



Bankers Advisory

COMPLIANCE MONITOR

November 10, 2014

Fannie Mae Updates Selling Guide

By Anna DeSimone, President

November 10, 2014 Fannie Mae issued SEL-2014-13. Outlined below is the complete announcement published by Fannie Mae. The *Selling Guide* has been updated to include changes to the following:

- Project Standards Policy Updates
- Fidelity/Crime and Liability Insurance for Certain Projects
- Cash-Out Refinance Transactions - Maximum LTV, CLTV, and HCLTV Ratios
- Pricing Loans for Borrowers Without Credit Scores
- Multiple Financed Properties for the Same Borrower
- Electronic Submission of Loan Files and Loan Review File Documentation
- Financed Mortgage Insurance Endorsement
- Miscellaneous *Selling Guide* Updates

Each of the updates is described below. The affected topics (and specific paragraphs) are noted for each policy change. Lenders should review each topic to gain a full understanding of the policy changes. The updated topics are dated November 10, 2014.

Project Standards Policy Updates

Fannie Mae undertook a comprehensive review of its policies related to project standards with the goal of enhancing the clarity and consistency of those standards. As a result of that review, the project standards policies have been updated to:

- organize policy requirements based on the unit type (attached or detached), project type (condo, co-op, PUD), and project status (new or established);
- streamline the project review methods; and
- revise certain policy requirements in light of market trends.

The *Selling Guide* presents the updated project review methods for units in condos as

- Limited Review,
- Full Review conducted with or without the use of Condo Project Manager™ (CPM™), and
- Fannie Mae Approval via the Project Eligibility Review Service (PERS).

The updates made in Chapter B4-2, Project Standards are extensive in terms of clarifications, reorganization, and streamlining of redundant text. Part of Fannie Mae's intent with this update was to organize these policy requirements to make it easier for lenders completing a project review on an ad-hoc basis, for example when related to a single loan. Notable updates include (but are not limited to):

- The Limited Review requirements have been streamlined for attached units in established projects and for detached units in eligible new and established projects. The references to Desktop Underwriter® (DU®) requirements and spot loan eligibility were removed.
- Key changes to Full Review requirements include:
 - CPM and Full Review have been consolidated into one review method.

- The pre-sale requirement for new projects has been decreased from 70% to 50%.
- The number of days for which 15% of unit owners may be past due on common expense assessments has been increased from 30 days to 60 days.
- The requirement that new condo projects with units less than 400 square feet be reviewed through PERS has been removed.
- To help lenders with the PERS submission process, a list of required documents has been added.
- A new recommendation was added for lenders to obtain the homeowners' association IRS Tax Identification Number (TIN) for all condo and co-op projects. Over time, this will improve Fannie Mae's tracking of both projects and the risk associated with deliveries from each project.
- Detailed descriptions of ineligible project characteristics were updated to include new prohibitions, clarifications, and additional flexibilities.
- The additional flexibilities include increasing the allowable commercial space allocation from 20% to 25% for condo projects, allowing a single entity to own up to 2 units in a project consisting of 5 to 20 units, specifying the situations under which up to 15% of non-incidentual business income is allowed, and permitting live-work projects that allow unit owners to operate small home-based businesses from their residential dwelling.
- Additional requirements include prohibitions against projects that require mandatory fee-based memberships and projects that operate as continuing care facilities.
- Guidance was added concerning how to research and confirm whether a project is, in fact, functioning as a condohotel and clarifying the circumstances under which boat slips, cabanas, or similar non-real estate property are acceptable as project amenities.
- All reviews (with the exception of PERS reviews) will have a 180 day expiration date. The review must have been completed within 180 days prior to the note date.
- The topic on project insurance was deleted as these requirements are presented in Subpart B7-4, Additional Project Insurance.

The policies that are not changing with this update are those related to:

- review of co-op projects,
- environmental hazards,
- the PERS process,
- detached units in PUD projects,
- project eligibility waivers, and
- Project Type Codes.

Updated *Selling Guide* Topics. See the Attachment to this Announcement detailing changes to *Selling Guide* topics.

NOTE: Lenders are reminded that Fannie Mae publishes a "highlighted" PDF version of the *Selling Guide* on Fannie Mae's website to help facilitate easy identification of the changes. Due to the extent of the updates made in Chapter B4-2, Project Standards, only the topic titles in that Chapter have been highlighted.

Effective Date. Lenders may adopt these policies immediately but must do so by April 1, 2015. CPM will also be updated in 2015 to align with the changes. Additional information about CPM updates will be communicated in 2015.

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Fidelity/Crime and Liability Insurance for Certain Projects

Condo projects that qualify for a Limited Review will no longer require fidelity/crime insurance.

The liability insurance requirements have been clarified for PUD projects. The policy more clearly states that liability insurance is only required and must be verified for attached units in new PUD projects.

Updated Selling Guide Topics

- B7-4-01, Liability Insurance (Liability Insurance)
- B7-4-02, Fidelity/Crime Insurance (Projects Requiring Fidelity/Crime Insurance)
- E-3-06, Glossary of Fannie Mae Terms: F ("fidelity insurance" was replaced with "fidelity/crime insurance")

Effective Date. These updates are effective immediately.

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Cash-Out Refinance Transactions - Maximum LTV, CLTV, and HCLTV Ratios

Fannie Mae continually analyzes the profile of its mortgage acquisitions, particularly those that represent higher risk. As a result, the maximum LTV, CLTV, and HCLTV ratios for fixed-rate cash-out refinance transactions secured by a one-unit primary residence are being reduced from 85% to 80% for both manually underwritten loans and loan casefiles underwritten through DU Version 9.2. Fannie Mae anticipates that this change will have minimal impact due to the limited volume of cash-out refinance mortgages delivered with LTVs above 80%. The Eligibility Matrix has been updated to reflect these changes.

NOTE: The LTV, CLTV, and HCLTV ratios for adjustable-rate mortgage transactions will remain unchanged at 75% for cash-out refinances secured by one-unit primary residences. No topics in the Selling Guide were impacted by this change.

Effective Date. For DU loan casefiles, this change will be applied to loan casefiles underwritten through DU Version 9.2. For manually underwritten loans, this change is effective for loans with application dates on or after December 13, 2014. Fannie Mae will implement a flow delivery cut-off for cash-out refinances with LTV ratios exceeding 80% as follows:

- whole mortgage loans must be purchased on or before May 31, 2015; and
- loans must be in MBS with issue dates on or before May 1, 2015.

Pricing Loans for Borrowers Without Credit Scores

Fannie Mae is changing the policy that pertains to how loan-level price adjustments (LLPAs) are applied to mortgage loans with more than one borrower, when one borrower has credit scores and one or more borrowers do not have credit scores. Currently for this scenario, mortgage loans delivered without a credit score for a borrower are charged under the lowest credit score range shown in each of the applicable LLPA tables in the LLPA matrices. Beginning May 1, 2015, for this scenario, the LLPAs will be charged based on the credit scores that exist for the remaining borrower(s).

For this scenario, Fannie Mae is now aligning how the representative credit score is determined for eligibility and pricing purposes. It may result in lower LLPAs for many transactions, since the LLPAs will no longer automatically be based on the lowest credit score range.

In addition, the policy that applies to delivery of credit scores when there are more than two borrowers on the loan will be updated. Fannie Mae's Loan Delivery collects a "borrower" and "co-borrower" and their respective credit scores. If there are three or more borrowers, then the lender will be required to deliver the credit scores for the borrowers with the highest and lowest representative scores, disregarding any borrower without a credit score.

NOTE: The Selling Guide will be updated to reflect these policies closer to the May 2015 implementation date.

Effective Date. These changes are effective for all loans delivered on or after May 1, 2015.

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Multiple Financed Properties for the Same Borrower

The Selling Guide describes requirements for borrowers with multiple financed properties. When a borrower financing a second home or investment property will own five to ten financed properties, additional eligibility, underwriting, and delivery requirements currently apply. With this update, the requirements are being simplified by eliminating several of the more stringent additional underwriting requirements that applied. As a result of these changes, standard Selling Guide requirements now apply for the following policies:

- waiting periods and re-establishing credit after a significant derogatory credit event,
- mortgage payment history requirements,
- rental income documentation, and
- obtaining a signed IRS Form 4506T (obtaining IRS copies of the tax returns or the transcript via an executed 4506T will no longer be required).

All other additional requirements for borrowers who will own five to ten financed properties, as described in B2-2-03, Multiple Financed Properties for the Same Borrower, and B3-4.1-01, Minimum Reserve Requirements, of the *Selling Guide*, will continue to apply, including eligibility limits, minimum reserve requirements, and delivery requirements (use of SFC 150).

Updated Selling Guide Topic. B2-2-03, Multiple Financed Properties for the Same Borrower (Eligibility Requirements for Investor and Second Home Borrowers with Five to Ten Financed Properties)

Effective Date. This update is effective immediately.

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Electronic Submission of Loan Files and Loan Review File Documentation

Fannie Mae is focusing on improvements to the post-purchase review process to make the process as streamlined and efficient as possible. To that end, the National Underwriting Center (NUC) has been piloting an electronic file submission platform called the NUC File Transfer Portal or NUC FT Portal in conjunction with their already successful Lender Direct (B2B) electronic loan file submission platform.

Using the NUC FT Portal or B2B replaces the process of sending CD or paper loan files to Fannie Mae via postal mail or a delivery service. Lenders began utilizing B2B in 2011 and the NUC FT Portal in 2013.

By February 1, 2015, NUC will only accept loan files submitted electronically via one of these two options, unless the lender obtains a special exemption by emailing NUC_FRA@fanniemae.com.

Missing documents requested after the initial loan file is submitted must be submitted to Fannie Mae using Fannie Mae's QAS Lender Web application. Lenders not yet registered for QAS Lender Web can email qas_request@fanniemae.com for assistance.

New Post-Closing Loan File Checklist

Fannie Mae has removed the post-closing mortgage loan file documentation list from the *Selling Guide* and replaced it with a form published on Fannie Mae's website. The *Post-Closing Loan File Document Checklist* (Form 1032), contains the list of loan documents that must be submitted to Fannie Mae when a file is selected for a quality control review. Lenders can use the form when preparing their files for submission to Fannie Mae, though completion and submission of the actual form in the loan file is optional.

Updated Selling Guide Topics

- B4-1.1-06, Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP) (Uniform Collateral Data Portal (UCDP))
- D2-1-02, Fannie Mae QC File Request and Submission Requirements
- E-1-02, Acronyms and Abbreviations
- E-1-03, List of Contacts
- E-2-07, Post-Closing Mortgage Loan File Documentation (Retired topic)

Effective Date. Lenders must submit loan files via electronic submission by February 1, 2015 (unless a special exemption is obtained).

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Financed Mortgage Insurance Endorsement

Currently, the Selling Guide states that lenders must obtain a Financed Mortgage Insurance Premium Endorsement to the mortgage insurance policy. Several mortgage insurers, however, have the required language incorporated directly into their new master policies, while others are continuing to use a financed premium endorsement for this purpose. Guide policy has been clarified to include the option of allowing the language related to any financed mortgage insurance premium to be incorporated into a lender's master mortgage insurance policy. Lenders may disregard this language in the message issued by DU Version 9.1. DU Version 9.2 will reflect the updated requirement.

Updated Selling Guide Topic. B7-1-04, Financed Borrower-Purchased Mortgage Insurance (Financed Mortgage Insurance Requirements)

Effective Date. This change is effective immediately.

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Miscellaneous Selling Guide Updates

A3-2-01, Compliance with Laws. The Guide was updated to include, among the examples of laws with which lenders must comply, state laws related to community property and marital property. A related change was added to B3, Underwriting Borrowers. These updates are effective immediately.

B2-1.2-02, Limited Cash-Out Refinance Transactions. The policy pertaining to continuity of obligation has been updated to align with the changes announced in the May 2014, *Selling Guide* update, which allows for a number of permissible exceptions.

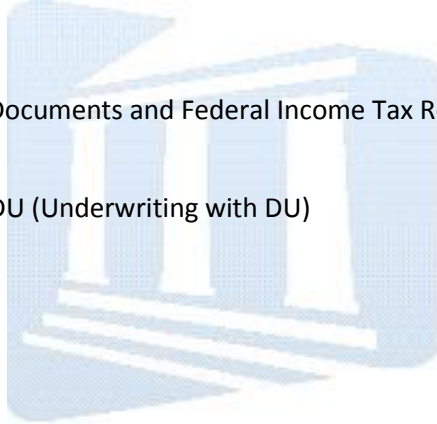
Note Date References

The *Selling Guide* currently contains references to "the date on which the note is signed" and the "note date." The only date on the note itself is at the top of the document; however, this date may not necessarily be the date on which the note was signed. As a result, references in the Guide to "the date on which the note is signed" have been changed to the more definitive "note date." This update also aligns with the delivery requirement to provide "note date."

Updated Selling Guide Topics

B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns (Allowable Age of Credit Documents)

B3-2-01, General Information on DU (Underwriting with DU)



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