraisal or property inspection—which may be either a new retrospective appraisal or property inspection, or a field review—must be prepared by an appraiser who is not affiliated with the original appraiser or appraisal firm.

Any field review must include an exterior inspection and an analysis of the comparables, with emphasis on the accuracy of the factual data on the appraisal or property inspection report.

For loans underwritten with DU, the review appraisal or property inspection must be consistent with the level of review that was conducted after the DU recommendation was received.

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### **Review of Appraisal Forms**

Fannie Mae's Exterior-Only Inspection Residential Appraisal Report ([Form 2055](#)) or another form of the lender's choice may be used to document a new retrospective appraisal. The DU Property Inspection Report ([Form 2075](#)) can be used to document a new property inspection.

A One-Unit Residential Appraisal Field Review Report ([Form 2000](#)) may be used to report the results of a field review.

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### **Reverification of Appraisals Through a Desk Review**

A desk review may be used to reverify the appraisal or property inspection for the remaining 90% of mortgage loans selected for QC review.

The lender's staff person who performs the desk review does not have to be an appraiser, but must be competent in the application of basic appraisal theory for:

- assessing market risk;
  - determining if a property meets eligibility requirements, including the LTV ratio; and
  - prescribing corrective actions in the underwriting process when defects are identified.
- 

### **Automated Valuation Models for Desk Reviews**

Automated valuation models are good tools for determining value assessments for desk reviews. Fannie Mae encourages lenders to use such models in their desk reviews to compare the value stated in the appraisal report against the model valuations. If the lender identifies significant discrepancies between the appraisal report and the model valuations, it must order either a field review or a new retrospective appraisal (or a property inspection report, if applicable).

---

### **Appraiser Independence Requirements**

The lender must ensure that all loans originated by the lender or acquired from a third party comply with the provisions of the Appraiser Independence Requirements. A copy



of the [Appraiser Independence Requirements](#) is available on Fannie Mae's Web site. The lender's policies and procedures must include the provisions of the Appraiser Independence Requirements and describe the controls in place to ensure compliance.

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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-2010-03</a>	March 29, 2010

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## D1-3-06, Lender Post-Closing QC Review of Underwriting Decisions (03/29/2010)

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### Introduction

This topic contains information on the lender's post-closing QC review of underwriting decisions, including:

- Overview
  - Review of DU Underwriting Recommendations
- 

### Overview

The lender must determine that the mortgage loan was properly underwritten and that sound underwriting judgments were made. Manually underwritten mortgage loans must be reviewed for compliance with Fannie Mae's mortgage loan eligibility criteria, as described in the *Selling Guide*. The lender's QC process for mortgage loans underwritten with DU is generally simplified, depending on the DU recommendation.

The lender must determine that any loan approval conditions required by the underwriter were satisfied and that the information on the HUD-1 Settlement Statement reflects compliance with the closing instructions for the mortgage loan.

### Review of DU Underwriting Recommendations

The QC review must cover the following DU recommendations:

DU Recommendation	The QC Review Must
Approve/Eligible  Expanded Approval/Eligible	<ul style="list-style-type: none"> <li>• validate the data integrity of the mortgage loan file. The borrower’s qualifying income must be reverified and recalculated. Fannie Mae recommends that the lender attempt to reverify the borrower’s assets. (See D1-3-03, Lender Post-Closing QC Review of Underwriting Documents, for detailed instructions.)</li> <li>• confirm that the requirements of DU verification messages or approval conditions were satisfied, and that the actions taken to satisfy them were adequately supported by appropriate documentation.</li> </ul>
Approve/Ineligible  Expanded Approval/Ineligible	<ul style="list-style-type: none"> <li>• validate the data integrity of the mortgage loan file;</li> <li>• confirm whether a variance permits the ineligibility characteristics in question, and whether the file includes sufficient written documentation to support the underwriter’s decision to approve the ineligible mortgage, and compensating factors used to justify that decision; and</li> <li>• confirm that the DU verification messages or approval conditions were satisfied, and were adequately supported by appropriate documentation.</li> </ul>
Refer/Eligible	<ul style="list-style-type: none"> <li>• validate the data integrity of the mortgage loan file;</li> <li>• validate the reasons for referral and the steps the underwriter took to resolve, or compensate for, the conditions resulting in the referral;</li> <li>• confirm whether the mortgage loan file includes sufficient written documentation to support the underwriter’s decision to approve the referred mortgage, and compensating factors used to justify the decision; and</li> <li>• confirm that the DU verification messages or approval conditions were satisfied, and were adequately supported by appropriate documentation.</li> </ul>

DU Recommendation	The QC Review Must
Refer/Ineligible	<ul style="list-style-type: none"> <li>• validate the data integrity of the mortgage loan file;</li> <li>• validate the reasons for referral to the lender’s underwriter and the steps taken to resolve or compensate for conditions resulting in the referral;</li> <li>• validate specific eligibility criteria that the mortgage loan failed to meet; and</li> <li>• confirm whether a variance permits delivery of a mortgage loan with the ineligibility characteristics in question, and whether the file includes sufficient written documentation to support the underwriter’s decision to approve the referred ineligible mortgage, and compensating factors used to justify that decision.</li> </ul>
Refer with Caution/IV	<ul style="list-style-type: none"> <li>• loans receiving this DU recommendation are not eligible for sale to Fannie Mae as a DU underwritten loan;</li> <li>• any loan casefile that receives a Refer with Caution/IV recommendation from DU may be manually underwritten pursuant to this <i>Selling Guide</i>; and</li> <li>• Refer with Caution/IV loan casefiles that are manually underwritten due to erroneous credit or extenuating circumstances that led to the borrower’s derogatory credit must be delivered with Special Feature Code 343.</li> </ul>
Out-Of-Scope	<ul style="list-style-type: none"> <li>• Fannie Mae recommends that the QC review be consistent with the review performed for a manually underwritten mortgage.</li> </ul>

### 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-2010-03</a>	March 29, 2010



## D1-3-07, Lender Post-Closing QC Review of Closing Documents (03/31/2011)

### Introduction

This topic contains information on the lender’s post-closing QC review of closing documents.

### Review of Closing Documents

The lender must review each closing document for completeness, accuracy, and compliance with all underwriting and eligibility requirements. The following table reflects the most common documents and critical data elements 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 and data elements to include in the review process:

	Closing Documents	Data Reviewed
	Recorded security instrument and any applicable riders or addenda	Borrower and lender name(s)  Property address – physical and legal description, including unit number (if applicable)  Note reference – correct date and loan amount  Riders – correctly referenced (if applicable)  Correct signatures
	Mortgage loan note	Date  Borrower name(s)  Property address, including unit number (if applicable)  Terms: interest rate, payments, first and last payment dates, adjustments and caps (if applicable)  Correct signatures

	<b>Closing Documents</b>	<b>Data Reviewed</b>
	Assignment of the mortgage loan	Lender name  Date  Assignee  MERS registration (if applicable)
	Mortgage insurance certificate or policy to determine that adequate coverage was obtained and that any contingencies specified by the mortgage insurer were met	MI provider  % of coverage  Product – single premium, monthly
	VA loan guaranty certificate, RD loan note guarantee, FHA mortgage insurance certificate, or HUD Indian loan guarantee certificate, as applicable	Issue date  Borrower name(s)  Property address, including unit number (if applicable)
	Title evidence	Title policy, including all schedules and endorsements or commitment if the policy is not available  Borrower name(s)  Property address, including unit number (if applicable)  Exclusions
	Plat or survey, as applicable	Property address/legal description  Encroachments, easements
	Final Truth-in-Lending disclosure	Loan amount  Interest rate  Term
	HUD-1 Settlement Statement	All pages and addenda  Sales price (if applicable)

	<b>Closing Documents</b>	<b>Data Reviewed</b>
		Loan amount Settlement charges Amounts paid by or on behalf of borrower Cash to/from borrower Costs paid by seller and buyer Signature of borrower(s) and seller (if applicable). See HUD-1 signature requirements in A2-5.1-02, Individual Mortgage Loan Files.
	Evidence of hazard and, if applicable, flood insurance	Date of policy Amount of coverage Type – e.g., homeowner’s, fire policies, etc.
	Other closing documents as applicable	Documents that apply to subject transaction and are appropriate

If errors are discovered in the post-closing review process, lenders must:

- determine the materiality of the errors;
- correct the document(s) or obtain corrected document(s) from the vendor, e.g., mortgage or hazard insurer, title company, etc.; and
- take steps to correct the data in all applicable Fannie Mae systems (DU, 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-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



## **D1-3-08, Lender Post-QC Review Reporting, Record Retention, and Audit (03/29/2010)**

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### **Introduction**

This topic contains information on post-QC review for reporting, record retention, and audit, including:

- Guidelines for Reports
  - Reporting Requirements
  - Reporting to Fannie Mae
  - Record Retention and Response to Fannie Mae Requests
  - Audit Review of the QC Process
- 

### **Guidelines for Reports**

Lenders must design reporting procedures that are useful internal management tools for evaluating and monitoring the quality of their mortgage loan production. Fannie Mae does not specify an exact format for reports. The lender management reports must cover QC findings at a high level, by focusing on findings and any broad trends that are revealed by the review process, while identifying mortgage loans or items that need specific corrective actions.

An effective QC process will enable the lender to accumulate valuable information over time. Fannie Mae recommends that lenders take advantage of this by capturing the information electronically so that it can be used for future trend and performance analysis.

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### **Reporting Requirements**

The results of the QC reviews must be reported on a regular basis to the lender's senior management within 30 days after the review is completed. The lender must have procedures in place requiring response to, and resolution of, findings identified in the QC review process.

For example, selections for post-closing reviews of loans originated during the month of June are made by the last day of July. Reviews are performed during the month of August and the results of the reviews are reported to senior management not later than September 30.

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## Reporting to Fannie Mae

The lender must notify Fannie Mae within 30 days of confirming any misrepresentation or breach of a selling warranty, including fraud. It must do so regardless of who committed the act or whether the lender believes that the act resulted in an actual breach of its selling warranties. In addition, any fraudulent or dishonest activities by lenders, contractors, or brokers must be reported to Fannie Mae immediately. A record of activity must be maintained and made available to Fannie Mae upon request. Fannie Mae may perform additional audits as needed. For additional information, see A3-4-03, Preventing, Detecting, and Reporting Mortgage Fraud, and the Mortgage Fraud Reporting List in E-1-03, List of Contacts.

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## Record Retention and Response to Fannie Mae Requests

Lenders 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 review findings, as well as documentation related to any corrective actions.

Lenders must immediately provide Fannie Mae with a copy of their records upon request.

---

## Audit Review of the QC Process

Lenders must have an audit process to ensure that their 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.

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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-2010-03</a>	March 29, 2010



# Subpart D2, Fannie Mae QC Process



## Fannie Mae QC Process

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### Introduction

Fannie Mae's National Underwriting 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.

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### In This Subpart

This subpart contains the following chapters:

D2-1, General Information on Fannie Mae QC Process .....	1118
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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.

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### In This Chapter

This chapter contains the following topics:

D2-1-01, General Information on Fannie Mae QC Reviews (04/01/2009) . . . . .	1118
D2-1-02, Fannie Mae QC File Request and Submission Requirements (03/29/2010) . . . . .	1119
D2-1-03, Fannie Mae QC Report of Findings (04/01/2009) . . . . .	1120
D2-1-04, Rebuttal of Fannie Mae QC Review Decisions (04/01/2009) . . . . .	1121

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## D2-1-01, General Information on Fannie Mae QC Reviews (04/01/2009)

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### Introduction

This topic contains general information on Fannie Mae QC reviews, including:

- Fannie Mae's QC Policy
  - Repurchases Requested by Fannie Mae
- 

### Fannie Mae's QC Policy

Fannie Mae has QC procedures in place for its review of mortgage loans. Fannie Mae's QC policy is focused on evaluating and ensuring the underwriting and valuation quality of the mortgage loans as well as evaluating whether the mortgage loan meets Fannie Mae eligibility requirements.

Fannie Mae's QC policies are administered by its National Underwriting Center, which reviews a sample of the mortgage loans purchased or securitized by Fannie Mae to ensure that the mortgage loans meet its underwriting and eligibility requirements.

Fannie Mae's selection process, like that of any lender, may change at any time to address risk concerns.

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### **Repurchases Requested by Fannie Mae**

See Section A2-3.2, Loan Repurchases Requested by Fannie Mae.



## **D2-1-02, Fannie Mae QC File Request and Submission Requirements (03/29/2010)**

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### **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 written or electronic notification. Electronic notification will be delivered via the [Quality Assurance System](#) if the lender has signed up for 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 copies of the complete mortgage loan file, as described in the request.

Files must include clear copies of any required paper documents, not the originals. Paper documents must be sent in a manila folder, with the credit and property documents on the right side and the legal documents on the left side.

If a lender keeps its QC files electronically, Fannie Mae must be able to reproduce these documents in an acceptable manner in terms of cost and timeframes to Fannie Mae.

Lenders that wish to submit files in a form other than paper should contact the National Underwriting Center (see E-1-03, List of Contacts) to ensure that the requested form is compatible with the National Underwriting Center's system and processes.

The requested files must be sent to Fannie Mae's National Underwriting Center and must include the documentation listed in the Mortgage Loan File Document Submission Requirements exhibit in Part E of this *Selling Guide*. (See E-2-07, Post-Closing Mortgage Loan File Documentation.)

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### File Delivery Timeline

Lenders must send the requested documentation within the time frame specified in Fannie Mae's selection notification. If a lender is unable to deliver the files within the specified timeline, it must contact the National Underwriting Center (see E-1-03, List of Contacts) to discuss the delay and a proposed alternate time frame.

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 underwriting information, Fannie Mae 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 released that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2010-03</a>	March 29, 2010



## D2-1-03, Fannie Mae QC Report of Findings (04/01/2009)

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### Introduction

This topic contains information on Fannie Mae's report of findings after a QC review.

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## **Fannie Mae QC Report of Findings**

Fannie Mae will communicate the results of an underwriting performance review to the lender when significant findings are discovered in the mortgage loan file.

If significant deficiencies are identified, Fannie Mae will issue a repurchase/reimbursement request to the lender. Lenders are expected to repurchase/reimburse Fannie Mae immediately after receiving notification. 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 findings, Fannie Mae may not require immediate repurchase, but may instead issue an informational feedback letter. The nature and severity of the findings, financial and operational strength of the lender, the quality of the mortgages sold, servicing performance, and the loan payment history are criteria used in deciding to use this option.



## **D2-1-04, Rebuttal of Fannie Mae QC Review Decisions (04/01/2009)**

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### **Introduction**

This topic contains information on the rebuttal of Fannie Mae QC review decisions.

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### **Rebuttal of Fannie Mae QC Review Decisions**

When a lender receives a repurchase/reimbursement request, it can contact Fannie Mae with additional documentation that might dispute the significant findings. Fannie Mae will review the documentation and decide if the rebuttal resolves the findings. If so, Fannie Mae will issue a rescission notification to the lender. If the additional documentation does not satisfy the significant findings, Fannie Mae will issue a reaffirm notification to the lender and will expect the repurchase to be executed without further delay.

# 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 .....	1123
E-2, Exhibits .....	1136
E-3, Glossary .....	1162

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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 eFannieMae.com (06/28/2011) .....	1123
E-1-02, Acronyms and Abbreviations (06/28/2011) .....	1125
E-1-03, List of Contacts (06/28/2011) .....	1128
E-1-04, List of Lender Contracts (06/28/2011) .....	1133

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### E-1-01, References to eFannieMae.com (06/28/2011)

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#### Introduction

This topic contains a list of documents that are referenced in this Guide and are posted on [eFannieMae.com](http://www.efanniemae.com). Lenders must obtain the documents listed below from [eFannieMae.com](http://www.efanniemae.com) (or any successor site).

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Document Name	Location
2000-Character Loan Delivery File Format	<a href="http://www.efanniemae.com/sf/refmaterials/prodmortcodes/pdf/2000chformat.pdf">http://www.efanniemae.com/sf/refmaterials/prodmortcodes/pdf/2000chformat.pdf</a>
Acceptable Conventional Mortgage Insurers and MI Codes for Loan Delivery	<a href="http://www.efanniemae.com/sf/refmaterials/freusedcodes/pdf/micodes.pdf">http://www.efanniemae.com/sf/refmaterials/freusedcodes/pdf/micodes.pdf</a>
Community Seconds Checklist	<a href="http://www.efanniemae.com/sf/mortgageproducts/pdf/cschecklist.pdf">http://www.efanniemae.com/sf/mortgageproducts/pdf/cschecklist.pdf</a>

<b>Document Name</b>	<b>Location</b>
Comprehensive Risk Assessment Worksheet for Manual Underwriting	<a href="http://www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/riskassessuw/">http://www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/riskassessuw/</a>
Eligibility Matrix	<a href="http://www.efanniemae.com/sf/refmaterials/eligibility/pdf/eligibilitymatrix.pdf">http://www.efanniemae.com/sf/refmaterials/eligibility/pdf/eligibilitymatrix.pdf</a>
Field Definitions for the 2000-Character Loan Delivery File Format	<a href="http://www.efanniemae.com/sf/refmaterials/prodmortcodes/pdf/fielddefs.pdf">http://www.efanniemae.com/sf/refmaterials/prodmortcodes/pdf/fielddefs.pdf</a>
Guidance for Lenders and Appraisers	<a href="https://www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/appcode/pdf/appraisalguidance.pdf">https://www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/appcode/pdf/appraisalguidance.pdf</a>
Loan-Level Price Adjustment (LLPA) Matrix and Adverse Market Delivery Charge (AMDC) Information	<a href="http://www.efanniemae.com/sf/refmaterials/llpa/pdf/llpamatrix.pdf">http://www.efanniemae.com/sf/refmaterials/llpa/pdf/llpamatrix.pdf</a>
MyCommunityMortgage Eligibility	<a href="http://www.efanniemae.com/sf/mortgageproducts/pdf/mcmproductmatrix.pdf">http://www.efanniemae.com/sf/mortgageproducts/pdf/mcmproductmatrix.pdf</a>
Race and Ethnicity Delivery Data Conversion Chart	<a href="http://www.efanniemae.com/sf/refmaterials/prodmortcodes/pdf/converchart.pdf">http://www.efanniemae.com/sf/refmaterials/prodmortcodes/pdf/converchart.pdf</a>
Requirements for Document Custodians	<a href="http://www.efanniemae.com/is/doccustodians/index.jsp">http://www.efanniemae.com/is/doccustodians/index.jsp</a>
Security Instruments: Standard and Negotiated	<a href="http://www.efanniemae.com/sf/formsdocs/documents/secinstruments/">http://www.efanniemae.com/sf/formsdocs/documents/secinstruments/</a>
<i>Selling Guide</i> Forms	<a href="http://www.efanniemae.com/sf/formsdocs/forms/">http://www.efanniemae.com/sf/formsdocs/forms/</a>
<i>Servicing Guide</i>	<a href="http://www.efanniemae.com/sf/guides/ssg/index.jsp">http://www.efanniemae.com/sf/guides/ssg/index.jsp</a>
Special Feature Codes	<a href="http://www.efanniemae.com/sf/refmaterials/specfeatcodes/">http://www.efanniemae.com/sf/refmaterials/specfeatcodes/</a>
Special Purpose Legal Documents	<a href="http://www.efanniemae.com/sf/formsdocs/documents/specialpurpose/">http://www.efanniemae.com/sf/formsdocs/documents/specialpurpose/</a>
Standard and Negotiated Notes	<a href="http://www.efanniemae.com/sf/formsdocs/documents/notes/">http://www.efanniemae.com/sf/formsdocs/documents/notes/</a>
Standard and Negotiated Riders and Addenda	<a href="http://www.efanniemae.com/sf/formsdocs/documents/ridersaddenda/">http://www.efanniemae.com/sf/formsdocs/documents/ridersaddenda/</a>
Standard ARM Plan Matrix	<a href="http://www.efanniemae.com/sf/refmaterials/armmatrix/pdf/armmatrix.pdf">http://www.efanniemae.com/sf/refmaterials/armmatrix/pdf/armmatrix.pdf</a>



Document Name	Location
Title Insurer Rating Agencies	<a href="http://www.efanniemae.com/sf/refmaterials/tirating/index.jsp">http://www.efanniemae.com/sf/refmaterials/tirating/index.jsp</a>



## E-1-02, Acronyms and Abbreviations (06/28/2011)

### 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.

Acronym or Abbreviation	Definition
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
AVM	automated valuation model
BPO	broker price opinion
bps	basis points
CD	certificate of deposit
CLTV	combined loan-to-value
CMT	Constant Maturity Treasury
COFI	Cost of Funds Index
condo	unit in a condominium project

<b>Acronym or Abbreviation</b>	<b>Definition</b>
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
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
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
GEM	growing-equity mortgage
GPARM	graduated-payment adjustable-rate mortgage
GPM	graduated-payment mortgage
GSE	government-sponsored enterprise
HCLTV	home equity combined loan-to-value
HELOC	home equity line of credit
HFA	Housing Finance Agency
HOA	homeowners' association
HUD	Department of Housing and Urban Development
IRS	Internal Revenue Service

<b>Acronym or Abbreviation</b>	<b>Definition</b>
LIBOR	London Interbank Offered Rate
LLC	limited liability company
LLPA	loan-level price adjustment
LOS	Loan Origination System
LPI	last paid installment
LTV	loan-to-value
MBS	mortgage-backed security
MCM	MyCommunityMortgage
MERS	Mortgage Electronic Registration Systems, Inc.
MI	mortgage insurance
MIC	mortgage insurance certificate
MIN	MERS identification number
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
OFAC	Office of Foreign Assets Control
OTS	Office of Thrift Supervision
P&I	principal and interest
PERS	Project Eligibility Review Service
PITI	principal, interest, taxes, and insurance
PITIA	principal, interest, taxes, insurance, and other assessments
PUD	planned unit development
RD	Rural Development
REIT	real estate investment trust
REMIC	Real Estate Mortgage Investment Conduit
REO	real estate owned
RHS	Rural Housing Service

<b>Acronym or Abbreviation</b>	<b>Definition</b>
RPM	rapid payment method
SEC	Securities and Exchange Commission
SFC	special feature code
SFHA	Special Flood Hazard Area
SMBS	stripped mortgage-backed security
TBA	to be announced
T&I	taxes and insurance
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 (06/28/2011)**

#### **Introduction**

This topic contains contact information for Fannie Mae and other resources referenced in this Guide.

#### **Fannie Mae Contacts**

The following table provides contact information for Fannie Mae and other resources referenced in this Guide.

<b>Name</b>	<b>Contact Information</b>	<b>Purpose</b>
Asset Acquisitions	E-mail is the preferred method: <a href="mailto:Postpurchase_adjustments@fanniemae.com">Postpurchase_adjustments@fanniemae.com</a>  (800) 940-4646	To request whole loan post purchase adjustments
Capital Markets Operations Collateral Management	(202) 752-5384 Fax: (202) 752-3439	For verifying MBS trade information

Name	Contact Information	Purpose
Capital Markets Sales Desk	(800) 752-0257 (Whole Loan and MBS) (866) 944-3863 (Early Funding) (202) 752-6621 (Washington, DC direct) (202) 752-7875 (Structured Transaction Group)	For trading MBS, selling whole loans, hedging pipelines, obtaining best execution information, and other related inquiries
Certification Service Center Hotline	Fax: (800) 535-0554 (800) 422-3662 to confirm receipt	For faxing bailee letters
Construction-to-Permanent Operations Center	Fannie Mae Construction-to-Permanent Operations Center 5H-4W/02 13150 Worldgate Drive Herndon, VA 20170	For mailing modification documents
Counterparty Risk Monitoring Unit	Fannie Mae Counterparty Risk Monitoring Unit One South Wacker, Suite 1400 Chicago, IL 60606  <a href="mailto:audited_financial@fanniemae.com">audited_financial@fanniemae.com</a>	For submission of financial reports
Custodian Oversight and Monitoring	<a href="mailto:thirdparty_custody@fanniemae.com">thirdparty_custody@fanniemae.com</a>	For inquiries about document custody
Customer Contact Center	Refer to the Web site for the specific phone number to call (varies based on the technology application)  <a href="http://www.efanniemae.com/sf/technology/support/sfccc.jsp">http://www.efanniemae.com/sf/technology/support/sfccc.jsp</a>	For subscription inquiries; technical, billing, reporting, and registration inquiries for licensed users of Fannie Mae technology products and services
Delivery and Custody Helpline	(800) 940-4646	For information related to document custody activities, bailee letter information, certification of MBS pools and whole loans, and eligibility

Name	Contact Information	Purpose
		and operational requirements
Fannie Mae Assignment Address	Fannie Mae Mail Drawer: Assignments 3900 Wisconsin Avenue, NW Washington, DC 20016 or Fannie Mae Mail Drawer: Assignments 13150 Worldgate Drive Herndon, VA 20170	For assignments
Fannie Mae National Servicing Organization	14221 Dallas Parkway, Suite 1000 Dallas, Texas 75254 (888) FANNIE5 or (888) 326-6435	For information related to servicing mortgage loans.
Fannie Mae Washington, DC Office	Fannie Mae 3900 Wisconsin Avenue, NW Washington, DC 20016 (202) 752-7000	Fannie Mae's main corporate office
Fannie Mae Web sites	<a href="http://eFannieMae.com">eFannieMae.com</a>	For information about Fannie Mae's single-family mortgage business solutions and doing business with Fannie Mae
	<a href="http://FannieMae.com">FannieMae.com</a>	Corporate Web site
Fixed-Income Investor Helpline	(800) 237-8627	For information related to fixed-income securities, including MBS, debentures, and preferred stock
Lead Fannie Mae Regional Offices	<p><b>Central Regional Office</b>                      Fannie Mae                      One South Wacker Drive, Suite 1400                      Chicago, IL 60606                      (312) 368-6200</p> <p><b>Eastern Regional Offices</b></p>	

Name	Contact Information	Purpose
	<p>Fannie Mae 1835 Market Street, Suite 2300 Philadelphia, PA 19103 (215) 575-1400</p> <p>950 East Paces Ferry Road Atlanta, GA 30326-1161 (404) 398-6000</p> <p><b>Western Regional Office</b> Fannie Mae 135 N. Los Robles Avenue, Suite 400 Pasadena, CA 91101-1707 (626) 396-5100</p>	
Mortgage Fraud Reporting	<p>(800) 7FANNIE (800) 732-6643</p> <p><a href="mailto:mortgagefraud_tips@fanniemae.com">mortgagefraud_tips@fanniemae.com</a></p>	To report suspected fraudulent mortgage activities
Mortgage Record Change Form Address	<p>Fannie Mae Attn: Government Claims Manager 14221 Dallas Parkway, Suite 1000 Dallas, Texas 75254-2916</p> <p>or</p> <p>P.O. Box 650043 Dallas, TX 75265-0043</p>	The Fannie Mae address that must be completed on the Mortgage Record Change Form (HUD Form 92080)
National Underwriting Center	<p>Fannie Mae National Underwriting Center 14221 Dallas Parkway, Suite 1100 Dallas, TX 75254-2916</p>	For quality control review questions and document submissions
New Loan Submissions	<p>Loan documents for whole mortgage loans, E-notes, and MBS: BNYM New Loan Certification 5730 Katella Avenue Cypress, CA 90630</p> <p>Loan documents for</p>	For mailing whole loan document packages, MBS pool packages, and construction-to-permanent loan documents

Name	Contact Information	Purpose
	As Soon As Pooled Plus loans, and MBS: BNYM New Loan Certification 2220 Chemsearch Boulevard, Suite 150 Irving, TX 75062	
Project Eligibility Review Service	<a href="http://www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/condogls/pers.jsp">http://www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/condogls/pers.jsp</a>	To submit condo project packages for Fannie Mae's PERS review
Project Standards Team	<a href="mailto:project_standards@fanniemae.com">project_standards@fanniemae.com</a>	For project standards questions
Registration and Account Management	<a href="http://www.efanniemae.com/sf/technology/accountmanage/">http://www.efanniemae.com/sf/technology/accountmanage/</a>	To obtain the Software Subscription Agreement and other technology registration forms
Servicer Support Center	<a href="http://www.efanniemae.com/utility/contactus/index.jsp">http://www.efanniemae.com/utility/contactus/index.jsp</a>	For general servicer questions: case specific; servicing-related; loss mitigation; Home Affordable Modification-related questions
Single-Family Lender Approval	<a href="http://www.efanniemae.com/utility/about/becomeacustomer.jsp">http://www.efanniemae.com/utility/about/becomeacustomer.jsp</a>	For application to become a Fannie Mae-approved lender and obtain an MSSC
Trademark information	<a href="http://FannieMae.com">FannieMae.com</a>	For current Fannie Mae trademarks and guidelines for using the trademarks
Triparty Wiring Instructions	Fannie Mae Mailstop 5H-4W/07 13150 Worldgate Drive Herndon VA 20170	For mailing Triparty Wiring Instruction Agreements



Name	Contact Information	Purpose
Trust Agreement and Prospectus Requests	<a href="http://FannieMae.com">FannieMae.com</a> (800) 237-8627 (202) 752-5858  Fannie Mae Attn: Fixed Income Investor Marketing 3900 Wisconsin Avenue, NW Mailstop 2H-3S/17 Washington, DC 20016	To obtain the Trust Agreement, prospectus, and related prospectus supplement



## E-1-04, List of Lender Contracts (06/28/2011)

### 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 lists the lender contracts as referenced within this Guide.

Contract Name	Purpose	How to Obtain it
Mortgage Selling and Servicing Contract (MSSC) (and Addenda)	For all lenders that sell loans to Fannie Mae or service loans on Fannie Mae's behalf.  The MSSC may include special approvals for lenders to deliver certain types of mortgage loans (for example: second mortgages, HomeStyle, and co-op share loans).	<a href="#">Becoming a Fannie Mae Customer</a>
Master Agreement	For lenders that sell mortgage loans to Fannie Mae (1) in MBS, or (2) with variances	Lead Fannie Mae regional office (see E-1-03, List of Contacts)

Contract Name	Purpose	How to Obtain it
	to Fannie Mae's guidelines, including special products.	
MBS Contracts (part of the Master Agreement)	Required for lenders to sell mortgage loans for MBS.	Lead Fannie Mae regional office (see E-1-03, List of Contacts)
Software Subscription Agreement (and applicable Schedules)	The Software Subscription Agreement is 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="#">Registration &amp; Account Management</a>
Single Family Shipping and Delivery Applications Order Form/Schedule	<p>Outlines contractual requirements for the following applications:</p> <ul style="list-style-type: none"> <li>• Document Certification</li> <li>• Loan Delivery/Message Manager/Additional Data Elements</li> <li>• Message Manager</li> <li>• eCommitting</li> <li>• MBS Online Reports and MBS Schedule of Mortgages</li> <li>• Pricing Services</li> <li>• Condo Project Manager</li> </ul> <p>In addition to this schedule, lenders may also need to submit one or more application-specific</p>	<a href="#">Registration &amp; Account Management</a>

<b>Contract Name</b>	<b>Purpose</b>	<b>How to Obtain it</b>
	registration forms to gain access.	
Desktop Underwriter Schedule (and addenda)	Outlines contractual requirements and allows access to the DU technology application.	Lead Fannie Mae regional office (see E-1-03, List of Contacts)
eCommitONE Addendum	Outlines contractual requirements and allows access to the eCommitONE application. (This is an Addendum to the Desktop Underwriter Schedule.)	Lead Fannie Mae regional office (see E-1-03, List of Contacts)
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 (see E-1-03, List of Contacts)

## 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, Borrower's Authorization for Counseling (04/01/2009) .....	1136
E-2-02, Document Submission Packages for All Mortgages (06/28/2011) .....	1137
E-2-03, Suggested Format for Phase I Environmental Hazard Assessments (06/28/2011) ..	1139
E-2-04, Master Agreement Terms and Conditions (04/01/2009) .....	1148
E-2-05, Revocable Trust Rider (Sample Language) (04/01/2009) .....	1155
E-2-06, Signature Requirements for Mortgages to <i>Inter Vivos</i> Revocable Trusts (04/01/2009) .....	1156
E-2-07, Post-Closing Mortgage Loan File Documentation(12/01/2010) .....	1158

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### E-2-01, Borrower's Authorization for Counseling (04/01/2009)

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#### Introduction

This exhibit contains model language for the borrower's authorization for counseling.

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#### Borrower's Authorization for Counseling

TO WHOM IT MAY CONCERN:

If I fail to make any mortgage payment as agreed, I understand that the servicer of my mortgage loan may refer me to a third-party counseling organization or a mortgage insurer that will advise me about finding ways to meet my mortgage obligation.

I hereby authorize the servicer to release certain information related to the servicer's own experience with me to such third-party counseling organization or mortgage insurer and request that the counseling party contact me.

I further hereby authorize the third-party counseling organization or mortgage insurer to make a recommendation about appropriate action to take with regard to my mortgage loan, which recommendation may assist the servicer in determining whether to restructure my loan or to offer other extraordinary services that could preserve my long-term homeownership.

(Signature) Borrower Name/Date:

(Signature) Borrower Name/Date:

---



## **E-2-02, Document Submission Packages for All Mortgages (06/28/2011)**

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### **Introduction**

This exhibit contains information on document submission packages for all mortgages.

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### **Document Submission Packages for All Mortgages**

The following mortgage documents (when applicable) should be included in the document submission package for all mortgages:

<b>Requirement</b>	<b>Description</b>
Note	The original note endorsed "in blank" and without recourse and there is no break in the chain of endorsements.  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 Balloon Loan Refinancing Instrument ( <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>
Modifications	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>

Requirement	Description
	For construction-to-permanent mortgages, the modification agreement should be sent to the Fannie Mae Construction-to-Permanent Operations Center (see E-1-03, List of Contacts).
Repair rider	A Repair Rider or Addendum if a set-aside for repairs is required.
Power of attorney	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.
Name affidavit	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.
Mortgage assignment	The original unrecorded assignment of the mortgage to Fannie Mae from the servicer.  <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.
Co-op	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 E-1-03, List of Contacts) for specific documentary requirements.)
New York CEMA	For a New York mortgage transaction that uses the Consolidation, Extension and Modification Agreement ( <a href="#">Form 3172</a> ) (the “CEMA”)—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.)
Indian guarantee	The Indian Loan Guarantee Certificate (HUD Form 53039), for a HUD Section 184 mortgage.
Participation loans	Two originals of the executed Loan Participation Certificate ( <a href="#">Form 638</a> ), for a delivery of a participation interest in a group of participation pool mortgages.

Requirement	Description
Facsimile signatures	Facsimile signature language, as applicable. If a mortgage (or deed of trust) note is endorsed by facsimile signature, a copy of the endorsing entity's corporate resolution, which must specify the names and titles of the individuals whose facsimile signatures are valid. If the endorsing entity's policy delegates facsimile signature authority by title, a list of the titles with the authority is acceptable.
Notes signed by trustee	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.
Delivery transmittal	A signed original Delivery Transmittal ( <a href="#">Form 278</a> ) (or other cover letter describing the documents being transmitted).

<sup>a</sup>When the lender delivers either a certified copy of the executed state-specific version of the Balloon Loan Refinancing Instrument ([Form 3269](#)), or the executed Consolidation, Extension and Modification Agreement ([Form 3172](#)) that was sent to the land records office for recordation, the lender must track the document that was sent for recordation to make sure that the recorded document is returned from the recorder's office as soon as possible. As soon as the lender receives the recorded document, it must endorse the original document "in blank," indicate the applicable Fannie Mae loan number on the document, and forward the original document to Fannie Mae's document delivery facility under cover of a Delivery Transmittal ([Form 278](#)).



## E-2-03, Suggested Format for Phase I Environmental Hazard Assessments (06/28/2011)

### Introduction

This exhibit provides the suggested format for Phase I environmental hazard assessments.

### 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 Previously On-Site
	Historical Aerial Photos		Verification of Public Water and Sewer
	Current Aerial Photos		Interviews with Local Fire, Health, Land Use, or Environmental Enforcement Officials
	Title History		
	Site Survey		
	Neighborhood Zoning Maps		
	Neighborhood Land Use Maps		
	Other (List)		

2. Waste Sites

	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)
	State Environmental Protection Agency (EPA) site lists of contaminated properties (covering any properties that are within a one-mile radius of the 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)

4. Radon

	Water Utility Records
	Gas Utility Records
	On-Site Radon Test Results
	Other (List)

5. Underground Storage Tanks

	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)

6. Asbestos (Required only if subject property is the conversion of an existing building)

	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)			
<input type="checkbox"/> Pass <input type="checkbox"/> Fail <input type="checkbox"/> Possible Remedy <input type="checkbox"/> 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)			
___ Pass ___ Fail ___ Possible Remedy ___ 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:

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11. Phase I Assessment Results (check one)  
 Pass  Fail  Possible Remedy  Phase II Required

12. Underwriter’s Signature and Date:

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**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.

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5. Did the survey find the building to be free of both treated and untreated asbestos-containing material?			
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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:			
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7. 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

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?			

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.

4. Does the local utility providing the drinking water meet current EPA requirements for lead concentration?			
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:			



## **E-2-04, Master Agreement Terms and Conditions (04/01/2009)**

### **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 and Servicing Guides 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 and Servicing Guides, as amended from time to time (the “Guides”). The lender must enter into a Master Agreement 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.

#### **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’ 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 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**

Conversion Master Agreements.

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

	<p>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>
Conversion Procedures.	<p>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.</p>
Non-conversion Master Agreements.	<p>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,</p>

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 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 (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**

Each Mortgage sold under the Master Agreement that has been submitted for underwriting analysis by Fannie Mae's Desktop Underwriter ("DU") shall conform to the requirements of the Selling Guide, any seller/servicer software license and/or subscription agreement, and the Master Agreement.

Unless otherwise specified in the Master Agreement, the lender may sell Mortgages under the Master Agreement that either the lender has submitted, or pursuant to Fannie Mae guidelines another lender has submitted, to DU for analysis, and for which, in each case, DU has displayed an acceptable recommendation according to the Selling Guide. In the event, however, that DU displays a recommendation of "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 and AMDC Information](#) on eFanniemae.com.

Any loan-level price adjustment associated with the sale of Mortgages underwritten through DU is subject to change at any time during the term of the Master Agreement. Such changes will be posted on the [LLPA Matrix and AMDC Information](#) on eFanniemae.com or reflected in other written notice from Fannie Mae.



## **E-2-05, Revocable Trust Rider (Sample Language) (04/01/2009)**

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### **Introduction**

This rider may be used for California mortgages. It may need to be modified to reflect the requirements of other specific states.

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### **DEFINITIONS USED IN THIS RIDER**

(A) “Revocable Trust.” The \_\_\_\_\_ Trust created under trust instrument dated \_\_\_\_\_, \_\_\_\_\_, for the benefit of \_\_\_\_\_.

(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

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 \_\_\_\_\_ Trust under trust instrument dated \_\_\_\_\_, \_\_\_\_\_, for the benefit of \_\_\_\_\_. \_\_\_\_\_, Trustee of the \_\_\_\_\_ Trust under trust instrument dated \_\_\_\_\_, \_\_\_\_\_, for the benefit of \_\_\_\_\_. 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



## **E-2-06, Signature Requirements for Mortgages to Inter Vivos Revocable Trusts (04/01/2009)**

### **Introduction**

This exhibit describes signature requirements for mortgages to *inter vivos* revocable trusts.

- Signature Requirements
- 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

### **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 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).

---

**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:

\_\_\_\_\_, Trustee of the \_\_\_\_\_ Trust  
under trust instrument dated \_\_\_\_\_, \_\_\_\_\_ for the benefit  
of \_\_\_\_\_ Borrower.

---

**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 \_\_\_\_\_ Trust under trust instrument dated \_\_\_\_\_,  
for the benefit of \_\_\_\_\_ (Seal) Borrower.

---

**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:

\_\_\_\_\_, Trustee of the \_\_\_\_\_ Trust  
under trust instrument dated \_\_\_\_\_, \_\_\_\_\_ for the benefit  
of \_\_\_\_\_ Borrower.

---

### **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 \_\_\_\_\_ Trust under trust instrument dated \_\_\_\_\_,  
\_\_\_\_\_, for the benefit of \_\_\_\_\_, 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.



### **E-2-07, Post-Closing Mortgage Loan File Documentation(12/01/2010)**

#### **Introduction**

This table describes post-closing mortgage loan file documentation.

- Mortgage Loan File Document Submission Requirements
- Post-Closing Review File Submission Documentation:

---

#### **Mortgage Loan File 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 copies of the complete mortgage loan file, as described in the request. Files must include clear copies of any required paper documents, not the originals. Paper documents must be sent in a manila folder, with the credit and property documents on the right side and the legal documents on the left side.

If a lender keeps its QC files electronically, Fannie Mae must be able to reproduce these documents in an acceptable manner in terms of cost and time frames to Fannie Mae. Lenders that wish to submit files in a form other than paper should contact the National Underwriting Center (see E-1-03, List of Contacts) to ensure that the requested form is compatible with the National Underwriting Center's system and processes.

The requested files must be sent to Fannie Mae's National Underwriting Center.

**Post-Closing Review File Submission Documentation:**

The table below details the credit, purchase transaction, property, legal, project, insurance, and miscellaneous documents needed for the post-closing review file:

<b>Credit Documents</b>	
	Uniform Underwriting and Transmittal Summary ( <a href="#">Form 1008</a> ), if applicable
	Reports produced by Desktop Underwriter —Underwriting Findings Report and the Underwriting Analysis Report
	Uniform Residential Loan Application ( <a href="#">Form 1003</a> or <a href="#">Form 1003(S)</a> ) — copies of both the original application and the final typed application that the borrower signed
	Residential mortgage credit report, nontraditional mortgage credit report, or any in-file or automated merged reports that were used; Borrower's credit report from Desktop Underwriter
	Income/employment verification: Request for Verification of Employment ( <a href="#">Form 1005</a> or <a href="#">Form 1005(S)</a> ), signed federal income tax returns, or any other applicable alternative documentation Fannie Mae accepts — such as W-2 forms, IRS Form 1099, paystubs, profit and loss statements, Cash Flow Analysis ( <a href="#">Form 1084</a> ), etc.
	Asset verification: Request for Verification of Deposit ( <a href="#">Form 1006</a> or <a href="#">Form 1006(S)</a> ) or any applicable alternative documentation Fannie Mae accepts for verifying funds for closing or cash reserves (including bank statement, income account statements, etc.); and income and asset verifications (as specified in the Underwriting Findings Report)
	Miscellaneous credit documents — mortgage payment history for previous mortgage, gift letter, source of funds letter, proof of sale of previous residence, proof of debt satisfaction, release from bankruptcy, divorce decree, Operating Income Statement ( <a href="#">Form 216</a> ) for investment properties, evidence of receipt of rental payments, copy of collection history for previous mortgage (including notes), etc.
<b>Purchase Transaction Documents</b>	
	Agreement of Sale, Sales Contract, Purchase and Sales Agreement, or an equivalent document
	Escrow Instructions, if applicable
	Final Truth-in-Lending disclosures, including the Amount Financed Itemization (if an itemization was prepared)
	HUD-1 Uniform Settlement Statement, signed by all parties (buyer and seller)
<b>Property Documents</b>	

	Applicable appraisal report or Desktop Underwriter Property Inspection Report, as applicable
	Attachments to appraisal report — location map, building sketch, and photographs
	Survey, if required
	Any other pertinent property information, including any well and septic certifications and maintenance agreements, evidence of energy efficiency, etc.
	All documentation that supports energy improvement work, including the energy report, if applicable
	<b>Legal Documents</b>
	Note
	Recorded Mortgage or Deed of Trust
	Riders or Addenda to Note and Mortgage or Deed of Trust
	Buydown Agreement, if applicable
	Assumption Agreement, if applicable
	Assignment of Mortgage to Fannie Mae, if applicable
	Previous intervening assignment(s), if applicable
	Copy of Leasehold Agreement, if applicable
	<b>Condominium, Cooperative, and Planned Unit Development Project Documents</b>
	Mortgages secured by individual units in condominium, cooperative, and planned unit development projects require the lender to retain supporting documentation based on the approval process used to determine eligibility. The lender must maintain supporting documentation (including legal, insurance, and other) used to determine project eligibility either in a project specific file or the individual loan file and must be readily available, upon request to Fannie Mae.
	<b>Insurance Documents</b>
	Mortgage insurance certificate for an insured conventional mortgage, FHA mortgage insurance certificate for an FHA-insured mortgage, VA loan guaranty certificate for a VA-guaranteed mortgage, loan note guarantee for an RD-guaranteed mortgage, and an Indian loan guarantee certificate for a HUD-guaranteed Chapter 184 mortgage
	Title insurance policy with all endorsements, and a copy of the original commitment for title insurance, title opinion, or abstract of title
	Copy of current hazard insurance policy
	Copy of the life-of-loan flood certificate and, if applicable, the current flood insurance policy

	Any repurchase or collateral agreement executed in lieu of conventional mortgage insurance
	<b>Miscellaneous Documents</b>
	Mortgage Payment Record
	Homebuyer Education certificate or worksheet for a community lending mortgage
	Single Loan Waiver Approval, if applicable
	Copy of Loan Schedule ( <a href="#">Form 1068</a> ) or ( <a href="#">Form 1069</a> ) or Schedule of Mortgages ( <a href="#">Form 2005</a> )
	Discount Point Worksheet, if applicable
	Conventional Prepayment Penalty Worksheet, if applicable
	RESPA Affiliated Business Disclosure, if applicable
	Borrower's Choice of Attorney Form, if applicable

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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

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 **E-3-01, Glossary of Fannie Mae Terms: A (04/01/2009)**

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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.

---

**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.

---

**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.

---

**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.

---

**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.

---

**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.

---

**amenity**

A feature of real property, whether natural or manmade, that enhances its attractiveness and increases the occupant or user’s satisfaction, although the feature is not essential to the property’s use (such as a scenic view or recreational facility).

---

**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.

---

**amortization**

Gradual reduction of the mortgage debt through periodic payments scheduled over the mortgage term.

---

**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.

---

**appraisal**

A report that sets forth an opinion or estimate of value.

---

**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.

---

### **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.

---

### **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.

---

### **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.

---

### **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.

---

### **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.

---

### **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.

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**E-3-02, Glossary of Fannie Mae Terms: B (12/30/2009)**

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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.

---

**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).

---

**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.

---

**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.

---

**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.

---

**basis points (bps)**

One one-hundredth of one percent. For example, 7½ basis points equal 0.075 percent or 0.00075.

---

**Best's Insurance Reports**

A publication issued by the A.M. Best Company, which establishes ratings for hazard insurance carriers by evaluating their assets and liabilities.

---

**blanket insurance policy**

A single policy that covers more than one piece of property (or more than one person).

---

**blanket mortgage**

A mortgage that is secured by a co-op project, as opposed to the share loans on individual units within the project.

---

**bona fide discount points**

Points paid that result in a bona fide reduction of the note rate, provided the interest rate reduction is reasonably consistent with established industry norms and practices. A point will be presumed to be bona fide if it reduces the note rate by a minimum of 25 basis points, assuming all other loan terms remain the same.

---

**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.

---

**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.

---

**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*.

---

**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.

---

**broker**

A third-party entity that processes the mortgage loan application, and may also underwrite and close the mortgage loan. Typically, the mortgage loan is closed in a lender's name, and a lender funds the loan and then sells it to Fannie Mae.

---

**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.

---

**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.

---

**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.

---



## **E-3-03, Glossary of Fannie Mae Terms: C (03/31/2011)**

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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.

---

### **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.

---

### **certificate of deposit index**

An index that is used to determine interest rate changes for certain ARM plans. It represents the weekly average of secondary market interest rates on 6-month negotiable certificates of deposit.

---

### **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.

---

### **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).

---

### **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.

---

**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.

---

**commercial space**

Space in a condo or co-op project that is leased for commercial or business use.

---

**common area assessments**

Levies 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.

---

**common elements (areas)**

Those portions of a building, land, and amenities owned (or managed) by a PUD or condo project's homeowners' association (or 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 may include swimming pools, tennis courts, and other recreational facilities, as well as common corridors of buildings, parking areas, and means of ingress and egress.

---

**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.

---

**Community Seconds**

A subsidized second mortgage typically made by a federal, state, or local government agency, a nonprofit organization, or an employer.

---

**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.

---

**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.

---

**conditional project approval**

The first stage of Fannie Mae's approval of a condo, PUD, or co-op 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.

---

**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.

---

**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.

---

**Condo Project Manager (CPM)**

A Web-based application available to lenders through [Condo Project Manager](#) that provides a clearly defined condo project acceptance path with step-by-step processes for lenders to enter condo project data and receive findings on project acceptability.

---

**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.

---

**condominium (condo) conversion**

Changing the ownership of an existing building (usually a rental project) to the condominium form of ownership.

---

**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.

---

**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.

---

**constituent documents**

The legal documents of a condo project including, but not limited to, the condominium declaration, homeowners' association bylaws and articles of incorporation, master deeds, legal description, and rules and regulations.

---

**construction site 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 acts of nature (including fire, flood, and wind damage).

---

**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.



---

**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.

---

**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.

---

**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.

---

**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.

---

**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.

---

**cooperative (co-op) mortgages**

Mortgages related to a co-op project. This usually refers to multifamily mortgages covering the entire project.

---

**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.

---

**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.

---

**corporate relocation**

An arrangement under which an employer moves an employee to another area as part of the employer's normal course of business or under which it transfers a substantial part or all of its operations and employees to another area because it is relocating its headquarters or expanding its office capacity.

---

**corporate relocation mortgage**

A mortgage made to facilitate an employee's transfer to a new business location and which is originated under a structured corporate relocation program.

---

**correspondent**

A third-party entity that may originate and underwrite the mortgage. The correspondent closes the mortgage in its own name with its own funds and sells it to a lender, which in turn may sell the mortgage to Fannie Mae.

---

**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.

---

**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).

---

**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.

---

**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.

---

**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.

---

**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.

---

**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 (12/01/2010)**

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**debt**

Borrowed money, the repayment of which may be either secured or unsecured, with various possible repayment schedules.

---

**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,” “expense ratio,” and “total 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.

---

**default**

The failure to make a mortgage payment or to otherwise comply with one or more covenants of the mortgage.

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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.

---

**demand deposit account**

A bank account in which the funds are available for withdrawal at any time without penalty.

---

**Demotech, Inc.**

A company that establishes ratings for property and casualty insurance carriers and title insurance companies by evaluating their assets and liabilities.

---

**Desktop Originator (DO)**

A Web-based application that gives originators access to DU through a sponsoring lender.

---

**Desktop Underwriter (DU)**

Fannie Mae's automated underwriting system.

---

**deterioration**

See *physical depreciation*.

---

**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.

---

**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.

---

**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.

---

**document custodian**

A financial institution that maintains custody of certain mortgage documents on behalf of Fannie Mae.

---

**domestic partner**

An unrelated individual who shares, and intends to continue sharing, a committed relationship with a borrower who signs the note.

---

**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.

---

### **Duff & Phelps Credit Rating Company**

A company that, among other things, establishes ratings for title insurance companies by evaluating their assets and liabilities.

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### **E-3-05, Glossary of Fannie Mae Terms: E (06/28/2011)**

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#### **early delinquency counseling**

A requirement for certain loan products in which lenders must offer financial counseling to borrowers in the event of default. This counseling emphasizes the importance of making mortgage payments on time or, if that is not possible, provides advice to borrowers about working through financial difficulties by proper budgeting, entering into repayment plans, etc., in the early stages of delinquency.

---

#### **earnest money deposit**

A deposit submitted with a purchase offer to show that the buyer's offer is being made in good faith.

---

#### **eBoutique**

A Web-based application that supports the servicing of reverse mortgages and provides file transfer functionality for construction-to-permanent and other loans.

---

#### **economic obsolescence**

See *external depreciation*.

---

#### **effective gross income**

An income measurement for an investment property, which is determined by calculating annual rent based on 100% occupancy, adding other income—such as that received from parking, laundry facilities, etc.—and subtracting an estimated amount for rent loss that can be expected for anticipated vacancies or uncollectible rent from occupied units.

---

**electronic**

Relating to technology having electrical, digital, magnetic, wireless, optical, electromagnetic, or similar capabilities.

---

**electronic imaging**

A method of reproducing a facsimile of a document or photograph with a computer or another electronic device.

---

**electronic record**

A contract or other record created, generated, sent, communicated, received, or stored by electronic means.

---

**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.

---

**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).

---

**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 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.

---

**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.

---

**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.

---

**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.

---

**excess margin**

The overage that results when the net mortgage margin of an adjustable-rate mortgage is greater than Fannie Mae's required margin.

---

**existing issue**

See *delivery versus payment settlement*.

---

**Expanded Approval (EA)**

A mortgage recommendation in DU that is applicable for loans with slightly higher risk than those that receive an Approve recommendation.

---

**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 (06/28/2011)**

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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.

---

**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.)

---

**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 Majors**

See *multiple pool*.

---

**FannieNeighbors**

A mortgage option designed to increase homeownership and revitalization in census tracts that HUD has designated as underserved.

---

**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.

---

**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.

---

**Federal Housing Administration (FHA)**

FHA, also a part of HUD, provides mortgage insurance on loans made by FHA-approved lenders.

---

**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).

---

**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.

---

**FHA-insured mortgage**

A mortgage by the FHA; may be referred to as a “government” mortgage.

---

**FICO®**

Credit score; the classic FICO credit score developed by Fair Isaac Corporation.

---

**fidelity bond**

A type of bond that is obtained by an employer to protect against economic loss from dishonest acts of its employees.

---

**fidelity 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.

---

**final project approval**

The approval 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.

---

**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.

---

**first mortgage**

A mortgage that is the primary lien against a property.

---

**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. For additional information about making this determination, see the instructions for the Uniform Residential Loan Application ([Form 1003](#)).

---

### **fiscal year**

Any 12-month period used for financial reporting and preparation of balance sheets, profit and loss statements, and other financial summaries.

---

### **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.

---

### **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.

---

### **fixed-rate mortgage**

A mortgage that provides for only one interest rate for the entire term of the mortgage. This could either be fully amortizing or have an interest-only feature.

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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.

---

**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*.

---

**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.

---

**Freddie Mac**

Federal Home Loan Mortgage Corporation (FHLMC). A congressionally chartered corporation that purchases mortgage loans in the secondary mortgage market.

---

**full payment amount**

The monthly payment required, at each interest change date, to amortize the then outstanding principal balance of an ARM (or GPARM) at the new interest rate over the remaining mortgage term.

---

**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.

---

**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.

---

**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 (04/01/2009)**

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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.

---

**graduated-payment amount**

The monthly payment established during a graduated-payment period. It will not be sufficient to fully amortize the mortgage so it will result in negative amortization.

---

**graduated-payment mortgage (GPM)**

A mortgage that has its initial monthly payments set at an amount lower than that required for full amortization of the debt. The payments are then increased by a specified percentage each year during the graduated-payment period. At the end of the period, payments are in an amount that will fully amortize the mortgage.

---

**graduated-payment period**

The term over which a GPM's or GPARM's payments are less than the amount required to fully amortize the mortgage. During this period, payments usually increase every 12 months so that the mortgage can become fully amortizing at the end of the period.

---

**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.

---

**group home**

A residential structure utilized for occupancy by persons with disabilities.

---

**growing-equity mortgage (GEM)**

A fixed-rate mortgage that provides for scheduled payment increases over an established period of time, with the increased amount of the monthly payment applied directly toward reduction of the unpaid principal balance of the mortgage.

---

**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.

---

**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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**E-3-08, Glossary of Fannie Mae Terms: H (06/28/2011)**

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**hazard insurance**

Insurance coverage that compensates for physical damage—by fire, wind, or other natural disasters—to the property.

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**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.

---

**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.

---

**homeowners' association (HOA)**

A nonprofit corporation or association that manages the common areas of a PUD or condo project. In a condo project, it has no ownership interest in the common areas. In a PUD project, it holds title to the common areas.

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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.

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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.



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 **E-3-09, Glossary of Fannie Mae Terms: I (04/01/2009)**

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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.

---

**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.

---

**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.

---

**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.

---

**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.

---

**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).

---

**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.

---

**institutional lender**

A financial institution that invests in mortgages and keeps them in its own portfolio.

---

***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.

---

**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, although it is not used for graduated-payment mortgages and adjustable-rate mortgages with payment change limitations.

---

**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.

---

**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.

---

**interest rate change date**

The date on which the mortgage interest rate changes for an ARM/GPARM; the date on which interest begins to accrue at a new rate for an ARM MBS pool.

---

**interest rate change interval**

The period that elapses between interest rate change dates for an ARM/GPARM.

---

**interest rate differential**

See *yield difference*.

---

**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.

---

**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).

---

**interest-only feature**

The interest-only feature allows borrowers to pay only the monthly interest due for a fixed period, followed by a fully amortizing period. Interest-only loans can have a fixed or adjustable interest rate.

---

**intermediate-term mortgage**

A mortgage that amortizes over an original term from 10 to 20 years.

---

**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.

---

**issue date**

The first day of the month in which MBS backed by an MBS pool of mortgage loans are issued.

---

**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)**

no applicable terms



**E-3-11, Glossary of Fannie Mae Terms: K (04/01/2009)**

no applicable terms



**E-3-12, Glossary of Fannie Mae Terms: L (06/28/2011)**

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**LACE Financial Corporation**

A company that, among other things, establishes ratings for title insurance companies by evaluating their assets and liabilities.

---

**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.

---

**lead Fannie Mae regional office**

The regional office that is responsible for overseeing Fannie Mae's relationship with specific lenders.

---

**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.

---

**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.

---

**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").

---

**Lender Contract**

Refers to all of the lender's contracts and commitments with Fannie Mae.

---

**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.

---

**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.

---

**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.

---

**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).

---

**limited liability company (LLC)**

A flexible form of business enterprise that blends elements of partnership and corporate structures.

---

**living trust**

See *inter vivos revocable trust*.

---

**loan amount**

The original amount of the loan as indicated by the note or credit agreement; also known as the original loan amount or original principal balance.

---

**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.

---

**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.

---

**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).

---

**long-term standby 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 (usually 30 to 45) before the interest rate change date.

**E-3-13, Glossary of Fannie Mae Terms: M (06/28/2011)**

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**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.

---

### **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.

---

### **margin differential**

The margin shortage that occurs when the net mortgage margin is less than Fannie Mae's required margin.

---

### **market data approach**

See *sales comparison approach to value*.

---

### **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 Mae following its conversion to a fixed-rate mortgage or to retain the repurchased mortgage for its portfolio.

---

### **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 homeowners' association in a large condo or PUD project that is made up of representatives from associations covering specific areas within the project. In effect, it is a "second level"



association that handles matters affecting the entire development, while the “first level” associations handle matters affecting their particular portions of the project.

---

**master servicer**

The contractually responsible servicer of a mortgage or pool of mortgages that is included in 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.

---

**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.

---

### **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 the Loan Delivery application. This application replaces most of the acquisitions reporting functionality formerly available through MORNET®.

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**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.

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**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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**modification**

The act of changing any of the terms of the mortgage by agreement between the borrower and the note holder.

---

**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.

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### **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.

---

**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 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.

---

**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.

---

**mortgage-backed security (MBS)**

An investment instrument that represents an undivided interest in a pool of mortgages.

---

**mortgagee interest insurance**

See *mortgage impairment insurance*.

---

**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.

---

**multiple pool**

An MBS pool that consists of pools of mortgages delivered by more than one lender; also called Fannie Majors.

---

**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.

---

**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*.

---

**MyCommunityMortgage (MCM)**

Fannie Mae's flexible, affordable lending product designed to meet the needs of low- to moderate-income home buyers and homeowners. MCM is a standard product with underwriting recommendations available through DU and manual underwriting flexibilities provided for borrowers lacking traditional credit and borrowers with special needs.

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## **E-3-14, Glossary of Fannie Mae Terms: N (06/28/2011)**

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### **National Credit Union Administration (NCUA)**

The regulator of the credit union industry.

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### **National Underwriting Center**

A Fannie Mae quality control unit located in Dallas, Texas, which conducts underwriting performance reviews for selected purchased mortgages, as well as post-purchase reviews for mortgages that have early payment delinquencies and foreclosed mortgages.

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### **negative amortization**

A gradual increase in the mortgage debt that occurs when the monthly installment is not sufficient for full application to both principal and interest. This interest shortage is added to the unpaid principal balance to create “negative” amortization.

---

### **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.

---

### **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.

---

**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.

---

**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 in B4-2.2-01, Condo Project Eligibility.

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**E-3-15, Glossary of Fannie Mae Terms: O (03/31/2011)**

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**obsolescence**

See *functional depreciation*.

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**Office of Thrift Supervision (OTS)**

The regulator of the thrift industry. It replaced the Federal Home Loan Bank Board (FHLBB).

---

**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.

---

**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).

---

**original loan amount**

See loan amount.

---

**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.

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**owners' association**

See *homeowners' association*.

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**E-3-16, Glossary of Fannie Mae Terms: P (12/01/2010)**

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**pair-off**

A process under which a lender that is unable to meet the terms of a mandatory delivery commitment pays Fannie Mae a fee calculated against the unused portion of the commitment.

---

**par**

The face value of the mortgage (the unpaid principal balance) equals its selling price (100%—there are no discounts or premiums).

---

**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.

---

**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).

---

**payment change date**

The date on which the payment changes for an ARM/GPARM; 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 or GPARM provides for the monthly payment to change more frequently than the interest rate).

---

**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.

---

**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.

---

**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.

---

**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.

---

**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.

---

**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.

---

**prepayment premium**

A charge or penalty that a borrower may be required to pay during the early years of a mortgage if he or she prepays the mortgage in full or pays large sums to reduce the unpaid balance.

---

**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.

---

**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.

---

**primary wage earner**

The borrower whose income represents the majority of the income used in qualifying for a mortgage; when used in connection with a corporate relocation mortgage, it refers to the borrower who has the job that is being relocated.

---

**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

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.

---

### **project**

A dwelling or dwellings comprising five or more single-family units.

---

### **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.

---

### **purchase date**

The date on which Fannie Mae disburses the purchase proceeds for a cash delivery; the date on which Fannie Mae purchases a pool or mortgage loan in an early funding transaction.

---

### **purchase money transaction**

The acquisition of property through the payment of money or its equivalent.

---

### **purchase price**

The percentage of par that Fannie Mae applies to the unpaid principal balance of a mortgage submitted as a cash delivery to determine the amount of the purchase proceeds; the amount that Fannie Mae will pay the lender on the purchase date for a pool or mortgage loan being purchased in an early funding transaction.

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## **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 (06/28/2011)**

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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.

---

### **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.

---

### **real estate owned (REO)**

Other real estate owned by the borrower (such as an investment property).

---

### **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.

---

### **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).

---

### **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.)

---

### **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.

---

### **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.)

---

### **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, partially amortizing mortgages (such as balloon mortgages or mortgages with an interest-only feature), and mortgages that provide for the deferment of interest accruals during any portion of the mortgage term (by allowing negative amortization).

---

### **rehabilitation mortgage**

A mortgage created to cover the costs of repairing, improving, and sometimes acquiring an existing property.

---

### **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.

---

### **remaining term**

Original term less the number of payments that have been applied.

---

**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).

---

**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.

---

**rent loss insurance**

Insurance that protects the landlord against loss of rent or rental value due to fire or other casualty that renders the leased premises unavailable for use and as a result of which the tenant is excused from paying rent.

---

**replacement reserve fund**

A fund set aside for replacement of common property in a condo, PUD, or co-op project—particularly that which has a short life expectancy, such as carpeting, furniture, etc.

---

**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 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.

---

**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.

---

**restricted relocation mortgage**

A mortgage to a transferred employee of an employer that normally relocates its employees that is made in connection with the purchase of the employee's new home at the new job location and that is made under a relocation lending agreement between the lender (mortgage originator) and the employer (or its agent)—if the mortgage is delivered to Fannie Mae on a “spot-loan” basis. Fannie Mae restricts the percentage of an MBS pool that can be comprised of these mortgages. Requires SFC 013 at delivery.

---

**retail**

A mortgage loan originated by a lender and underwritten and funded by that lender. The mortgage loan is closed in the lender's name and if it is sold to Fannie Mae, it is sold by the lender who originated it.

---

**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.

---

**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.

---

**right of ingress or egress**

The right to enter upon or leave from designated premises.

---

**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).

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## **E-3-19, Glossary of Fannie Mae Terms: S (01/27/2011)**

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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.

---

### **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).

---

### **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).

---

**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.

---

**secondary mortgage market**

The financial market in which residential mortgages and mortgage-related securities are bought and sold.

---

**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.

---

**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.

---

**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.

---

**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.

---

**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.

---

**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.

---

**single pool**

An MBS pool that consists of mortgages or participation interests delivered by a single lender.

---

**single-family mortgage loan**

A mortgage loan secured by a property that contains one to four residential dwelling units.

---

**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).

---

**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.

---

**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.

---

### **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.

---

### **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 cash delivery.)

---

### **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.

---

### **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 yield. Standard pricing can result in either a par price or a discount price, but not a premium price.

---

### **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).

---

**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.

---

**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.

---

**subdivision**

A housing development that is created by dividing a tract of land into individual lots for sale or lease.

---

**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 lender that has contracted with the contractually responsible servicer of a mortgage or pool of mortgages to perform the ongoing servicing activities for the mortgage or pool.

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**servicing arrangement**

An arrangement wherein the contractually responsible servicer of a mortgage or pool of mortgages hires another servicer to perform its servicing functions.

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**swing loan**

See *bridge loan*.

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 **E-3-20, Glossary of Fannie Mae Terms: T (06/28/2011)**

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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).

---

**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.

---

**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.

---

**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.

---

**third-party origination**

A process by which a lender uses another party to completely or partially originate, process, underwrite, close, fund, or package the mortgages it plans to deliver to Fannie Mae.

---

**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.

---

**title insurance**

Insurance against loss resulting from defects in the title to real property.

---

**trade equity**

Equity that results from a property purchaser giving his or her existing property (or an asset other than real estate) as trade as all or part of the down payment for the property that is being purchased.

---

**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.

---

**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.

---

**Two-Step mortgage**

An ARM that has one interest rate for the first five or seven years of its mortgage term and a different interest rate for the remainder of the mortgage term.

---

**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 (04/01/2009)**

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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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**underwriting performance review**

An after-the-fact review and risk assessment for a sampling of the mortgages Fannie Mae purchases or securitizes to ensure that they satisfy Fannie Mae’s mortgage eligibility criteria and underwriting guidelines.

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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 E-SIGN.

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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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 **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 (04/01/2009)**

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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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**working capital fund**

A fund (consisting of liquid assets) that is set aside to enable the homeowners' association of a PUD or condo project to meet its liabilities for unforeseen expenditures or for the purchase of additional equipment or services. Generally, Fannie Mae requires the initial amount of this fund to equal at least two months' worth of the estimated common charges for each unit in the project.

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**wraparound mortgage**

A refinancing technique involving the creation of a second mortgage, which includes the balance due on any existing mortgages, plus the amount of the new secondary or junior lien.

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### **E-3-24, Glossary of Fannie Mae Terms: X (04/01/2009)**

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**no applicable terms**

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### **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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