

***Selling Guide* Announcement SEL-2015-12**

November 3, 2015

***Selling Guide* and Other Updates**

The *Selling Guide* has been updated to include changes to the following:

- Refund of Loan-Level Price Adjustments
- Co-op Project Review Policy Update
- Project Eligibility Review Service for Established Condo Projects
- Updates to HomeReady™
- Incorporation of Announcement SEL-2015-11
- Delivery of Loans with More than Two Borrowers
- 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 3, 2015.

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

- Updated List of Approved Mortgage Insurance Forms

Refund of Loan-Level Price Adjustments

Beginning in November, Fannie Mae will refund loan-level price adjustments (LLPAs) on certain mortgages sold as whole loans that have been repurchased by the lender within 18 months of acquisition. The refund will be calculated based on the LLPAs charged at acquisition, less a processing fee of 50 basis points of the unpaid principal balance at acquisition. Further, Fannie Mae is modifying its premium recapture policy for certain whole loans that pay off within 120 days of its acquisition. The premium recapture that is requested by Fannie Mae will be net of all LLPAs paid in connection with the delivery of a mortgage loan, plus a processing fee of 50 basis points based on the unpaid principal balance at acquisition.

Updated Selling Guide Topics

- [A2-3.2-01](#), Loan Repurchases and Make Whole Payments (Repurchase Price)
- [C1-1-01](#), Execution Options (Pricing, Fees, and Loan-Level Price Adjustments; Premium Pricing Recapture)

Effective Date

Fannie Mae will begin refunding LLPAs beginning November 2015 for loans that were repurchased or paid off in October 2015.

Co-op Project Review Policy Update

Less than one year ago, Fannie Mae published a comprehensive update to the general project standards and condo project review requirements in the *Selling Guide*. Evidence has shown that both condo loans and co-operative (co-op) share loans support first-time home buyers. Fannie Mae has now comprehensively updated its co-op policies, aligning with condo policies where appropriate, and with current market practices.

Many of the policy changes provide additional flexibility for co-op project approval and include a new requirement for all newly converted non-gut rehabilitation co-op projects consisting of more than four units to be approved by Fannie Mae through the Project Eligibility Review Service. Also, the update addresses common lender questions about co-op eligibility requirements, commercial space allocation, non-incidentual business income, pro rata share requirements, and flip taxes. Redundant text has been removed and content reorganized to help improve comprehension.

NOTE: The [co-op share loan documentation requirements](#) that are posted on the Fannie Mae business portal remain unchanged. Fannie Mae continues to require all lenders and servicers to obtain special approval to sell or service co-op share loans as described in the *Selling Guide*, [A1-1-01](#), *Application and Approval of Lender*.

Updated Selling Guide Topics

- [B4-2.1-02](#), Ineligible Projects (List of Ineligible Project Characteristics, Non-Incidental Business Arrangements, Commercial Space and Mixed-Use Allocation)
- [B4-2.3-02](#), Co-op Project Eligibility
- [B4-2.3-03](#), Legal Requirements for Co-op Projects
- [B4-2.3-04](#), Loan Eligibility for Co-op Share Loans
- [B4-2.3-05](#) Geographic-Specific Co-op Project Considerations (New Topic)

Effective Date

Lenders may adopt these changes immediately and are required to implement all changes for co-op share loan applications dated on or after April 4, 2016.

Project Eligibility Review Service for Established Condo Projects

Fannie Mae's Project Eligibility Review Service (PERS) is a fee-based review process required for certain condo, co-op, and PUD projects. With this update, Fannie Mae is creating a new optional streamlined PERS process for established condo projects. Lenders may use this process for eligible projects or for projects that do not appear to meet our requirements, but the lender believes the project warrants consideration. This expanded review option will enable Fannie Mae to gather data about trends impacting condo markets nationally, while potentially expanding the availability of conventional financing in projects that are not currently eligible. The cost to the lender will be a review fee of \$1,000.

Updated Selling Guide Topics

- [B4-2.1-01](#), General Information on Project Standards (Project Review Methods, Delivery Requirements)
- [B4-2.2-02](#), Full Review Process (Overview, Unit and Project Types Eligible for a Full Review)
- [B4-2.2-06](#), Project Eligibility Review Service (PERS)

Effective Date

Lenders can begin submitting established condo projects for a PERS review immediately.

Updates to HomeReady

On September 29, 2015, Fannie Mae released the details of its HomeReady mortgage loan offering. Today, the *Selling Guide* was updated to incorporate the following updates or clarifications to HomeReady:

Non-borrower household income: Fannie Mae is expanding the definition of a non-borrower household member to eliminate the requirement that he or she be a family member and adding a requirement that the non-borrower household member affirm his or her intent to occupy the property for a minimum of 12 months. Verified income from a non-borrower household member may be considered a factor to allow a higher debt-to-income ratio in Desktop Underwriter® (DU®). The *HomeReady Non-Borrower Household Income Worksheet and Certification* ([Form 1019](#)) has also been updated to reflect these changes.

Eligible ARM plans: To provide additional flexibility, Fannie Mae is adding two additional ARM plans that are eligible for HomeReady loans as whole loans (in addition to the MBS options previously communicated): Plan 2727 (seven-year ARM) and Plan 2729 (ten-year ARM).

Minimum borrower down payment and contribution requirements: B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements was corrected to reflect the new minimum down payment requirements for two- to four-unit properties. The minimum contribution requirements for sweat equity have also been clarified for two- to four-unit properties.

Homeownership education: The Announcement indicated that for HomeReady loan applications dated on or before April 1, 2016, Fannie Mae would accept homeownership education completed by a borrower within six months of the loan application date as long as that education was obtained in-person from a HUD-approved counseling agency. In recognition of the fact that HUD-approved counseling agencies provide homeownership education in other formats, the “in-person” portion of this requirement is removed. In other words, as long as the homeownership education is provided by a HUD-approved counseling agency and a certificate of completion from the HUD agency is in the loan file, Fannie Mae’s education requirement for HomeReady loans during this transition period is satisfied. Furthermore, Fannie Mae is extending the transition period from April 1, 2016 to September 30, 2016. This clarification did not require any updates to the *Selling Guide*.

Updated Selling Guide Topics

- [B5-6-02](#), HomeReady Mortgage Loan and Borrower Eligibility (Eligible Loan Types)
- [B5-6-03](#), HomeReady Mortgage Underwriting Methods and Requirements (Minimum Borrower Contribution for Purchase Transactions, Non-Borrower Household Income, Sweat Equity)

Effective Date

Refer to the effective dates in Announcement SEL-2015-10 pertaining to HomeReady mortgage loans.

Incorporation of Announcement SEL-2015-11

In *Selling Guide* Announcement SEL-2015-11, *Selling Representations and Warranties Framework – Origination Defects and Remedies*, Fannie Mae, jointly with Freddie Mac, and at the direction of the Federal Housing Finance Agency, announced the origination defects and remedies framework (the “remedies framework”). The remedies framework is specifically related to corrections of identified origination defects, and available repurchase alternatives. This framework provides clarity on the process followed in categorizing origination defects, lender corrections of such defects, and available remedies. In addition, it provides more transparency regarding Fannie Mae’s discretion on loan-level decisions when reviewing a loan during a quality control review. The contents of that announcement have been incorporated accordingly.

Updated Selling Guide Topics

- [A2-2-01](#), Contractual Representations and Warranties (Representations and Warranties)

- [A2-2.1-06](#), Life-of-Loan Representations and Warranties (Overview, Life-of-Loan Exclusions: Misstatements, Misrepresentations, and Omissions; Life-of-Loan Exclusions: Data Inaccuracies)
- [A2-3.1-01](#), Lender Breach of Contract (Alternatives to Contract Termination)
- [A2-3.2-01](#), Loan Repurchases and Make Whole Payments Requested by Fannie Mae
- [A2-3.2-02](#), Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility (Overview of the Enforcement Relief Framework, Mortgage loans Eligible for Enforcement Relief)
- [A2-3.2-03](#), Additional Policies Related to Mortgage Loan Repurchases (The Remedies Framework, Alternatives to Mortgage Loan Repurchases, Conditions to Mortgage Loan Repurchase Alternatives)
- [D2-1-01](#), General Information on QC Reviews (Fannie Mae QC Reports)
- [D2-1-03](#), Outcomes of Fannie Mae QC Reviews
- [D2-1-04](#), Identifying and Remediating Origination Defects under the Remedies Framework (New Topic)
- [E-1-02](#), Acronyms and Abbreviations
- [E-3-03](#), Glossary of Fannie Mae Terms: C
- [E-3-04](#), Glossary of Fannie Mae Terms: D
- [E-3-16](#), Glossary of Fannie Mae Terms: P
- [E-3-19](#), Glossary of Fannie Mae Terms: S

Effective Date

The remedies framework is effective for whole loans purchased, and mortgage loans delivered into MBS with pool issue dates, on and after January 1, 2016.

Delivery of Loans with More than Two Borrowers

In Announcement SEL-2014-13, *Selling Guide Updates*, issued on November 10, 2014, Fannie Mae announced that in cases where there are more than two borrowers on the loan, lenders must deliver the credit scores for the borrowers with the highest and lowest representative scores in the 'borrower' and 'co-borrower' fields. In SEL-2015-02, *Selling Guide Updates*, issued on February 25, 2015, in response to industry feedback, Fannie Mae postponed the mandatory implementation of this delivery requirement to allow other options to be explored.

Today's Announcement confirms that mandatory implementation will not be enforced due to related upcoming delivery data changes in Phase II of the Uniform Loan Delivery Dataset (ULDD) in 2016. 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 updates to the Selling Guide were necessary since this policy is not in the Guide at this time.*

Miscellaneous Selling Guide Updates

- [B2-1-01](#), **Occupancy Types.** The *Selling Guide* currently states that a second home cannot be a rental property or timeshare arrangement. The Guide is being updated to state that if the lender identifies rental income from the second home property, the loan is eligible for delivery to Fannie

Mae as a second home as long as the income is not used for qualifying purposes and all other requirements for second homes are met, including the requirement that the borrower must occupy the property for some portion of the year.

- **[B2-1.4-02](#), Mortgage Loan Eligibility.** Part C of the *Selling Guide* describes requirements for pooling loans with terms of less than 10 years. To ensure consistency and avoid confusion, the reference to a minimum term requirement of 10 years as a mortgage loan eligibility requirement is being removed from Part B.
- **[B3-4.3-10](#), Anticipated Sales Proceeds (Like Kind Exchanges).** An incorrect reference to the trade equity topic is being removed.
- **[B3-5.3-09](#), DU Credit Report Analysis (Mortgage Delinquencies).** The Guide is being updated to reflect a change in a DU Version 9.3 message relating to mortgage tradelines.
- **[B7-3-01](#), Property Insurance Requirements for Insurers (Other Acceptable Insurance Providers).** A reference to the Virgin Islands Windstorm and Earthquake Insurance Authority is being removed as this entity no longer exists.
- **[C2-1.1-07](#), Standard ARM and Converted ARM Resale Commitments (Standard ARM Mandatory Commitments).** Lenders are permitted to add a lifetime interest rate floor, equal to the ARM's margin, to Fannie Mae ARM notes and ARM riders to security instruments. This change is authorized for Fannie Mae-issued ARM documents only and is not authorized for jointly issued Fannie Mae/Freddie Mac uniform ARM notes and riders.

For the applicable documents, lenders may amend the "Limits on Interest Rate Changes" paragraph (which is typically paragraph 4(D) in the ARM notes and riders) by deleting the last sentence in the paragraph and replacing it with one of the following sentences, as appropriate:

My interest rate will never be greater than ___% or less than ___%.

My interest rate will never be greater than ___%, which is called the "Maximum Rate," or less than ___%.

Lenders must enter the amount of the margin in the last blank in order to specify that the interest rate will never be less than the margin. Since Fannie Mae standard ARM plans do not otherwise have lifetime interest rate floors, the loan will be ineligible for delivery as a standard Fannie Mae ARM plan if the lender enters an amount other than the margin in this blank.

Lenders may implement this change immediately.

Updated List of Approved Mortgage Insurance Forms

The list of Approved Mortgage Insurance Forms has been updated to reflect the following changes:

- **Essent Guaranty, Inc.**
 - Corrected the version dates of the Non-Delegated Underwriting Endorsement and the Enhanced Coverage Endorsement, and deleted the footnote allowing the use of prior versions of these endorsements.
- **Genworth Mortgage Insurance Corporation**
 - Corrected the footnote associated with the Commitment/Certificate of Insurance.
 - Added a new Construction Endorsement, including form number and version date.
 - Added a new Request for Reconsideration Endorsement, including form number and version date.
- **National Mortgage Insurance Corporation**
 - Deleted the footnote associated with the Commitment and Certificate of Insurance.

- Added a new Amendatory Endorsement No. 1, including form number and version date.
- Added a new Delegated Underwriting Endorsement, including form number and version date.
- Added a new Texas State Variation Endorsement, including form number and version date.
- **Radian Guaranty Inc.**
 - Added a new Commitment & 12-Month Confident Coverage Certificate of Insurance, including form number and version date.
 - Added a new Vermont Arbitration and Governing Law Endorsement, including form number and version date.

The updated list is available on [Fannie Mae's website](#).

NOTE: *Updating this list did not require any updates to the Selling Guide.*

Lenders who have questions about this Announcement should contact their Account Team.

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