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# Fannie Mae Revises Rules for Age of Documents, SS Benefits, Clarifies 4506T and more

#### **By Michelle Peters**

On May 28, 2013, Fannie Mae issued Selling Guide updates with Announcement SEL-2013-04. The changes included in this most recent update include miscellaneous income and documentation requirements, single entity ownership within condominium projects, addition of 5-year adjustable program to the Texas Section 50(a)(6) mortgage option, real estate tax calculations as part of the housing expense, various waiting period guidelines and other miscellaneous Selling Guide updates.

# **Miscellaneous Income and Documentation Requirements**

**Age of Credit Documents**: Based on the date the loan note is signed, the new policy regarding the maximum age of income, asset and credit is that all documents cannot be older than 4 months. This pertains to mortgage loans for existing structures and new construction. The policy was adjusted to 4 months in order to alleviate issues that arose regarding inefficiencies related to quarterly documents that may not fall within a 90 day or 120 day guideline.

Social Security Benefits Documentation and Continuance: The policy guide has been updated to reflect new requirements for documenting certain types of Social Security benefits. Social Security benefits that the borrower receives on behalf of another beneficiary or under another person's/entity's Social Security number must be documented to prove continuance for three years. Fannie Mae has added a table to the Selling Guide in order to help determine which specific types of Social Security benefits require verification of continuance. Social Security income received under the borrower's own Social Security number as part of their own retirement earnings or long-term disability benefits do not require additional documentation; this has not been changed.

Timing of Tax Returns, Tax Return Signature Alternatives and the use of IRS Transcripts: Clarification has been provided to several topics regarding tax returns and IRS transcripts. Fannie has defined the "most recent year's" tax return as the last tax return that would have been scheduled to be filed with the IRS based on the April 15<sup>th</sup> deadline each calendar year. Also addressed was the post-closing quality control requirement for execution of the 4506-T form - lenders are only required to obtain the transcripts for documents that were used within the underwriting process. Returns and/or W2/1099 forms not used during underwriting do not need to be verified.

**Documentation of Other Income Types:** Updates and clarifications have been made to the "Other" types of income that are not typically seen with daily file reviews. Housing or Parsonage Income has been added as an allowable source of Other Income. Checking and savings accounts may be considered as an employment related asset if documented appropriately. Royalty contract earnings may be used in conjunction with a statement that confirms the monthly/quarterly income amount, the duration and the frequency.

A future release of Desktop Underwriter \*will reflect the changes specified; in the meantime lenders shall manually apply the updated procedures/requirements noted in Announcement SEL-2013-04. The changes and clarifications are effective for all applications dated September 1, 2013 or after; lenders may begin implementing changes immediately however.

Full information for these Miscellaneous Income and Documentation Requirements updates can be found in the Selling Guide within the following topics: B1-1-03 Allowable Age of Credit Documents and Federal Income Tax Returns; B3-3.1-02 Standards for Employment Documentation; B3-3.1.06 Requirements and Uses of IRS Form 4506-T; B3-3.1-09 Other Sources of Income; B3-3.3.01 Income and Employment Documentation for DU and D1-3-03 Lender Post Closing QC review of Underwriting Decisions and Documentation.

### Single Entity Ownership in a Project

Effective immediately, if a single entity (individual, investor group, partnership or corporation) owns more than 10% of the total units in a project (condo, co-op or PUD), the mortgage held against the subject property is not eligible for delivery to Fannie Mae.

# Texas Section 50(a)(6) Mortgages

The selling guide has been updated to include 5 year ARM's as an optional product. Currently the only products available for this type of mortgage is the 7 year and 10 year ARM.

# **Measurement of Various Waiting Periods**

Updates to the Selling Guide have been added that specifically address significant derogatory credit events such as bankruptcy, pre-foreclosure processes, Deed-in-Lieu of Foreclosure. Lenders should try to obtain as much information from the borrowers directly as they are taking a loan application. This will help to ensure that any significant derogatory credit events that may not be reflected on the credit report are accounted for. Regarding the measurement of waiting time between certain significant derogatory events, the policy has been amended for certain types of derogatory events to have the measure date be from the date of credit report rather than the application date. A lender may pull a subsequent credit report in order control the credit report date for measurement purposes.

Updates within the Selling Guide for regarding this topic will be found within B2-1.2-02 Limited Cash-Out Refinance Transactions; B2-1.2-03 Cash-Out Refinance Transactions; B3-5.3-07 Significant Derogatory Credit Events - Waiting Periods and Re-establishing Credit; B3-5.3-09 DU Credit Report Analysis. The measurement requirements are effective immediately.

### **Calculation of Real Estate Taxes for Housing Expense**

The calculation of real estate taxes has been clarified along with focus on short-term abatements and new construction guidelines. Lenders must calculate the monthly tax expense when qualifying any borrower; at a minimum, the lender must use the current assessed value. The title commitment should reflect the current assessed value which the lender can use as its benchmark in factoring the most appropriate tax obligation.

Factors the lender must also consider are whether or not the property is a new construction and therefore currently assessed much differently than it will be once the property is complete, if there is a short term or long term abatement which will increase the tax obligation or if there is documentation to support approval by local/federal/state jurisdiction that will in fact reduce property taxes on subject property or in subject area.

The calculation guidelines detailed in the Selling Guide B3-6-03 Monthly Housing Expense are to be taken into effect immediately.

Fannie Mae Announcement SEL-2013-04 can be viewed in its entirety on AllRegs.com via the following link: <a href="http://www.allregs.com/ao/main.aspx?did2=65c963ad1c84404289ca94fe6a36f0d6">http://www.allregs.com/ao/main.aspx?did2=65c963ad1c84404289ca94fe6a36f0d6</a>



Michelle is Assistant Vice President at Bankers Advisory and Manager of the Quality Control verifications processing department and pre-funding audit services. She can be reached at michelle@bankersadvisory.com