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Fannie Mae Updates Prior to Closing Debt Payoff, Clarifies Asset Verification and other Rules

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May 26, 2015, Fannie Mae issued Ann. SEL-2015-06: Selling Guide and Other Updates.

The *Selling Guide* has been updated for the following:

- Payoff of Revolving Debt At or Prior to Closing
- Extension of DU Refi Plus™ and Refi Plus™
- Manufactured Housing Affidavit of Affixture
- Clarification of CLTV and HCLTV Ratio Requirements for Project Reviews on Florida Condos
- Replace References to “eCommitting™” and “eCommitONE™” with “Fannie Mae’s Whole Loan Committing Application”
- Replace References to “National Underwriting Center” with “Loan Quality Center”
- Miscellaneous Selling Guide Updates

In addition, updates to the following are described in this Announcement:

- Revised Kentucky Security Instrument
- Updated List of Approved Mortgage Insurance Forms
- Updated List of Special Feature Codes

Each of the updates is described in the announcement. This article, however, highlights only the following items. Please refer to the Fannie Mae publication for all other important information. In addition, updates to the following are described in this Announcement:

Payoff of Revolving Debt at or Prior to Closing

When a revolving account is being paid off at or prior to closing, the current policy requires lenders to document that the revolving account has also been closed in order to exclude the payment from the debt-to-income (DTI) ratio. The Selling Guide has been updated to remove the requirement that the revolving account be closed. Going forward, revolving accounts that are paid down to zero at closing may remain open and no monthly payment needs to be included in the DTI ratio.

Updated Selling Guide Topics

- B3-6-02, Debt-to-Income Ratios (DTI Ratios, Calculating Total Monthly Obligation,)
- B3-6-07, Debts Paid Off At or Prior to Closing (Payoff or Paydown of Debt for Qualification)

Effective Date

This policy change is effective immediately. Desktop Underwriter® (DU®) currently issues a message stating that revolving debts must be included in the total expense payment if the account is not being closed. Lenders may disregard this message until it is removed in a DU release later in 2015.

Manufactured Housing Affidavit of Affixture

Currently, the *Selling Guide* requires an Affidavit of Affixture for manufactured housing loans, which documents the borrower's and lender's intent for the manufactured home to be permanently part of the subject property. The Guide indicates that if the lender needs assistance in preparing an acceptable version of this form, the lender should contact its lead Fannie Mae regional office.

Many states publish a version of that form, and lenders can get the form from the appropriate state or local agency or can consult with their legal counsel if they need assistance. Therefore, the Guide has been updated to remove the reference to Fannie Mae's lead regional office. The Guide has also been updated to clarify who must sign the Affidavit of Affixture.

Updated Selling Guide Topics

B5-2-05, Manufactured Housing Legal Considerations (Affidavit of Affixture)

B8-2-02, Special-Purpose Security Instruments (Security Instruments for Manufactured Home Mortgages)

Effective Date

These updates are effective immediately.

Clarification of CLTV and HCLTV Ratio Requirements for Project Reviews for Florida Condos

The Selling Guide currently describes the transactions that are eligible for a Limited Review based on the LTV, CLTV and HCLTV ratios. For Florida condo projects, Limited Review requirements are based on a slightly lower maximum LTV ratio. In response to lender questions, the Guide has been updated to include the CLTV and HCLTV ratios that currently apply to Limited Reviews of condo projects in Florida, which are the same ratios that apply to condo projects in all states. Only the LTV ratios (not the CLTV or HCLTV ratios) are lower for Limited Review of Florida projects. And as a reminder, lenders may perform a full review of a Florida condo project (with or without the use of Condo Project Manager™) to originate loans up to the maximum standard LTV, CLTV and HCLTV ratios permitted by Fannie Mae.

Additionally, Fannie Mae has clarified that the standard CLTV and HCLTV ratios (per the Eligibility Matrix) apply to Project Eligibility Review Service (PERS) and Full Reviews for condo projects in Florida.

These clarifications do not in any way change existing policies; rather, they address where lenders may be applying more conservative criteria than Fannie Mae's requirements.

Miscellaneous Selling Guide Updates

A2-3.2-01, Loan Repurchases and Make Whole Payments Requested by Fannie Mae.

When this topic was updated in August 2010, a sentence that appeared in the accompanying Selling Guide Announcement was inadvertently left out of the Guide. This sentence appears under "Redelivery of Repurchased Loans" and notes that a mortgage loan repurchased from another investor or GSE that was delivered in error to that investor or GSE is eligible for delivery to Fannie Mae, as long as it meets all relevant eligibility requirements.

B3-4.2-01, Verification of Deposits and Assets.

Fannie Mae has had a long- standing policy that when bank statements are used to verify assets that statements covering a two month period are required. Some lenders have misinterpreted this requirement such that they are only documenting files with one monthly bank statement that shows the prior month ending balance and the current month ending balance. This topic is being updated to more clearly state that bank statements must show account activity for the most recent full two-month period.

B3-6-02, Debt-to-Income Ratios.

A statement has been added to the Guide to recognize that sometimes lenders may apply a more conservative approach when qualifying borrowers. This is acceptable as long as Fannie Mae's minimum requirements are met, and lenders consistently apply the same approach to similar loans. For example, a lender might calculate a higher minimum payment on a credit card account than what Fannie Mae requires, which is acceptable as long as the lender consistently applies this calculation to all mortgage applications with revolving debts.