



Bankers Advisory

COMPLIANCE MONITOR

February 24, 2015

Fannie Mae Updates Rules for Condos and Borrowers Without Credit Scores

By Anna DeSimone

February 24, 2015 Fannie Mae released Ann. SEL-2015-02, Selling Guide Update. The *Selling Guide* has been updated to include changes to the following:

- Clarifications of Project Standards Policies
- Reorganization of Co-op Topics
- Updated Effective Dates for Pricing and Credit Score Delivery in Announcement SEL-2014-13
- Lender Breach of Contract

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 February 24, 2015.

Clarifications of Project Standards Policies

On November 10, 2014, Fannie Mae announced significant updates to the project standards policies in the *Selling Guide*. As a result of questions received about the updates, the following clarifications are being made to the Guide:

- B4-2.1-01, General Information on Project Standards. In the Project Review Methods section, a note has been added to the table that lists the project review methods eligible for each unit/project type. The note confirms that there are no LTV ratio or occupancy restrictions for the Limited Review eligibility of detached condo units.
- B4-2.2-03, Full Review: Additional Eligibility Requirements for Attached Units in New and Newly Converted Condo Projects.
 - In the Additional Requirements for Attached Units in New and Newly Converted Condo Projects section, the definition of “substantially complete” was expanded to clarify that all the units and buildings in the legal phase (not the construction phase) must be complete, except for installation of buyer selection items, such as appliances.
 - In the Condo Project Legal Document Review Requirements for Attached Units in New or Newly Converted Projects section, the phrase “containing more than four residential units” was added to the sentence introducing the table of review requirements to

underline the fact that two- to four-unit condo projects are excluded from these requirements.

These changes are clarifications only, and do not represent any changes in policy.

In addition, to reinforce the fact that the environmental hazard assessment requirements pertain to all types of projects—condo, co-op, and PUD—these topics are being moved to Section B4-2.1, General Project Standards. No other updates to the text were made and the date of the topics remains unchanged.

Updated *Selling Guide* Topics

- B4-2.1-01, General Information on Project Standards
- B4-2.2-03, Full Review: Additional Eligibility Requirements for Attached Units in New and Newly Converted Condo Projects
- B4-2.1-03, Environmental Hazard Assessments
- B4-2.1-04, Unacceptable Environmental Conditions
- B4-2.1-05, Remedial Actions for Environmental Assessments Below Standards

Effective Date

In Announcement SEL-2014-03, lenders were encouraged to adopt the project standards policy updates immediately, but were not required to do so until April 1, 2015 to align with the anticipated Condo Project Manager™ (CPMTM) release date. Fannie Mae is moving the mandatory effective date back a few weeks to align with the CPM release date of April 18, 2015. Lenders must implement the updated policies for applications dated or projects reviewed (whichever is later) on or after April 18, 2015.

Reorganization of Co-op Topics

To enhance clarity and readability, the topics pertaining to co-op projects and co-op share loan eligibility have been slightly restructured. In addition, because a number of policies were addressed in multiple topics, redundancies were removed. No changes to policy or requirements were made.

Updated *Selling Guide* Topics

- B4-2.3-02, Co-op Project Eligibility Topic
- B4-2.3-04, Loan Eligibility for Co-op Share Loans
- B4-2.3-05, Other Requirements for Co-op Share Loans (topic deleted and text moved to prior two topics)

Updated Effective Dates for Pricing and Credit Score Delivery in Announcement SEL-2014-13

Pricing Loans for Borrowers Without Credit Scores

On November 10, 2014, Fannie Mae released Announcement SEL-2014-13, *Selling Guide Updates*, and announced changes to the policy that pertains to loan-level price adjustments (LLPAs) and credit scores. Fannie Mae did not update the *Selling Guide* when SEL-2014-13 was released. However, now that it is

closer to the implementation date, the applicable topic has been updated to remove the reference to pricing loans for co-borrowers without credit scores and refer to the LLPA Matrix in its place. Fannie Mae is also clarifying that the May 1, 2015, effective date applies to whole loans purchased and mortgage loans delivered into MBS with pool issue dates, on or after May 1, 2015.

Updated Selling Guide Topic

B3-5.1-01: General Requirements for Credit Scores (Manual Underwriting: Borrowers Without Credit Scores, DU Loan Casefiles: Co-borrowers Without Credit Scores, Loan-Level Price Adjustments Based on Credit Score)

Postponement of Policy Pertaining to Delivery of Loans with More than Two Borrowers

Fannie Mae also announced in SEL-2014-13 updates to the policy that applies to delivery of credit scores when there are more than two borrowers on the loan, requiring lenders to deliver the credit scores for the borrowers with the highest and lowest representative credit scores, disregarding any borrower without a credit score. Fannie Mae is delaying the mandatory implementation of this change as it continues to explore alternatives and will announce the implementation at a later date. Lenders are reminded that the representative credit score for the mortgage loan is used to determine loan eligibility and for pricing purposes. Refer to B3-5.1-02, Determining the Representative Credit Score for a Mortgage Loan, for information on determining the representative credit score for the mortgage loan.

NOTE: No impacts to the Selling Guide were necessary since this policy is not in the Guide at this time.

Lender Breach of Contract

To align with the 2014 revision of the Servicing Guide, an update was made to the Lender Breach of Contract topic in the Selling Guide. Specifically, the Selling Guide now states that it is within Fannie Mae's discretion to determine whether a change in the lender's financial or business condition or in its operations constitutes a material and adverse change that results in a breach of contract.

Updated Selling Guide Topics

A2-3.1-01, Lender Breach of Contract (Lender Breach of Contract)

Miscellaneous Selling Guide Updates

B3-4.1-01, Minimum Reserve Requirements. This topic is being updated to more clearly describe the minimum reserve requirements for mortgage loans secured by a second home or an investment property.

B2-2-03, Multiple Financed Properties for the Same Borrower. This topic is being updated to clarify the exception to the multiple financed properties policy that applies to HomeStyle® Renovation loans.