



December 27, 2011

## Fannie Mae Updates Re-Fi Plus and DU Re-Fi Plus

**Ellen Brody**  
*Assistant Vice President*

### Fannie Mae Updates Re-Finance Guidelines

Fannie Mae (FNMA) recently announced Selling Guide updates in SEL-2011-13 (12/20/11) which reflect many changes detailed in prior Announcement SEL-2011-12, Updates to Refi-Plus and Du Refi-Plus. The Selling Guide has also been updated to reflect clarifications/changes in regard to Refi-Plus and DU Refi-Plus loans. Of note is the following which are effective immediately:

1. For Refi-Plus loans, the lender is no longer required to determine the borrower has a reasonable ability to repay the mortgage based on a review of the new loan application.
2. A loan may now be converted from DU Refi-Plus to Refi-Plus if the lender is the current servicer of the loan and the loan meets all Refi-Plus requirements.

3. When a lender believes that the DU Refi-Plus property fieldwork waiver must be overridden, the lender should obtain an inspection. If the inspection reveals physical deficiencies or adverse environmental conditions, the lender must obtain a full appraisal (based on an interior and exterior property inspection) and may not exercise the DU Refi-Plus property fieldwork waiver offer. If the inspection does not reveal physical deficiencies or adverse environmental conditions, the lender may choose to exercise the DU Refi-Plus property fieldwork waiver, or it may obtain the minimum level of property fieldwork as specified by DU.

4. Laws and regulations regarding the use of appraisals and automated valuation models may vary. The lender is responsible for compliance with all federal, state and local laws, rules and regulations. When the lender is required by law to obtain an appraisal, the lender must comply with such requirements, but may still exercise the DU Refi-Plus property fieldwork waiver.

5. The lender no longer needs to confirm the hazard, flood, liability and fidelity coverage on mortgage loans secured by units in projects and underwritten to the Refi-Plus guidelines. (The lender's original project review would have confirmed required coverage and the servicing guidelines require that such coverage remain in force.)

*continued on next page*

## Temporary Leave Income:

6. FNMA has updated the requirements regarding qualifying income for borrower on temporary leave. The guidelines from the Selling Guide are shown below.

The borrower's employment and income history must meet standard eligibility requirements as described in Section B3-3.2, Salary, Commissions, and Other Sources of Income.

- The borrower must provide written confirmation of his or her intent to return to work and the agreed upon date of return as evidenced by documentation provided by the employer or a designee of the employer. (For example, an employer may use the services of a third party to administer employee leave.

- The lender must receive no evidence or information from the borrower's employer indicating that the borrower does not have the right to return to work after the leave period

- The lender must obtain a verbal verification of employment in accordance with B3-3.1-02, Verbal Verification of Employment (12/20/2011). If the employer confirms the borrower is currently on temporary leave, the lender must consider the borrower employed.

- The lender must verify the borrower's income in accordance with Section B3-3.2, Salary, Commissions, and Other Sources of Income. The lender must obtain:

- The amount and duration of the borrower's "temporary leave income" which may require multiple documents or sources depending on the type and duration of the leave period, and

- The amount of the "regular employment income" the borrower received prior to the temporary leave. Regular employment income includes, but is not limited to, the income the borrower receives from employment on a regular basis that is eligible for qualifying purposes (for example, base pay, commissions, and bonus). Note: Income verification may be provided by the borrower, by the borrower's employer, or by a third-party employment verification vendor.

7. Requirements for Calculating Income Used for Qualifying are as follows:

- If the borrower will return to work as of the first mortgage payment date, the lender can consider the borrower's regular employment income in qualifying.

- If the borrower will not return to work as of the first mortgage payment date, the lender must use the lesser of the borrower's temporary leave income (if any) or regular employment income. If the borrower's temporary leave income is less than his or her regular employment income, the lender may supplement the temporary leave income with available liquid financial reserves (see B3-4.1-01, Minimum Reserve Requirements (09/20/2010)).

### To calculate supplemental income:

Supplemental income amount = available liquid reserves divided by the number of months of supplemental income

- Available liquid reserves: subtract any funds needed to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount.

- Number of months of supplemental income: the number of months from the first mortgage payment date to the date the borrower will begin receiving his or her regular employment income, rounded up to the next whole number.

**To calculate total qualifying income:**

Total qualifying income = supplemental income + temporary leave income.

The total qualifying income that results may not exceed the borrower's regular employment income.

**Example:**

Regular income amount: \$6,000 per month

Temporary leave income: \$2,000 per month

Total verified liquid assets: \$30,000

Funds needed to complete the transaction:  
\$18,000

Available liquid reserves: \$12,000

First payment date: July 1

Date borrower will begin receiving regular employment income: November 1

Supplemental income:  $\$12,000/4 = \$3,000$

Total qualifying income:  $\$3,000 + \$2,000 = \$5,000$

Note: These requirements apply if the lender becomes aware through the employment and income verification process that the borrower is on temporary leave. If a borrower is not currently on temporary leave, the lender must not ask if he or she intends to take leave in the future.

**Condo Project Requirements:**

FNMA has clarified its requirements for property hazard insurance in the Selling Guide, B7-3-04 as detailed below. Of particular note is the change in the requirement regarding HO-6 policies from 20% of the condo unit's appraised value to an amount, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

The lender must review the entire condo project insurance policy to ensure the homeowners' association maintains a master or blanket type of insurance policy, with premiums being paid as a common expense. The insurance requirements vary based on the type of homeowners' association master or blanket insurance policy as follows:

**"Single Entity" policy:**

The policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the homeowners' association. The policy also must cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed. The amount of coverage must be sufficient to restore the condo unit to its condition prior to a loss claim event. If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

**"All-In" (sometimes known as an "all-inclusive") policy:**

The policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the homeowners' association. The policy also must cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed.

If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

### "Bare Walls" policy:

This policy typically provides no coverage for the unit interior, which includes fixtures, equipment, and replacement of interior improvements and betterments. As a result, the borrower must obtain an individual HO-6 policy that provides coverage sufficient to repair the condo unit to its condition prior to a loss claim event, as determined by the insurer.

### Master or Blanket Insurance for Unaffiliated Condo Associations or Projects:

FNMA is now permitting master or blanket insurance policies that combine insurance coverage for multiple unaffiliated condominiums or other residential or substantially residential projects that are unaffiliated as long as the coverage meets certain specific criteria as described in the Selling Guide as follows:

Any company, group, sponsor, individual, or administrator providing these types of policies that has never been rated by A.M. Best, Standard and Poor's, or Demotech must be licensed to sell insurance or have a principal or officer of the company licensed to sell insurance within the state or territory where its corporate headquarters are subject to supervision and regulation by a federal or state insurance agency.

The lender must obtain the insurance policy as well as all of the necessary schedules, endorsements, statements of value, or other associated documents needed to appropriately evaluate the insurance policy. The lender must ensure the policy meets all of the following requirements:

The insurance policy coverage limits must meet the higher of: greater than or equal to 50% of the total insurable replacement value for all condo projects and other residential or substantially residential projects insured under the policy; or greater than or equal to 150% of the total insurable replacement value for the single largest condo project or other residential or substantially residential project insured under the policy, but not more than 100% of the total insurable replacement value for all condo projects and other residential or substantially residential projects insured under the policy.

1. The policy endorsements must:

- Clearly state that insurance is being provided under a master or blanket insurance policy that combines insurance coverage for multiple unaffiliated condo projects or other residential or substantially residential projects;
- Clearly state that loss limits apply per occurrence and loss claims will be paid per occurrence;
- Reinstate the original per occurrence coverage limit after each loss occurrence or claim so that the full original per occurrence limit is immediately available for any subsequent loss for any perils required by Fannie Mae;
- Include a Coinsurance Waiver; and
- Clearly state that each condo project and residential or substantially residential project is a named insured.

2. The policy or endorsements cannot contain an aggregate (or policy term) loss limit for any perils required by Fannie Mae.